Quarterly Commentary April 2023

Pavis Verso Portfolios & Pavis Premier Portfolios

Investment Commentary

Economics

During 2022 we saw central banks globally raise interest rates and inevitably there has been some fairly high-profile collateral damage. January started relatively positive with markets performing well but then higher interest rates started to take their toll with Silicon Valley Bank (SVB) collapsing followed by the forced takeover of Credit Suisse by UBS. We also saw Nationwide Building Society announce the largest monthly fall in house prices since the global financial crisis of 2008 / 09 with value in March down -.3.1% on the month.

The £GBP was one of the top performing major currencies during the quarter and after the lows of last September's mini budget it has recovered from c.$1.07 to c.$1.25. This strength can be put down to a combination of $USD weakness and the UK economy not performing as badly as the Bank of England thought it would.

There is also noticeable comment about the general decline in the $USD as the world's major settlement currency. We are seeing Russia and China now trading in Yuan with volumes increasing by 80 fold since the invasion of Ukraine. India is looking to trade with UAE nations in the Rupee whilst Brazil and Argentina are looking to launch a joint South American currency called the "Sur" which could become their equivalent of the €euro. Is this the end for the $USD? Absolutely not but its global dominance is being questioned.

Investment Markets

Equities

Q1 2023 was a tale of two halves with the FTSE100 up by c.7.7% to middle of February and the FTSE 250 up c.6.8% over the same period. Markets then experienced a downturn following the events with SVB and Credit Suisse, so by the end of the quarter the gains were:

FTSE 100	+3.55%
FTSE 250	+0.97%
FSTE Small Cap	-1.27%

Looking at global markets and sectors the standout performance came from the US NASDAQ, as concerns about rising interest rates abated somewhat with many commentators believing we are now at or close to the peak in the current cycle. This saw the NASDAQ 100 gain by 20.77% - a huge gain for the period and reflecting the woeful performance in 2022 when it was down by -32.3%

NASDAQ	+20.77%
S&P 500	+7.36%
MSCI Europe	+6.72%
MSCI Asia	+5.39%

Fixed Interest

The performance in equity markets was largely mirrored by the bond markets with global bonds showing a gain of +1.35% for the quarter and sterling high yield gaining +1.99%. We have mentioned in previous updates that the yields we now see in the bond markets are arguably the most favourable for over 10 years.

This trend has continued throughout the quarter with UK investment grade bonds now yielding 5.6% per annum, medium dated gilts yielding about 3.6% per annum and high yield bonds delivering c.7.25%pa.

We should also mention cash deposit rates as these have increased dramatically over the last 12 months. Instant access rates on investment platforms such as Transact are now paying 3.6% per annum and there are 12 month deposit rates in excess of 4.4% per annum.

Some of you may have heard about the collapse of AT1 bonds issued by Credit Suisse. These were invented shortly after the global financial crisis in 2008 as a means of allowing banks to borrow money without doing too much damage to their balance sheet. In effect, these bonds convert into shares should the issuer's Tier 1 capital ratio fall to dangerously low levels. With Credit Suisse, the authorities in Switzerland decided that circumstances amounted to a "viability event" and that $17.5bn of monies owed by Credit Suisse would be wiped out. There will be legal ramifications as it goes against the principle of AT1 bonds being converted to shares. The flip side to this is a fall in the value of other AT1 bonds which has pushed up yields to over 9%pa.

Pavis Portfolios

It was a strong quarter for all our portfolios with gains in the region of +2.5% to +3% during the period. This compares favourably with their respective benchmarks as shown in the accompanying performance snapshot documents. Please note the benchmark figures are calculated on a monthly basis hence the lower volatility whereas our portfolios are priced daily.

Rebalance

Regularly rebalancing of our investment portfolios helps to ensure that they remain aligned to the level of risk and return that investors expect. It also has the effect of reducing the holdings where prices have performed most strongly and buying those which have become more attractively priced.

Both our Pavis Premier Portfolios and Pavis Verso Portfolios will be rebalanced on the 28th April 2023 and you will receive contract notes reflecting the sales and purchases that result.

All our portfolios contain an element of flexibility whereby asset weightings can be altered from their normal weighting (within a prescribed range) to reflect market conditions and expectations. The following adjustments will be applied this quarter:

Pavis Verso Discretionary Managed Portfolios Equity and Bond Weightings

The Pavis Verso portfolio asset weightings are reviewed and adjusted on a discretionary basis. The asset allocations on these portfolios will closely mirror the Pavis Premier Portfolios but their increased flexibility means they can be positioned more effectively for shorter term market opportunities.

Region	Adjustment	Reason
UK	No Significant Change	Neutral outlook
North America	+4.2% overweight	Positive outlook due to Market Conditions
Europe excl. UK	-3.8% underweight	Defensive outlook due to Market Conditions
Japan	No Significant Change	Neutral outlook
Pacific (ex. Japan)	+12.9% overweight	Positive outlook due to Market Conditions
Emerging Markets	-4.9% underweight	Defensive outlook due to Market Conditions
Global Equity	No Significant Change	Neutral outlook
Global Technology	No Significant Change	Neutral outlook
Global Small Cap	-5.25% underweight	Defensive outlook due to Market Conditions
Property	-8.2% underweight	Defensive outlook due to Market Conditions
Bonds	No Significant Change	Neutral Outlook

*Please note that the above percentages are approximations.

The reasons for the above positions are as follows:

- Economic activity in most developed economies is likely to decelerate as we move through the course of 2023 in response to higher interest rates and tighter credit availability, driving a more defensive focus within regional equity allocations.
- China is the exception to this rule, with economic momentum continuing to improve, with the country benefiting from a reopening boost, after the authorities abruptly lifted its zero covid policy rule at the end of last year.
- European equities have benefited from a recovery in economic growth over the past 6 months, confounding expectations that growth would be weak following the outbreak of the Russia-Ukraine conflict. This economic impulse may fade, and the allocation to European equities has been reduced into the regions strong start to the year.
- A re-pricing of the outlook for interest rates globally, which has benefited the technology sector particularly in the first three months of 2023, has likely gone too far. Some profits have been booked on the exposure here.
- The allocation to global small cap equities and property has declined, and a lower allocation will be maintained, given high interest rates and a likely economic slowdown.
- US equities typically appeal and display attractive defensive characteristics during periods of lower economic growth, leading to a higher allocation to US equities.
- The Asian Pacific region stands to a be a primary beneficiary of the pick-up in Chinese growth, and also appeals on valuation grounds, and the allocation to the region has been increased. This is preferred to general emerging markets, where a slighter lower allocation has been retained.
- The allocation to Fixed Income remains broadly unchanged, with yields remaining at their most attractive levels in 15 years.

Pavis Premier Portfolios Equity Weightings

Within our Premier Portfolios 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	10% below long-term weighting
Japan	No Change	10% below long-term weighting
Developed Pacific (ex. Japan)	No Change	In line with long-term weighting
Emerging Markets	No Change	In line with long-term weighting
Developed World (i.e. Global)	No Change	10% below long-term weighting

The main movements in CAPE this quarter was across Europe region, however, it was still not sufficient enough to warrant a change to the current weighting. There was not much of a change across the other regions and therefore the current holdings will be maintained as above. A standard rebalance will take place bringing equity allocations back to this positions and fixed interest allocations back to their original weightings.

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.