QUARTERLY RESPONSIBLE CHOICE REBALANCE COMMENTARY
MAY 2024

Overview

Markets continued their positive march upwards over the course of the last three months. Even a soft April was not enough to dampen positive spirits, with the UK market being an outright leader across the period (for a change!).

February witnessed the S&P 500 hitting 5,000 for the very first time, bringing much excitement to financial markets. All attention was on corporate earnings - Goldman Sachs even referred to Nvidia as "the most important stock on planet earth", and the chip manufacturer exceeded already high earnings expectations – emphasising exactly how powerful innovation in AI is becoming.

Through March, while the US saw a slow improvement in its economic indicators, the picture in Europe and the UK was not so clear-cut. The latter, for instance, grappled with a longer-than-expected slowdown in inflation, and with sluggish economic growth. The Bank of Japan's decision to end an eight-year streak of negative rates also made headlines, marking its first hike since 2007.

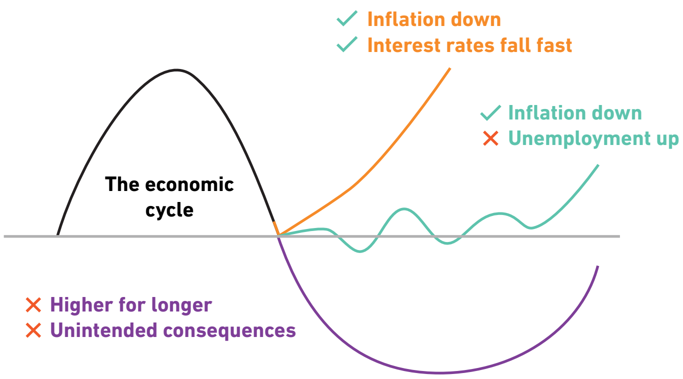
But none of this affected investor sentiment! More developed markets pushed into all-time high territory, with Europe and Japan joining the party.

In April, however, weaker data coupled with policymakers' hawkish statements posed a challenge for the optimists. Uncertainty rippled across global markets, leading to declines in many of the largest equity indices. The UK and China managed to buck this trend, delivering some timely positive performance and demonstrating the value of diversification in volatile markets. The biggest declines came from Japan and the US after an incredibly strong start to 2024.

May has started much more like February and March, with the concerns of April seeming a distant memory already. This marks a run of six strong months now for markets, and at the time of writing, it shows no signs of slowing down!

Core investment views

Despite the general optimism, it would be foolish to adopt a fully positive stance at any point in time. Even in a largely positive market, it is important to make sure no stone is left unturned to avoid any surprises on the downside. That is what we're doing at 7IM - our properly diversified portfolios enable us to grow in every kind of environment:



Back to growth – policymakers nail it
Possible, but a lot needs to go right

Inflation falls faster than expected, the demands for higher wages tail off and central banks find the space to reduce interest rates. This allows the world economy to fire on all cylinders again and profits resume growing.

Sluggish and sideways – uncertainty and scepticism continue
Most likely, until inflation is under control

A continuation of the last 12 months... will it be a recession? Won't it? High inflation and interest rates will keep that question going.

Whether growth is just above zero (not a recession) or below zero (recession) is not the point. The uncertainty will keep investors cautious – creating choppy markets, prone to sharp sell-offs and rapid rallies. This environment requires careful selection to find the right opportunities and avoid risks.

Deep recession – policymakers DON'T nail it
Unlikely, but important to watch

Inflation continues to remain too high for comfort and central banks keep policy tighter for longer. Eventually, the lags catch up with the economy, leading to a deeper than expected recession.

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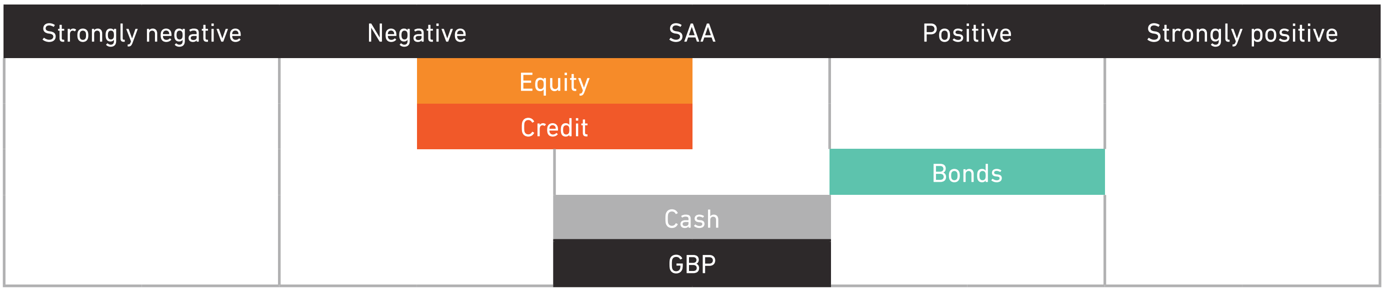
Tactical Asset Allocation

In an environment with lots of uncertainty and a lack of confidence, we want to make sure portfolios are insulated against shocks, while still generating sufficient returns to make investing worthwhile. And we think our portfolios are set up to do just that.



7IM Responsible Choice long-term themes

Portfolio themes	Comment
The world is getting older	The healthcare sector is best placed to take advantage of this. The sector still trades at a discount, and we believe that it is starting to be recognised for its strengths – especially given its importance during the Covid pandemic.
Fighting climate change	Climate change is one of the biggest threats that humanity faces in the future; without drastic action, the planet will warm by more than the 1.5°C level agreed on in the Paris Agreement. The Responsible Choice Models target companies that are managing their environmental risks and investing in a cleaner future.
Emerging markets will drive change	The funding gap to meet the Sustainable Development Goals by 2030 is between USD 6-8 Trillion, and 70% of that is needed in emerging markets. This creates opportunities that we can access in equity and fixed income markets.
Global impact	Impact investments are those that lead to a material and measurable improvement in environmental and social problems. The Responsible Choice Models have access to companies that are driving positive change around the world.
Sustainable finance	The private sector will be increasingly leaned on to drive environmental change and find solutions for an ageing population. The Responsible Choice Models have exposure to both green bonds and social bonds, which are linked to sustainable projects.

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Asset allocation changes

We have made the following tactical changes to portfolios in this quarterly rebalance:

- A small strategic increase to equity, primarily through US and European allocations
- A small rotation from corporate bonds into government bonds
- A trim to the AT1s position as prices recover back to their highest in two years
- Removed the Healthcare Innovation position and rotated the proceeds into ESG-leading US equities.

Manager Changes

There were no manager changes in the quarter.

Please note: All of the comments in this document refer to the models we run on the 7IM platform, but the models are also available on a range of other platforms. As much as possible, we try to replicate the models we run of the 7IM platform across all platforms, but due to differing security availability, not all of the points outlined in this document may be relevant across these platforms. If you are unsure whether certain changes apply to models on a specific platform, please reach out to a member of the team.

The past performance of investments is not a guide to future performance. The value of investments can go down as well as up and you may get back less than you originally invested. Any reference to specific investments are included for information purposes only and are not intended to provide stock recommendation or investment recommendations to individual investors.