July 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 July 2022 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 (after adjustment)***
UK	No Change	In line with long-term weighting
North America	No Change	20% below long-term weighting
Europe excl. UK	Increasing holding	10% 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

The market falls experienced during the last quarter meant reduced CAPE ratios of all regions, particularly Northern America, Europe excluding UK and Developed World. The reduced readings were not sufficient to impact current weightings in all markets, except Europe excluding UK. The fall in price of this index means an increase to the weighting in this region, however it still remains 10% underweight the long-term weighting.

The CAPE ratio is a comparison of a stock or index price to its total earnings, which is used to tell whether its's over or undervalued. It's an extension of the traditional price-to-earnings ratio (P/E) that monitors a ten-year period to account for variations in profitability due to economic cycles. The CAPE ratios, reflecting current prices relative to earnings, remain high on a long-term average basis.

pavis
Chartered Financial Planners

Investment Commentary July 2022

Economics

As we reach the end of the first half of the year, it is worth reflecting on how difficult it has been for markets to make progress in 2022. Goldman Sachs note that the US 60:40 (equities / Government bonds) diversified "World's Retirement Portfolio" just logged the second worst start to the year, from 15th January to 30th June, since 1900. That is a span of 122 years, prior to which the honour for worst start went to 1932, during The Great Depression.

Inflation has soared well above Central Banks mandated targets. Indeed, UK inflation is at a 40-year high, with food price rises adding to the impact of fuel and energy price rises. Currently at 9.1% p.a. in May, the Bank of England has warned 11% p.a. is possible by the autumn. Central Banks have raised interest rates and we're likely to see further rises during the rest of this year.

The Central Banks' task is to control inflation whilst avoiding the hard landing of an economic crash. An anticipated slowdown appears underway as the effect of price rises kicks in. However, we believe that despite current economic conditions, there are still reasons to be optimistic about future returns.

Investment Markets

Equities

The last quarter was one of the worst for global stocks since 2008. The S&P500 was down 15.61% and the Nasdaq down c.22% in US dollar terms. The fall in the value of sterling against the dollar (by c.9% during the quarter) cushioned the brutal returns of the US market exposure to a c.9% loss over the quarter, in sterling terms.

A fall in the pound is not automatically bad news for the UK market as a large amount of revenue (especially FTSE 100 companies) comes from overseas, which therefore increases profitability when converted to sterling. The FTSE 100 had negative returns of 4% during the quarter, significantly better than the US markets, aided by the greater weighting to defensive sector constituents (telecoms and healthcare) as opposed to growth (technology). The broader FTSE All Share index had negative returns of 5.32% during the quarter, being inclusive of the UK small and mid-caps which were negatively impacted by a relatively high weighting to UK consumer focused companies that suffered on recession fears.

The Europe Stoxx 600 index fell c.9.8% in euro terms. The fall in the value of sterling against the euro (by c.2.5% during the quarter) similarly provided some quell to the returns reducing the falls during the quarter to c.7.3% in sterling terms.

The MSCI Japan index fell 5.6% and the MSCI Emerging Markets index fell 12.45% during the quarter.

Fixed Interest

It has been the worst start to a year for the bond market for three decades. UK Investment Grade Bonds fell by c. 6% during the quarter.

The Bloomberg Global Aggregate Index fell by approximately 7.3% and the Bloomberg Global Inflation-linked Bond index (hedged to sterling) fell by 8.5% during the quarter.

However, it's not all bad news. As Bond prices have fallen, and interest rates have increased, we are now seeing the following yields:

Government Bonds (10 year)

US	3.00% pa.
UK	2.13% pa
Germany	1.25% pa
Japan	0.25% pa

Corporate Bonds

UK Investment Grade Bonds	4.6% pa
US Investment Grade Bonds	5.1% pa
Global High Yield Bonds	7.0% pa

The yields that we are now seeing in the Bond markets, are arguably the most favourable for about 10 years. These relatively high yields now provide investors with a better return than they've seen for many years. The recent falls in the Bond markets are no reason to panic and investors who remain committed should be rewarded accordingly.

Pavis Portfolios

We will continue to manage our portfolios in the same way we always have, with good diversification, regular rebalancing and maintaining a low-cost base. Although all our portfolios are showing a negative return over the last 12 months, they remain in line with their respective benchmarks. Our Premier Balanced portfolio has returned an average annualised return of 4.2% since it was launched in 2015, compared to the ARC Balanced benchmark of 3.3% pa.

Outlook

We are convinced that with relatively high bond yields and equity dividends, the future return for investors looks particularly good. The yields and dividends provide an underpin of c. 4% pa to our future returns. In addition, equity markets are typically a good hedge against inflation and capital growth in these markets would further boost returns.

Kind regards,

The Pavis Investment Committee