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 29th January 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	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	**Change**	**10% below long-term average**
Developed World (ie Global)	**Change**	**20% below long-term average**

Following a challenging 2020, which for the most part saw CAPE figures generally falling for all major equity regions, this trend sharply reversed as we approached 2021, with all the major equity regions posting increases in the final month of the year.

Applying our CAPE rules to the rises has subsequently led to the Developed World Equity region (Global Equities) moving from a 10% underweight position back to a 20% underweight position and the Emerging Markets equity region warranting a move to a 10% underweight position. The other equity regions have all shown rises, but not sufficient to warrant a change in the weighting position at this time.

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Commentary

A more positive outlook, due in part to rapid development of vaccines leading to widespread stock market increases over the last quarter.

Since the vaccines were approved in late October 2020, the FTSE AllShare has risen significantly (more than 20%) and US indices, whose form since the initial March troughs has been remarkable, have continued their upward trajectory.

The above performance seems counterintuitive in the context of the immediate economic climate, lockdown 3 and record Covid case numbers.

Despite the unprecedented disruption at the heart of the American government over recent weeks the markets have remained steady.

UK GDP growth rose by 16% in the third quarter of 2020, but the economy shrank by 2.6% month-on-month in November. The first monthly fall since the lockdowns in April.

However, policy interventions; the economic lifeboats of the pandemic - either monetary, via Central Bank quantitative easing (e.g. further stimulus packages agreed in November and December) and maintaining low interest rates; or government fiscal stimulus through extended furlough assistance and business loans – have enabled investors to look beyond the immediate economic circumstances and be confident of future growth.

As the UK prepared to finally leave the EU, the European Union's agreement of a €750Bn Euro stimulus package via an EU Bond was seen as a significantly greater integration of members' monetary and fiscal policies. The package means that debt to fund grants and loans to members will be issued jointly, rather than taken on national balance sheets. This has helped to rein in borrowing costs even for euro-area countries with huge debt burdens and perilous fiscal situations. In particular, Italy and Spain whose significant tourism industries have been hit hardest by the pandemic.

The region's markets have also had a major boost with for example the Deutsche Borse having risen c.17%. The euro is at its highest level since mid-2018 versus the dollar and the borrowing costs of heavily indebted nations like Italy and Spain have fallen dramatically - despite unprecedented government spending.

Emerging Markets, heavily oriented towards Asia (in particular China) have coped relatively well with the pandemic following the sooner and sharper lockdown and have also seen similar strong performance in the last 3 months.

The continued purchase of government and corporate debt has maintained prices and suppressed yields, which remain very low. Generally, returns on fixed interest are expected to be driven by how central banks tighten monetary policy in the face of inflation as we return to normal.

Given all of the above we have seen the Pavis Premier Balanced portfolio return 8.72% since 1st November 2020 (Pavis Premier Balanced LT 9.08%) and the Pavis Premier Moderate Growth portfolio return 10.13%, in line with our expectations given market performance.

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Clearly, we are currently in the midst of more restrictions and sadly increased human toll of the pandemic. And whilst there may be speedbumps/risks to retrieving a normal way of life, economic growth is expected as the vaccines take effect, with the World Economic Forum forecasting global growth of 5.2% for 2021 up from -4.4% in 2020. Increased net savings and pent-up demand are factors within this positive outlook.

Therefore, we can hope economically things should be looking much more positive by the summer. Of course, personally we wish you the best during these challenging times.

Kind regards,

The Pavis Investment Committee