

Momentum Managed Portfolios

Tactical Change Rationale v48

June 2024

The Momentum Managed Portfolios 3 to 8, the Income Portfolio, Sustainable Managed Portfolios 4 to 6, the Passive Plus Managed Portfolios Cautious and Balanced, and Global Models 6 and 7 have now been rebalanced with changes to the fixed income, equities, and cash segments of the strategies. Additionally, while there were no changes to the Passive Plus Dynamic Portfolio, we have rebalanced the model to maintain target weights.

Market Commentary

In a reversal of the April sell-off, equity and bond markets generally performed well in May. The MSCI World index of developed markets gained 4.5% while US Treasuries returned 1.5% and Global Government bonds 1.0%. The US equity market led the way, +4.9%, with tech remaining dominant.

The uncertainty around the pace at which inflation can be brought back to central bank targets, and the resultant timing and extent of interest rate cuts, continued to generate considerable volatility in bond markets. By the end of April, the yield on the 10Y US Treasury had risen by 80bps this year to 4.68%; it then fell sharply in early May following the FOMC meeting at the beginning of the month which avoided any hawkish surprises, before rising again to reach 4.5% by month end as data showed core inflation stuck significantly above target at 3.6% year-on-year in April, and core services inflation, which is largely domestically generated, at 4.9%. Although Jerome Powell, Chairman of the Federal Reserve (Fed), has come very close to ruling out any rate rises, a fear which had been growing among investors, he and other Fed governors continued to push back on early expectations of rate cuts.

In recent weeks there have been some early signs of a weaker labour market and softening of consumer spending in the US, with job vacancies falling, weekly jobless claims rising, and retail sales stalling. Q1 GDP growth has been revised down to 1.3% annualised from the first estimate of 1.6%, driven largely by slower growth in personal consumption expenditure. With growth in Europe and the UK picking up modestly the US 'exceptionalism' of the past couple of years is possibly waning. But the Fed will need to see much more substantive evidence that inflation is falling sustainably to its 2% target before easing policy, and this remains the key to market direction in the months ahead.

Elsewhere, China, facing well-versed structural problems, and hit in May with additional US tariffs on semiconductors and EVs, has taken further steps to stimulate its sluggish economy.

The UK is another market which has underperformed for a lengthy period but is now regaining ground. The MSCI UK index returned 1.8% in May, taking its gain over 3 months to 9.3%, but the bigger action in recent weeks has been in small and mid-cap stocks, where valuations have become particularly attractive, leading to a wave of takeovers from private equity and overseas companies. Since the recent market low in late October 2023, small and mid-cap indices in the UK have returned 26-27%, broadly matching returns from US equities over that period. Prime Minister Rishi Sunak's surprise call of a general election for July 4 has had little or no impact on markets. A landslide victory for Labour seems inevitable and is fully priced in by markets.

Credit markets are generally a good barometer of financial conditions and risk appetite. With credit spreads close to historic lows, there seems to be a conviction that when rate cuts come, they will be because of inflation falling to target rather than from the economy falling into recession, which would increase default risks. Although a sharp slowdown cannot be ruled out, a soft landing is now the consensus view, increasing the possibility of the rate cutting cycle ahead being relatively shallow. At the same time, the huge fiscal deficits in the US are very unlikely to improve any time soon; neither of the Presidential candidates have policies which will bear down on the deficit. This gives rise to concerns about funding the deficit in a higher yield world, and argues for caution in adding to duration, especially with cash rates offering high real yields.

Fixed Income

In Momentum Managed Portfolios 3 to 5, the Income Portfolio, Sustainable Managed Portfolios 4 and 5, and Passive Plus Managed Portfolios Cautious and Moderate, we have increased the allocation to fixed income by between 1.5% and 6.0%, funded by reducing the BlackRock Sterling Liquidity Fund, which was introduced in the last rebalance.

We have exited our position in the Vanguard UK Inflation Linked Gilt Index Fund and trimmed exposure to the L&G Global Inflation Linked Bond Index Fund by between 2.0% to 8.0%. These changes allowed us to capitalise on opportunities in nominal US treasuries and UK gilts through the Vanguard US Government Bond Index and iShares UK Gilt All Stocks Funds, which have been increased by between 2.0% and 11.0%, and 1.5% and 5.0% respectively.

In some portfolios, we have increased our investment-grade credit exposure while reducing emerging market government debt. Specifically, the Vanguard UK Short-Term Investment Grade Credit Fund has been increased by between 2.0% to 3.5% in Momentum Managed Portfolios 3 to 5, the Income Portfolio, and the Passive Plus Managed Portfolios Cautious and Moderate. Similarly, Sustainable Managed Portfolios 4 and 5 have seen increases in the Pimco Investment Grade Credit ESG Fund by 1.5% and 2.0% respectively. Conversely, the L&G Emerging Market Debt Fund has been reduced by between 2.0% to 3.5%, and the Pimco Emerging Market Bond ESG Fund has been trimmed by between 2.0% to 2.5% in the same portfolios to reallocate gains into higher-grade credit.

Our decision is driven by the current attractive valuations in global treasury yields post-year-end rally and reset. Although inflation-linked bonds present appealing real yields, they are not currently particularly cheap. Therefore, we prefer shorter-duration bonds in both developed and emerging markets, especially in high-grade credit.

Equities

In Momentum Managed Portfolios 3 to 8 and Global Model 6, we have adjusted our global equity holdings. Due to a large performance divergence between the Troy Trojan Global Equity Fund and the Evenlode Global Income Fund, we have reallocated a portion of gains from Troy to Evenlode, by between 0.5% and 1%, while the overall global equities allocation remains unchanged. Evenlode's recent performance has lagged, partly due to its holdings in consumer staples and health care companies; these sectors have been relatively soft in market performance. This contrasts with the strong market performance of technology and financials. However, we believe Evenlode's valuation discipline and focus on managing downside risks position the fund well for future performance, particularly in more challenged markets where it has historically shown relative strength.

Momentum Managed Portfolios 3 to 8 and Global Models 6 and 7 saw some changes within UK equities. We have exited our long-term holding in the Schroder UK Recovery Fund and increased our allocation to the Redwheel UK Equity Income Fund. This decision follows the recent departure of the Schroder fund's portfolio manager. The total allocation to UK equities remains unchanged.

Cash

We have reduced our positions in the BlackRock Sterling Liquidity Fund by 1.5% to 6.0% across Managed Portfolios 3 to 5, the Income Portfolio, Sustainable Managed Portfolios 4 and 5, and the Passive Plus Managed Portfolios Cautious and Moderate. While cash continues to offer flexibility and a reasonable yield, we see greater value in increasing duration to lock in higher rates.

Outlook

It remains the case that the next big move in monetary policy will be for loosening, with cuts in rates delayed, not cancelled. We are therefore looking for opportunities at higher yield levels to add to duration. In equities, we are encouraged by a broadening out of the market in recent months, and by generally healthy corporate profits. There is a risk of complacency, around inflation, a soft landing, high fiscal spending and debt sustainability, geopolitics and election risks, and diversification remains vital, but we are seeking opportunities to add to risk assets on weakness.

New Fund Selection

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↑ Increase Allocation ↓ Decrease Allocation → No Change ● New Allocation

low risk ← → high risk

	MPS 3	MPS 4	MPS 5	MPS 6	MPS 7	MPS 8	Income
EQUITIES							
UK EQUITY							
Evenlode Income	1.5→	3.5→	5.0→	6.5→	6.0→	4.0→	7.0→
Liontrust UK Smaller Companies	-	-	1.5→	2.0→	3.5→	4.0→	-
Jupiter UK Smaller Companies	3.0→	5.5→	6.0→	7.0→	7.0→	7.0→	-
Schroder UK Recovery	0.0↓	0.0↓	0.0↓	0.0↓	0.0↓	0.0↓	-
Schroder Income Maximiser	-	-	-	-	-	-	8.0→
Redwheel UK Equity Income	2.0↑	8.0↑	11.0↑	11.5↑	12.0↑	10.0↑	5.0→
GLOBAL EQUITY							
Evenlode Global Income	2.5↑	7.5↑	9.5↑	10.0↑	9.5↑	8.0↑	10.0→
Trojan Global Equity	1.0↓	5.0↓	7.0↓	7.5↓	7.0↓	6.0↓	-
Fidelity Index Japan	2.5→	2.5→	3.5→	5.0→	4.0→	5.0→	2.5→
Fidelity Index World	3.0→	5.0→	6.5→	10.0→	11.0→	8.0→	2.0→
EMERGING MARKET EQUITY							
JPM Emerging Markets Income	1.5→	2.0→	4.0→	5.5→	10.5→	12.5→	3.5→
Fidelity Index Emerging Markets	-	-	-	3.0→	3.0→	13.5→	-
First Sentier Stewart Asia Pacific Leaders	-	1.5→	3.5→	5.0→	10.0→	12.0→	-
FIXED INCOME							
INFLATION LINKED GILTS							
L&G Global Inflation Linked Bond Index	5.0↓	4.0↓	2.5↓	1.0→	-	-	9.0→
Vanguard UK Inflation Linked Gilt Index Acc	0.0↓	0.0↓	0.0↓	0.0↓	-	-	0.0↓
GOVERNMENT BONDS							
Vanguard US Government Bond Index	16.0↑	10.5↑	5.0↑	3.0↑	-	-	10.0↑
iShares UK Gilts All Stocks Index	13.0↑	6.5↑	4.0↑	2.0→	-	-	5.5↑
Vanguard Euro Government Bond Index	5.5→	4.5→	3.5→	2.0→	-	-	4.5→
INVESTMENT GRADE							
Vanguard UK Short Term Investment Grade Bond Index	7.5↑	4.0↑	3.5↑	-	-	-	4.0↑
Vanguard UK Investment Grade Bond Index	2.0→	1.0→	0.0→	0.0→	-	-	2.0→
HIGH YIELD							
AXA US Short Duration High Yield	3.5→	1.5→	1.0→	-	-	-	6.5→
CONVERTIBLES							
Redwheel Global Convertibles	2.0→	2.0→	2.0→	1.0→	1.0→	-	2.0→
EMERGING MARKET DEBT							
L&G Emerging Markets Government Bond (USD) Index	3.0↓	4.0↓	3.5↓	2.5↓	4.0→	-	4.0↓
LIQUID ALTERNATIVES							
Neuberger Berman Uncorrelated Strategies	3.5→	3.0→	3.0→	1.5→	1.5→	-	2.5→
REAL ASSETS							
First Sentier Global Listed Infrastructure	2.5→	2.0→	1.0→	3.0→	3.5→	3.0→	2.0→
L&G Global Real Estate Dividend Index	2.0→	2.0→	2.0→	2.0→	1.5→	3.0→	2.0→
VT RM Alternative Income	10.5→	8.0→	6.5→	4.0→	3.0→	2.0→	10.0→
CASH							
Blackrock ICS Sterling Liquidity Fund Premier Acc	5.0↓	4.5↓	3.0↓	3.0→	-	-	1.0↓
GBP Cash	2.0→	2.0→	2.0→	2.0→	2.0→	2.0→	2.0→

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	sMPS 4	sMPS 5	sMPS 6
EQUITIES			
UK EQUITY			
EdenTree Resp. & Sust. UK Equity Opps	5.5→	7.5→	8.0→
Evenlode Income	6.0→	8.5→	11.0→
Ninety One UK Sustainable Equity	5.5→	7.5→	8.0→
GLOBAL EQUITY			
Morgan Stanley Global Sustain	6.0→	8.5→	10.0→
Stewart Worldwide Sustainability	6.0→	8.5→	10.0→
Schroder Global Sustainable Value Equity Q1 Acc	8.0→	9.5→	12.5→
EMERGING MARKET EQUITY			
First Sentier Stewart Investors Asia Pacific Leaders Fund Class B Acc GBP	1.5→	3.5→	5.0→
Vanguard ESG EM All Cap Equity Index	2.0→	4.0→	8.5→
FIXED INCOME			
INFLATION LINKED BONDS			
L&G Global Inflation Linked Bond Index	3.0↓	2.0↓	1.0→
Vanguard UK Inflation Linked Gilt Index Acc	0.0↓	0.0↓	0.0↓
GOVERNMENT BONDS			
Vanguard US Government Bond Index	10.0↑	5.0↑	3.5↑
iShares UK Gilts All Stocks Index	6.0↓	3.5↓	2.0→
Vanguard Euro Government Bond Index (GBPh)	4.5→	3.5→	2.0→
INVESTMENT GRADE			
BNY Mellon BNY Mellon Sustainable Global Dynamic Bond	6.0→	4.0→	2.0→
Pimco Global Investment Grade Credit ESG	4.5↑	2.0●	-
HIGH YIELD			
CONVERTIBLES			
Redwheel Sustainable Convertibles	2.0→	2.0→	1.0→
EMERGING MARKET DEBT			
Pimco Emerging Market Bond ESG	3.0↓	3.0↓	2.0↓
LIQUID ALTERNATIVES			
Neuberger Berman Uncorrelated Strategies	3.0→	3.0→	1.5→
REAL ASSETS			
First Sentier First Sentier Responsible Listed Infrastructure	6.0→	4.0→	5.0→
Foresight Sustainable Real Estate Securities	6.0→	5.5→	4.0→
CASH			
Blackrock ICS Sterling Liquidity Fund Premier Acc	3.5↓	3.0↓	1.0→
Cash	2.0→	2.0→	2.0→

New Fund Selection

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	Global Model 3	Global Model 4	Global Model 5	Global Model 6	Global Model 7
EQUITIES					
UK EQUITY					
Evenlode Income	-	-	-	-	3.0→
Jupiter UK Smaller Companies	-	-	-	4.0→	3.0→
Schroder UK Recovery	-	-	-	3.0↓	0.0↓
Redwheel UK Equity Income	-	-	-	3.0●	3.0●
GLOBAL EQUITY					
Evenlode Global Income	-	-	-	5.0↑	3.5→
Trojan Global Equity	-	-	-	3.0↓	-
Fidelity Index Japan	-	-	-	1.5→	1.5→
Fidelity Index World	-	-	-	5.5→	10.0→
EMERGING MARKET EQUITY					
JPM Emerging Markets Income	-	-	-	6.0→	10.0→
Vanguard Emerging Markets Stock Index Acc GBP	-	-	-	2.5→	10.0→
First Sentier Stewart Asia Pacific Leaders	-	-	-	2.5→	3.0→
MULTI ASSET FUNDS					
VT Momentum Diversified Cautious Fund	98.0→	-	-	-	-
VT Momentum Diversified Balanced Fund	-	98.0→	-	-	-
VT Momentum Diversified Moderate Fund	-	-	98.0→	65.0→	50.0→
REAL ASSETS					
L&G Global Real Estate Dividend Index	-	-	-	-	1.0→
CASH					
GBP Cash	2.0→	2.0→	2.0→	2.0→	10.0→

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	Passive Plus Cautious	Passive Plus Moderate	Passive Plus Dynamic
EQUITIES			
UK EQUITY			
Vanguard FTSE All Share Index Unit Trust	6.5→	23.5→	28.5→
GLOBAL EQUITY			
Fidelity Index Japan	2.5→	3.5→	4.0→
Fidelity Index World	6.5→	23.0→	27.5→
EMERGING MARKET EQUITY			
Vanguard Emerging Markets Stock Index Acc GBP	1.5→	7.5→	23.5→
FIXED INCOME			
INFLATION LINKED BONDS			
L&G Global Inflation Linked Bond Index	5.0↓	2.5↓	-
Vanguard UK Inflation Linked Gilt Index Acc	0.0↓	0.0↓	-
GOVERNMENT BONDS			
Vanguard US Government Bond Index	16.0↑	5.0↑	-
iShares UK Gilts All Stocks Index	13.0↑	4.0↑	-
Vanguard Euro Government Bond Index	5.5→	3.5→	-
INVESTMENT GRADE			
Vanguard UK Investment Grade Bond Index	2.0→	-	-
Vanguard UK Short Term Investment Grade Bond Index	7.5↑	3.5↑	-
HIGH YIELD			
Muzinich Short Duration High Yield Hedged Inc GBP	3.5→	1.0→	-
CONVERTIBLES			
Redwheel Global Convertibles	2.0→	2.0→	1.0→
EMERGING MARKET DEBT			
L&G Emerging Markets Government Bond (USD) Index	3.0↓	3.5↓	4.0→
LIQUID ALTERNATIVES			
Neuberger Berman Uncorrelated Strategies	3.5→	3.0→	1.5→
REAL ASSETS			
iShares BR Global Property Securities (For Wraps) Index Fund	7.0→	4.5→	4.0→
Legal & General Global Infrastructure Index Fund I Acc	8.0→	5.0→	4.0→
CASH			
Blackrock ICS Sterling Liquidity Fund Premier Acc	5.0↓	3.0↓	-
Cash	2.0→	2.0→	2.0→

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