



WealthSelect Managed Active Portfolios

Monthly commentary – Review of February 2023



Our market summary

Although all asset classes made gains in January, it was a different story in February with only UK and European equities making progress. All other regional equity markets declined as did government and corporate (issued by companies) bonds. While the latest data showed inflation to be slowing, any hopes of a swift easing in interest rates were dashed by the central banks. Despite headline inflation visibly waning, central bank policymakers cautioned that interest rates are likely to head higher than expected.

Marcus Brookes
Chief Investment Officer

Equity markets



US equities (company shares) were down 0.3% over the month. The US Federal Reserve (Fed) raised interest rates by 0.25% while acknowledging that inflation appeared to be slowing. The Fed also indicated that rate rises would continue in the short term and that its 'terminal rate' (the peak in US rates) may be higher than originally hoped. At a sector level, technology stocks were more resilient than of late, while energy stocks were weaker.



European stock markets were once again positive with European equities up 2.1% in February. The European Central Bank (ECB) raised interest rates by 0.5% as inflation remained high in certain parts of the bloc. Even so, economic data for the continent continued to deliver positive surprises with most commentators expecting less encouraging numbers due to the region's proximity to the Ukraine war and its reliance on Russian oil and gas.



The UK was the top performing regional market gaining 1.6% as news that the UK had narrowly avoided recession in the last quarter of 2022 boosted markets. Energy, healthcare, and telecoms companies outperformed, partly due to the strength of the US dollar, while some more domestically focused stocks also benefited. Meanwhile, the Bank of England raised interest rates by 0.25%.



After a positive start to the year, emerging market equities fell 4.1% in February. This was in large part due to negative investor sentiment surrounding China, following its 'spy balloon' debacle which, once again, raised tensions with the US. Chinese equities fell by 7.4% during the month. India and Poland were two of the stronger performers, while Brazil continued to stall.

Fixed income



Global bond prices fell (meaning their yields rose) in February as markets re-evaluated the outlook for interest rates. Following more interest-rate hikes and guidance from central banks, markets grappled with the prospect of interest rates remaining higher for longer. This saw US government bonds decline by -0.4% while gilts (UK government bonds) fell by 3.6%.





Performance review

Following a strong start to the year, February saw some mixed messages from economic data and central bankers. In this environment, bond markets sold-off. This delivered modest losses for the lower-risk portfolios while equity markets also moved lower as the potential for interest-rate cuts, which would boost equity market valuations, dissipated. Even so, strong manager selection on our part enabled us to deliver some small gains for the higher-risk portfolios.

Stuart Clark
Portfolio Manager

Performance summary (%)

	Cumulative performance						Discrete annual performance				
	1 month	YTD	1 year	3 year	5 year	Since launch	28 Feb 22 - 28 Feb 23	28 Feb 21 - 28 Feb 22	28 Feb 20 - 28 Feb 21	28 Feb 19 - 29 Feb 20	28 Feb 18 - 28 Feb 19
Managed Active 3	-0.8	1.7	-2.1	6.6	12.6	36.8	-2.1	1.4	7.4	5.2	0.4
IA Mixed 0-35% Shares	-1.2	1.4	-5.6	-1.9	3.5	23.0	-5.6	0.4	3.5	5.2	0.3
Managed Active 4	-0.6	2.1	-1.0	10.6	16.6	47.3	-1.0	2.2	9.3	5.0	0.4
Managed Active 5	-0.5	2.4	0.1	14.7	20.5	57.6	0.1	3.0	11.2	4.9	0.2
IA Mixed 20-60% Shares	-0.8	2.2	-3.0	5.0	9.6	35.5	-3.0	1.6	6.6	4.6	-0.2
Managed Active 6	-0.3	2.8	1.5	19.1	24.3	66.9	1.5	3.9	12.9	4.3	0.0
Managed Active 7	-0.2	3.3	2.8	23.5	28.5	77.4	2.8	4.8	14.6	4.1	-0.1
IA Mixed 40-85% Shares	-0.3	3.1	-1.1	14.3	20.2	58.4	-1.1	4.2	10.9	5.2	0.0
Managed Active 8	0.0	3.8	4.2	28.2	33.5	88.7	4.2	5.6	16.5	4.3	-0.2
Managed Active 9	0.0	4.1	5.5	34.3	39.3	108.4	5.5	6.3	19.7	4.4	-0.6
IA Flexible	-0.7	2.8	-0.2	17.2	21.4	63.5	-0.2	3.7	13.4	4.6	-1.0
Managed Active 10	0.0	4.2	6.4	38.0	43.2	130.7	6.4	6.3	22.0	4.6	-0.8
IA Global	-0.2	4.2	1.5	32.9	44.7	123.9	1.5	6.7	22.8	6.9	1.8

Source: Quilter Investors as at 28 February 2023. Total return, percentage growth rounded to one decimal place. All performance figures are net of underlying fund charges, but gross of the Managed Portfolio Service charge. Deduction of this charge will impact on the performance shown. The WealthSelect Managed Active Portfolios launched on 24 February 2014.





How our equity holdings performed

UK equities continue to outperform

The UK equity market was a bright spot; it was the top-performing regional equity market with modest single-digit returns. This was driven by the UK market's greater weighting to energy stocks than many of its international peers and the strong earnings in the sector, especially when translated into sterling. Our underlying managers were well-positioned to participate in this rally.

European equities stay ahead of the pack

European equities also posted a small gain in February while US, Japanese, emerging markets and Asian equities each posted losses of steadily increasing size. As with the UK portfolio, our selection of underlying managers succeeded in outperforming their respective comparators. The Quilter Investors Europe (ex UK) Equity Income Fund took the honours as the top-performing holding on the back of its consumer discretionary stock selection.



Consumer discretionary companies produce goods and services that consumers consider non-essential, but highly desirable if their income allows. Consequently, consumer discretionary companies tend to be more sensitive to economic cycles.

Asian markets suffer China's pain

While our Asian holdings held up well versus their individual benchmarks, with the Quilter Investors Asia Pacific (ex Japan) Equity Fund the most notable here, the region struggled as Chinese share prices pulled back after a strong start to the year. Among our US funds, both the Quilter Investors US Equity Growth and the Quilter Investors US Equity Small Mid Cap funds delivered positive returns and outperformed their respective benchmarks.



How our fixed-income holdings performed

Rising interest rates hurt bond markets

Fixed-income markets sold-off as inflation, particularly core inflation, remained resilient and central banks raised interest rates in their continued battle to bring it under control. With this in mind, the exposure to government bonds brought losses to the portfolios while the exposure to corporate bonds (issued by companies) showed greater resilience with prices remaining stable even as equity markets declined. Within this, the more defensive stance of the Quilter Investors Corporate Bond Fund and the lower government bond exposure of the Quilter Investors Dynamic Bond and the Quilter Investors Diversified Bond funds helped to protect our investors' capital.



Core inflation is a measure of the rise in prices, which excludes the (more volatile) changes in the price of food and energy. It is most often calculated using the consumer price index (CPI), a measure of prices for goods and services.



How our alternative holdings performed

Alternatives lose ground

The alternatives basket of funds made a small loss in aggregate. While the Quilter Investors Absolute Return Bond Fund performed well and the Trium ESG Emissions Fund continued its strong run of performance since its introduction to the portfolios, this was unfortunately offset by weaker performance from the Quilter Investors Global Equity Absolute Return Fund, the PIMCO Dynamic Bond Fund and, most notably, the PIMCO Dynamic Multi Asset Fund, which dropped 3.3%.



Absolute return funds aim to deliver consistent, positive returns regardless of the direction of travel for markets. They operate across most asset classes and employ a wide variety of financial instruments, often including derivatives and long/short trading strategies.

Investment outlook

Following a strong start to the year in January, some volatility returned to both bond and equity markets in February as mixed economic news was delivered. Unemployment rates in the US continued to come down, yet layoffs in certain sectors continued to increase.

1. UK inflation still painfully high

In the UK, corporate earnings expectations remain robust while inflation may have peaked, but remains high. A similar story can be told for other regions around the world. Some hope is also being pinned on the re-opening of China as a saviour for global growth while, hopefully, not triggering higher inflationary pressures.

2. Caution required

Equity investors have certainly tried to find the positive side to most market news. While we clearly don't wish for a recession, higher unemployment or stubborn inflation leading to the interest-rate increases that could precipitate the first two outcomes, it strikes us that this risk remains. As such, we continue to maintain a defensive stance in the portfolios with a view to further building our traditional fixed-income exposure if the opportunity were to arise later in the year.

3. Depending on the weather...

Finally, and with a distinct note of sadness, one year on there is still no resolution to the Ukraine war. While there can be no doubt about the humanitarian impact of this invasion and the devastation it's wrought, there is also an economic toll still being paid. A mild winter in Europe may have allowed energy prices to reduce as gas storage facilities are full, but we also now need to rely on a mild summer and another mild winter.

Thank you for investing with us

Keep an eye out for your next WealthSelect Managed Portfolios quarterly report 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 speak to one of our investment directors on +44 (0)207 167 3700, email us at enquiries@quilter.com, or visit our website at www.quilter.com.



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