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Chartered Financial Planners

# Pavis Premier Model Portfolios

## January 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 **31 January 2020** 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:

| *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 | No change | 10% below long-term average |
| Japan | No change | 10% below long-term average |
| Developed Pacific (ex. Japan) | No change | In line with long-term weighting |
| Emerging Markets | No change | In line with long-term weighting |
| **Developed World (aka Global)** | **Change** | **20% below long-term average** |

Following a strong final quarter of 2019, the CAPE measure for the Developed World Equity region (aka Global Equities) increased from 24.5 to 25.7, i.e. it now exceeds 25.

This means any Global Equity funds we hold will now have a further 10% reduction from their long-term strategic position to have an overall underweighting of -20%. As an example, if a portfolio had a starting weighting of 10%, it was previously reduced to 9% and from 31/01/20 this position will be reduced by a further 1% to 8%, i.e. 20% below it's starting position. This 2% is subsequently placed into our 'Buffer' funds, with a view to protecting portfolios whilst still seeking to achieve long-term returns.

*Please note that this change only impacts our High Income and Long-Term models, which currently hold 'Global' funds.*

***Commentary***

The last quarter of 2019 saw global equity markets rally in response to a simultaneous easing of political uncertainty, both between the US and China and in the UK. The US and China reached a phase one agreement on their trade negotiations and Boris Johnson secured a working majority in UK parliament. Central bank policies and forward guidance also remained supportive which calmed investors and helped equity markets end the year in much better shape than its predecessor.

US stocks reached record highs in the final quarter of 2019 ending one of the best years in the last decade. This was supported by a combination of forward guidance from the fed that interest rates would remain lower for longer coupled with investor optimism that the US and China was on course to sign an interim trade deal in January. US companies also saw a surge in mergers and acquisitions in 2019, accounting for 15 of the 20 biggest deals of 2019.

The UK equity market rallied on the news of the election result, buoyed by the prospect of an end to the political impasse surrounding Brexit. The Bank of England's Monetary Policy Committee voted to hold UK base rate at 0.75% in its December meeting in a bid to continue to support the economy as it leaves the EU.

European equity markets also finished the year in positive territory with a number of improved readings in some of the key monthly economic surveys such as the purchasing managers index which provides an indication of the prevailing direction of economic trends in the manufacturing and service sectors.

Asian equity markets also performed well in the final quarter of 2019 as markets responded positively to the US and China reaching a phase one trade deal, due to be signed in January 2020. As a result, the US agreed to hold off on implementing the new tariffs which were due to take effect in December.

Whilst fixed income provided strong returns in 2019, the final quarter of 2019 saw government bond and investment grade corporate credit yields increase as the market became more bullish in favour of risk assets.

Looking forward, we continue to take a long-term view on our portfolios and to that end we remain satisfied with the positioning and risk adjusted performance of our portfolios. The investment committee will make any necessary changes to ensure that the portfolios are positioned to provide the best outcomes for our long-term investors. We hope you find this useful but if you have any questions please do not hesitate to contact us on 0151 375 9848 or enquiries@pavis.co.uk.

Kind regards,

*The Pavis Investment Committee*