Quilter Investors

Monthly Income Portfolios

Monthly commentary – Review of February 2025

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Chief Investment Officer

Our market summary

In February, global markets experienced mixed performance with global equities posting a 1.9% loss overall. US equities faced challenges due to policy uncertainties, while European equities saw strong performance, driven by gains in financials and defence stocks. Elsewhere, emerging markets equities benefited from the positive sentiment around Chinese tech stocks and a weakening US dollar. Meanwhile, fixed income markets saw gains as US Treasury yields declined in the face of softer economic data, with global bonds providing diversification against equity losses. Overall, the month highlighted the importance of diversification and the varying impacts of regional and sector-specific factors on market performance.

In order to aid your understanding, the underlined terms are hyperlinked to definitions in our online investment glossary.

Equity markets

US equities struggled in February, recording a loss of 2.9%. The continued uncertainty about Trump's agenda affected corporate and consumer sentiment. The technology sector faced significant headwinds as investors moved away from the more richly valued large-cap growth stocks. Mixed economic data and ongoing inflationary pressures also contributed to market volatility. Despite this, the energy and healthcare sectors demonstrated relative strength.

Despite ongoing geopolitical tensions and inflationary pressures, European equities performed well in February and ended up 2.4%. Gains were driven by strong performance from the financials and defence sectors, supported by hope of a ceasefire in Ukraine, higher long-term defence spending, and a rotation out of US tech stocks. The European Central Bank's accommodative monetary policy (lowering interest rates) and improving economic data also helped.

In February, UK equities returned 1.4%. This was led by gains in healthcare, financials, and industrials, while the consumer discretionary and consumer staples sectors both underperformed. The large banks, defence, and pharmaceutical companies boosted performance of UK large-cap equities, but the sentiment towards small-caps weakened. So far, the UK has been spared US tariffs and this helped sterling strengthen following a very poor January.

Emerging markets equities were up 0.8% in local currency terms over the month, but the strength of the pound turned this into a 0.8% loss for sterling-based investors. China was the best performing region delivering a 10.3% return amid continued optimism about its AI capabilities and signals of government support for the private sector. Elsewhere, Poland, Greece, and Chile all posted positive returns. Korea saw negative returns, as did Brazil and India.

Fixed income

Fixed income markets saw gains in February as global bonds acted as diversifiers against equity losses. Treasury yields fell (meaning their prices rose) with global bonds returning 1.2% over the month. The decline in yields was driven by increased demand for safe-haven assets amid market volatility and concerns about economic growth. At a more granular level, US Treasuries were up 2.2%, gilts saw a 0.8% gain, and sterling corporate bonds returned 0.4%.

Past performance is not a guide to future performance and may not be repeated. Investment involves risk. The value of investments may go down as well as up and investors may not get back the amount originally invested. *Source: Quilter Investors as at 28 February 2025. Total return, percentage growth, rounded to one decimal place. The performance shown for global equities is represented by the MSCI AC World Index, US equities by the MSCI USA Index, European equities by the MSCI Europe ex UK Index, UK equities by the MSCI United Kingdom All Cap Index, emerging markets by the MSCI Emerging Markets Index, Chinese equities by the MSCI China Index, global bonds by the Bloomberg Global Aggregate (GBP Hedged) Index, US Treasuries by the ICE BofA US Treasury (GBP Hedged) Index, gilts by the ICE BofA UK Gilt Index; and sterling corporate bonds by the ICE BofA Sterling Corporate Index.*

Performance review

Helen Bradshaw
Portfolio Manager

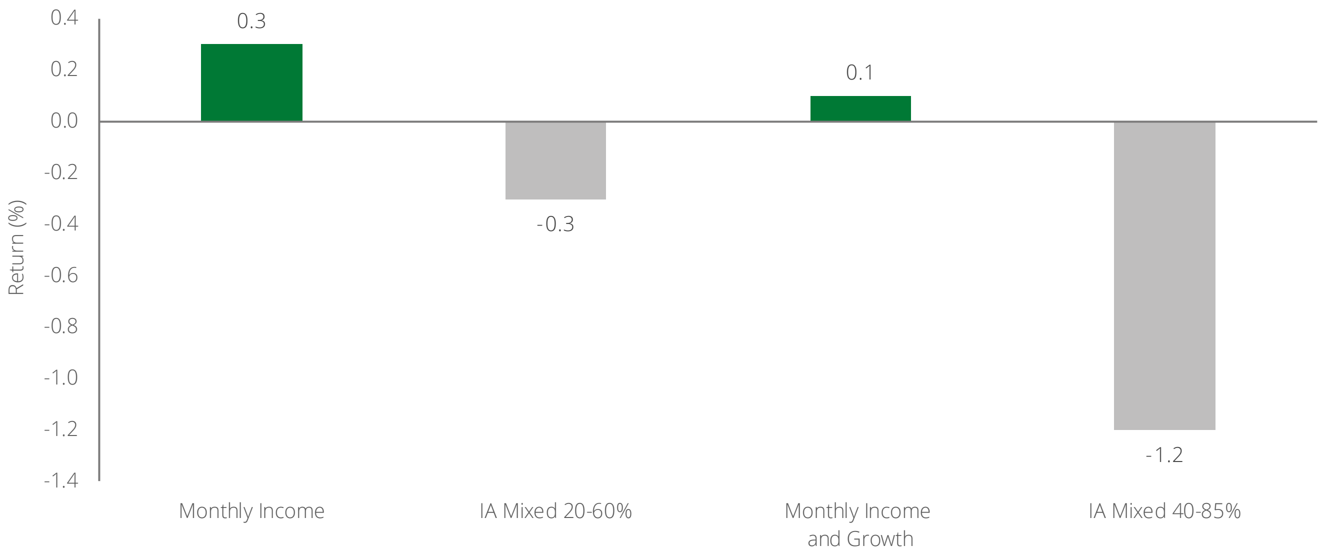
CJ Cowan
Portfolio Manager

In February, the Monthly Income and Monthly Income and Growth Portfolios delivered positive returns of 0.3% and 0.1%, respectively. Both the portfolios were ahead of their performance comparators.

Overall, our equity exposure was a drag on returns mainly caused by our US equity holdings. However, this was partially offset by other regions, particularly Europe and the UK. Meanwhile, the tilt of the portfolios towards dividend-paying value equities at the expense of growth stocks was a benefit.

Elsewhere, our fixed income holdings contributed to returns as government bonds rallied during the month. Within our alternatives allocation, our infrastructure and real estate holdings provided a further boost to returns.

Monthly performance (%)



Performance summary (%)

	Cumulative performance						*Discrete annual performance to end of February*				
	1 month	*YTD*	*1 year*	*3 years*	*5 years*	*Since launch*	*2024 - 2025*	*2023 - 2024*	*2022 - 2023*	*2021 - 2022*	*2020 - 2021*
Monthly Income	**0.3**	**2.3**	**9.2**	**9.5**	**16.8**	**18.0**	**9.2**	**2.3**	**-1.9**	**3.1**	**3.6**
IA Mixed 20-60%	-0.3	2.1	8.3	9.9	19.0	19.4	8.3	4.7	-3.0	1.6	6.6
Monthly Income and Growth	**0.1**	**2.9**	**10.8**	**15.4**	**29.3**	**29.8**	**10.8**	**3.2**	**0.9**	**5.2**	**6.5**
IA Mixed 40-85%	-1.2	2.1	9.7	15.2	33.2	32.4	9.7	6.3	-1.1	4.2	10.9

Past performance is not a guide to future performance and may not be repeated. Source: Quilter Investors as at 28 February 2025. Total return, percentage growth, net of fees, rounded to one decimal place of the U1 (GBP) accumulation shares. The Monthly Income Portfolios launched on 26 June 2019.

Portfolio activity

Early in February we increased the equity risk in the Monthly Income and Growth Portfolio to make it more aligned with its performance comparator. Both Monthly Income Portfolios remain modestly underweight equities compared to their comparators, but this move helped reduce relative risk to a level we were more comfortable with.

At the end of the month, we sold some US Treasuries to take advantage of the fixed income rally we have seen so far this year.

Investment outlook

During February, the US exceptionalism trade (the belief that US equities would continue to outperform their global peers) was called into question. This saw market performance broaden out from the US to the rest of the word. Additionally, fixed income proved its worth again as it provided the ballast and stability that investors had been searching for.

1. Being aware of the politics

Last month we spoke of our expectations for volatility to remain elevated due to the political noise and the unconventional methods of policy announcements favoured by President Trump. This certainly held true in February. There has been a flurry of activity during Trump's first months in office and we continue to watch his more aggressive policies closely to assess the impact these may have on earnings, inflation, and interest rates.

2. Inflation still a worry

We have also spoken previously about inflation remaining a risk. Depending on the eventual outcome, Trump's policies on immigration and tariffs could be the catalyst that leads to higher inflation. A pivot towards hikes would cause pain across equity and bond markets, even if US growth stays strong.

3. Remaining vigilant

If inflation rebounds, we expect companies with high dividend yields to perform well as investors should value up front returns. In this scenario, our equity mix should be a positive. A fall in growth would be less positive given our risk assets overweight. However, corporate balance sheets remain strong, so we think high-yield bonds can perform better than in past recessions. We remain vigilant for signs of a slowdown and will reposition the portfolios if we believe this is likely.

Thank you for investing with us

Keep an eye out for your Monthly Income Portfolios quarterly report available in April.

Want more updates about your portfolio?

Please visit our website at ***www.quilter.com*** for all the latest news, views, and portfolio information.

Your financial adviser is on hand to discuss anything related to your investment decisions or the suitability of the products mentioned in this document.

If you are a financial adviser and you have any questions or want to find out more about our solutions, please contact one of our ***investment directors*** or visit our website at ***www.quilter.com***.

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Important information

Past performance is not a guide to future performance and may not be repeated. Future forecasts are not a reliable guide to future performance and may not be achieved. Investment involves risk. The value of investments may go down as well as up and investors may not get back the amount originally invested.

There are also other risks shown below of which investors should be aware. For more information on these risks, investors should read the key investor information document(s) (KIID(s)).

The portfolio is denominated in one currency, but may hold assets denominated in other currencies, which means exchange rate changes may cause the value of investments to rise or fall. The portfolio may invest in a range of assets such as bonds, equities (company shares), and other investment funds. This means the portfolio will be subject to the collective risks of those investments and, in the case of other investment funds, the collective risks of those investment funds as well as their underlying investments. The portfolio deducts the charges from the income of the portfolio, which means there is the potential for capital erosion if insufficient income is achieved to cover the charges. The portfolio may use derivatives, which means there may be a higher level of risk. The portfolio may hold investments that may be more difficult to sell, which may affect the ability of investors to withdraw their money. The portfolio invests in emerging markets, which may be more volatile than investments in developed markets. The portfolio is likely to favour value stocks (as they typically provide higher dividend payments), which may be subject to periods of underperformance, as value and growth stocks typically outperform each other, and markets generally, at different times.

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