pavis
Chartered Financial Planners

Pavis Premier Model Portfolios

October 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 October 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 weighting
Europe excl. UK	No Change	20% below long-term weighting
Japan	No Change	10% below long-term weighting
Developed Pacific (ex. Japan)	No Change	10% below long-term weighting
Emerging Markets	No Change	10% below long-term weighting
Developed World (ie Global)	No Change	20% below long-term weighting

As you can see, there have been no significant changes during this quarter. Those markets with a high CAPE, remain high and we continue our underweight positions to cushion the effect of any future falls.

Commentary

Economics

Economic growth has recovered as people returned to bars, restaurants and (of course) campsites during the summer. The ONS confirmed economic growth was 0.4% in August and this was led by the service sector and that arts, entertainment and recreation grew by 9%. The International Monetary Fund (IMF) has predicted that the UK economy will expand by 6.8% this year, faster than any other G7 country.

The Inflation that is a by-product of this economic growth rose at its fastest monthly rate on an annual basis last month, jumping to 3.2%, with many commentators expecting it to top out at c.4%-5%, about double its target.

The US Federal Reserve has indicated recently that it is ready to begin 'tapering' – this means reducing the stimulus they have provided during the pandemic. The stimulus, amounted to The Fed buying at least $120 billion of bonds each month, providing unprecedented support to financial markets. These purchases have kept interest rates low, supported bond prices and boosted stock markets. However, the prospect of reduced support and interest rate rises have seen bond prices fall. UK Gilt yields are at their highest since mid-2019 and US 10 year Treasury yields are also up significantly. Bond yields and prices move in opposite directions. This means that as interest rates and yields increase the value of bonds decreases.

Markets

UK equities rose over Q3 with the market driven by a variety of factors. While there were some clear sector winners (such as energy on the back of a recovery in crude oil prices) the difference between the best and worst-performing stocks was quite marked.

US and European equities, which have both had a strong year to date, were broadly flat in Q3.

The Japanese equity market fluctuated through July and August before rising in September to record a total return of 5.2% for the quarter. For investors in the Far East this helped offset some of the losses on the Hang Seng Index which fell c.15% during the quarter.

Commodity prices, as indicated by the S&P GSCI Index, recorded a positive return in the third quarter. This was driven by sharply higher energy prices caused by increased demand in the wholesale gas market. Energy was the best-performing component in the quarter, with all subsectors achieving a positive result. The price of natural gas was significantly higher in the quarter, closely followed by gains in the prices of gas oil and heating oil. Unleaded fuel also gained strongly as consumer demand started to return to normal consumption patterns.

Pavis Portfolios

In what was a difficult quarter for markets generally (and particularly for fixed interest and bonds) we are delighted to report that all the Pavis Premier Portfolios made positive gains during this period. This ranged from 0.2% for our Risk Averse Portfolio up to 3.2% for our Adventurous Ethical Portfolio. Our standard Balanced Portfolio made a gain of 1.0 % for the quarter compared to just 0.3% for the industry benchmark ARC PCI Balanced. Since launch our Balanced Portfolio has produced a compound return of 6.0%pa compared to just 4.7%pa for the benchmark. To give this some context, a return of 6%pa compound means that an investment of £500,000 becomes £1,603,567 over 20yrs. A return of 4.7%pa results in £1,252,863 – a reduction of £350,703. We take the management of your money seriously, we are constantly trying to achieve good returns, manage the risk and control costs.

Outlook

The outlook remains cautious for both equity and bond markets. Recent research from some of the largest global fund managers predict lower equity returns over the next 10 years. This is partly due to the current high valuations in North American and Mainland Europe. One of the few equity markets with perceived value is the UK. Our current portfolio positions reflect this.

There is a divergence of opinion on fixed interest markets. Some are predicting a possible return to the low growth and high inflation era of the 70s, whilst others think high inflation is just a temporary blip. We continue to hold a well-diversified fixed interest element of the portfolios to manage this risk.

Kind regards,

The Pavis Investment Committee