Pavis Premier Model Portfolios

April Quarterly Rebalance

At the end of each quarter, a rebalance takes place to bring all our Premier Model Portfolios back in line with the desired allocations. This is to ensure that the portfolios are always positioned to deliver the level of risk and return that investors expect and will result in reducing the holdings where prices have performed most strongly and buying those which have become more attractively priced.

As you are invested in the Premier Models, your portfolio will be rebalanced on 30th April 2021 and you will receive contract notes reflecting the sales and purchases that result.

Equity Weightings

We reduce our weighting to equity markets that appear expensive. We use a rules-based approach to measure markets based on the ratio of price to average earnings. This is known as the 'Cyclically Adjusted Price Earnings' (CAPE) ratio.

Below is a summary of the resulting positions for the next quarter:

Region	*Move this Quarter*	*Current Position*
UK	No change	In line with long-term weighting
North America	No change	20% below long-term average
Europe excl. UK	**Change**	**20% below long-term average**
Japan	No change	10% below long-term average
Developed Pacific (ex. Japan)	**Change**	**10% below long-term average**
Emerging Markets	No Change	10% below long-term average
Developed World (ie Global)	No Change	20% below long-term average

A number of regions have seen share prices rise impressively in relation to their long-term profitability. Hence, in these regions, CAPE ratios have increased. Most increases of CAPE in these regions are within our parameters, warranting no change to the allocation.

However, the CAPE of Europe (excluding the UK), has increased above 25x. Therefore, we have reduced our allocation (by a further 10%) to become 20% underweight. This is in accordance with our procedures to mitigate the potential risk of expensive markets. The CAPE for the Developed Pacific (ex. Japan) region has increased above 20x and we have therefore reduced the allocation by 10%.

By moving funds away from these identified markets, and into the L&G Multi-Asset Target Return fund, this will hopefully serve as a cushion to protect the overall value of your portfolio.

Commentary

During the first quarter of 2021 we have seen vaccine rollouts happening at a pace in the US and UK and infection rates falling. The strength of economic support has boosted forecasts for economic growth. Indeed, the Office for Budget Statistics (OBR) has noted that British households have built up a war chest of £180bn in the past year and as restrictions ease, they expect a quarter of this to be spent with ‘a degree of euphoria’ as people return to the high street.

We are likely to see the largest rebound in economic history and the IMF has pencilled in a 5.5% global growth rate for 2021. Stock markets are also forecasting a period of economic expansion and some have reached all-time highs. Albeit the UK market still trades at about the same level it first reached 22yrs ago.

There has been greater growth in stocks of economically sensitive sectors including banks, energy, materials and industrials, which stand to gain from economic recovery, as opposed to technology sector shares, as in recent times. Hence the tech-focused Nasdaq has had a rockier ride, but still gained 3%.

In the early-March Budget, Rishi Sunak announced a ‘super-deduction policy’ in which companies investing in qualifying new plant and machinery will benefit from a 130% first year capital allowance. To put this in perspective, it means a company investing £1m into their business will receive an allowance of £1.3m against their pre-tax profits. Under the “old” system, this would have had a £250,000 allowance in year 1 which then tapers down over following years. We believe this will give a substantial boost to the economy and encourage companies to bring forward their capital expenditure.

Government measures such as the extension to the property stamp duty holiday have seen asking prices for property rise to record levels. The government also agreed to underwrite 95% loan-to-value mortgages for first time buyers.

In the US, Joe Biden announced a $1.9 trillion Covid relief package and latterly the $2trillion infrastructure bill. This is likely to lead to higher inflation and markets now expect interest rates to increase. This has been an issue for the bond market, as bond prices, which have an inverse relationship to interest rates, fell significantly. Since the start of the year, long-dated US treasuries, which mature in 10 years or more, have fallen in value by c.7%, having slightly recovered from greater falls in mid-late-March. Bond yields, which have an inverse relationship to price have risen to reflect the future inflation expectations. The current US 10-year Treasury note yield is currently c.1.6%. In layman’s terms, you can lend the US Government money for the next 10yrs and get a guaranteed return of c.1.6%pa.

Our Pavis Premier Portfolios have continued to see strong positive returns across the board, and in many cases exceeding the ARC benchmarks over both the quarter and last 12 month period. We hope to see this trend continue as we go into the next quarter of 2021.

Kind regards,

The Pavis Investment Committee