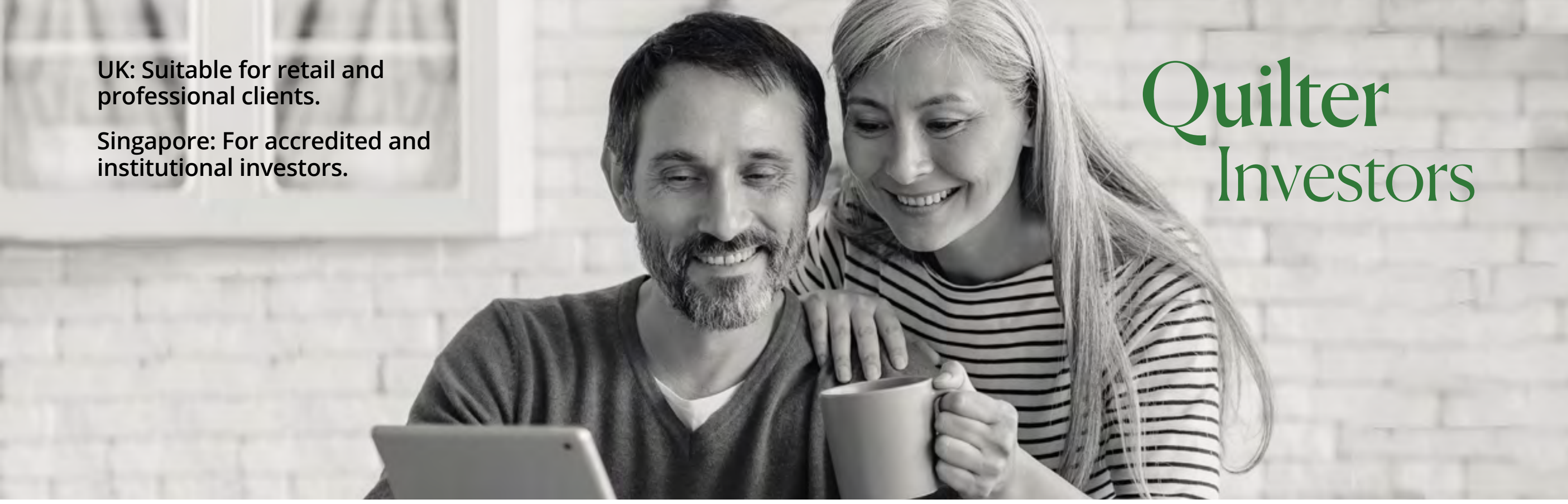

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Quilter Cheviot International Portfolios

Market commentary – May 2024

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Our market summary

Investor sentiment in the first quarter of 2024 was boosted by very resilient economic data. Against that backdrop, developed market equites returned 11.4% in euro terms in Q1.

US and Japanese equities were the primary drivers of this performance with local currency returns of 10% and 16% respectively, the latter of course being gross of yen currency weakness totalling 7% vs the US dollar in Q1 alone. However, the month of April was much tougher going, as the stronger than expected economic data, particularly from the USA and stubborn inflation numbers, fuelled fears that global central banks will not cut interest rates as quickly as hoped and this sapped investor confidence. Remember at the start of this year, money market futures had baked in six interest rate cuts in the USA for 2024. Now market futures are predicting one or two at most and we believe even those predictions are erring on the optimistic side. Central bankers' reputations need to be repaired. Having been wrong on their view that the inflationary surge in 2021 and 2022 was transitory, they will make very sure that inflation is at or near their target rate of 2.0% before they will cut, as the consequences of being wrong a second time will prove very damaging not only for the growth trajectory of the global economy but for confidence generally in the monetary authorities. It is for this reason we are cautious in expecting lots of rate cuts this year, particularly before the US Presidential election.

USA

Whilst the momentum behind the Magnificent Seven continued in Q1 and into April, one company continued to stand head and shoulders above the rest and that was Nvidia. It's four-month performance was up by 75% and at the point of writing this commentary, post announcing another set of record-breaking results and a 10:1 stock split, the updated performance YTD is 115%. As at the end of April, the top performing five US companies (on a rolling 12-month basis) within the MSCI ACWI were Nvidia, Microsoft, Meta, Amazon, and Eli Lilly. The latter is pressing ahead with a total investment of $9bn in new manufacturing facilities in the USA, (the largest in the company's history) to meet demand for its weight loss drugs. Investors in US equities it seems are only interested in two themes – AI and obesity drugs, quite a narrow investment landscape. Interestingly, amongst the bottom end, or negative detractors in the MSCI ACWI over the same time-period were Pfizer, Alibaba, Tencent, Nike, and Tesla, the latter being the worst performer. So, even within the Magnificent Seven, investors needed to be discerning.

Europe

European equities again trailed their US counterparts in Q1 with returns of 8.5% in euro terms compared to US equities returning 13%, but they retraced some of that underperformance in April showing a 0.74% decline on the month compared to US equities which were down 2.94%. US companies now trade on a significant premium to European equities with the former trading on a two-year forward price-to-earning ratio of 18 against 12.5 for European equities. Given the depressed valuation of European equities, it won't take much positive news for some type of re-rating to take place.

UK

The shift away from growth to value in the month of April helped the UK market with it being more of a value index. Growth investors were unnerved that interest rates would stay higher for longer which undermined sentiment for growth. UK equities rose 2.3% in April i compared to US equities falling 3.3% in the same month. On a twelve-month basis though, US equities were still trouncing UK equities with returns of 23.8% and 7.4%, respectively.

Fixed Income

Q1 was a challenging quarter for fixed income investors with the narrative of 'higher for longer' interest rates and stickier inflation prints proving an unhelpful backdrop. European government bonds fell 0.6% in euro terms underperforming an index of US Treasuries which rose 1.3% but that was more a function of euro strength against the dollar as the dollar fell approximately 2% against the euro in Q1. The first European Central Bank rate cut is expected in June, with two rate cuts priced in before the end of the year, but we believe these expectations are overly optimistic.

Performance review: Q1 2024

The momentum in investor sentiment that started at the end of 2023 continued to gather pace in the first quarter of the year. All three portfolios enjoyed positive returns ranging from 3.9% for the Balanced Portfolio to 7.1% for the Growth Portfolio. Notable contributors included the US equity focused funds, the Sands Capital US Select Growth and Brandes US Value funds, which demonstrated that both growth and values styles were beneficiaries. Elsewhere our Japanese exposure via the M&G Japan and BG Japanese Income Growth funds also did well due to structural reform of the Japanese equity market and a relatively cheap currency.

The three largest detractors during the period were all listed closed-ended real asset funds (HICL Infrastructure, International Public Partnership, and Renewables Infrastructure Group) as fears of interest rate levels remaining elevated decreased the appeal of assets whose value is largely dependent on future known cashflows.

Month of April

The portfolios registered declines ranging from 1.2% for the Balanced Portfolio, to 2.2% for the Growth Portfolio. After several months of exceptional returns, our US equity exposure paused for breath as the market began to digest a revision in interest rate expectations. Partially countering this was our Chinese equity exposure as that market enjoyed a sharp rebound on the back of stronger than expected GDP growth and accelerating manufacturing activity. Performance of our alternatives holdings was boosted by bid activity for the Hipgnosis Songs Fund which saw its share price rise by 50% during the month.

Portfolio Activity

During the month of April, we added one of our best new ideas in the Trium ESG Emissions Improvers Fund and trimmed positions in the Jupiter Specialist Equity UK, Redwheel Global Equity Income, and Allianz Fixed Income Macro funds. The Trium ESG Emissions Improvers Fund focuses on sectors that account for the vast majority of European greenhouse gas emissions such as utilities, energy, materials, and industrials, and aims to improve those emissions through engagement with companies. The trimmed positions were in funds where we had a combination of lower conviction in the manager, growing concerns over underlying portfolio liquidity, and better prospects elsewhere.

Investment outlook

Despite the 'risk on' trade in Q1 with global equities performing well, a different cohort of investors seeking safe havens drove gold to new 52-weeks highs and oil prices rose as geopolitical tensions remained high. The global economy remains in fairly good shape with a very resilient economic performance emanating from the USA. Growth in the rest of the world is not as strong and the persistency of inflation is a central concern for central bankers. The path towards central bank target rates of inflation of 2.0% from 3.0% currently will not be easy, hence why we are much more cautious on the degree of interest rate cuts that will be delivered by central banks in the remaining months of 2024. With concentration becoming ever more acute in certain equity markets, we believe that it's as important as ever to be as diversified as possible.

1. Degree of interest rate cuts expected overly optimistic

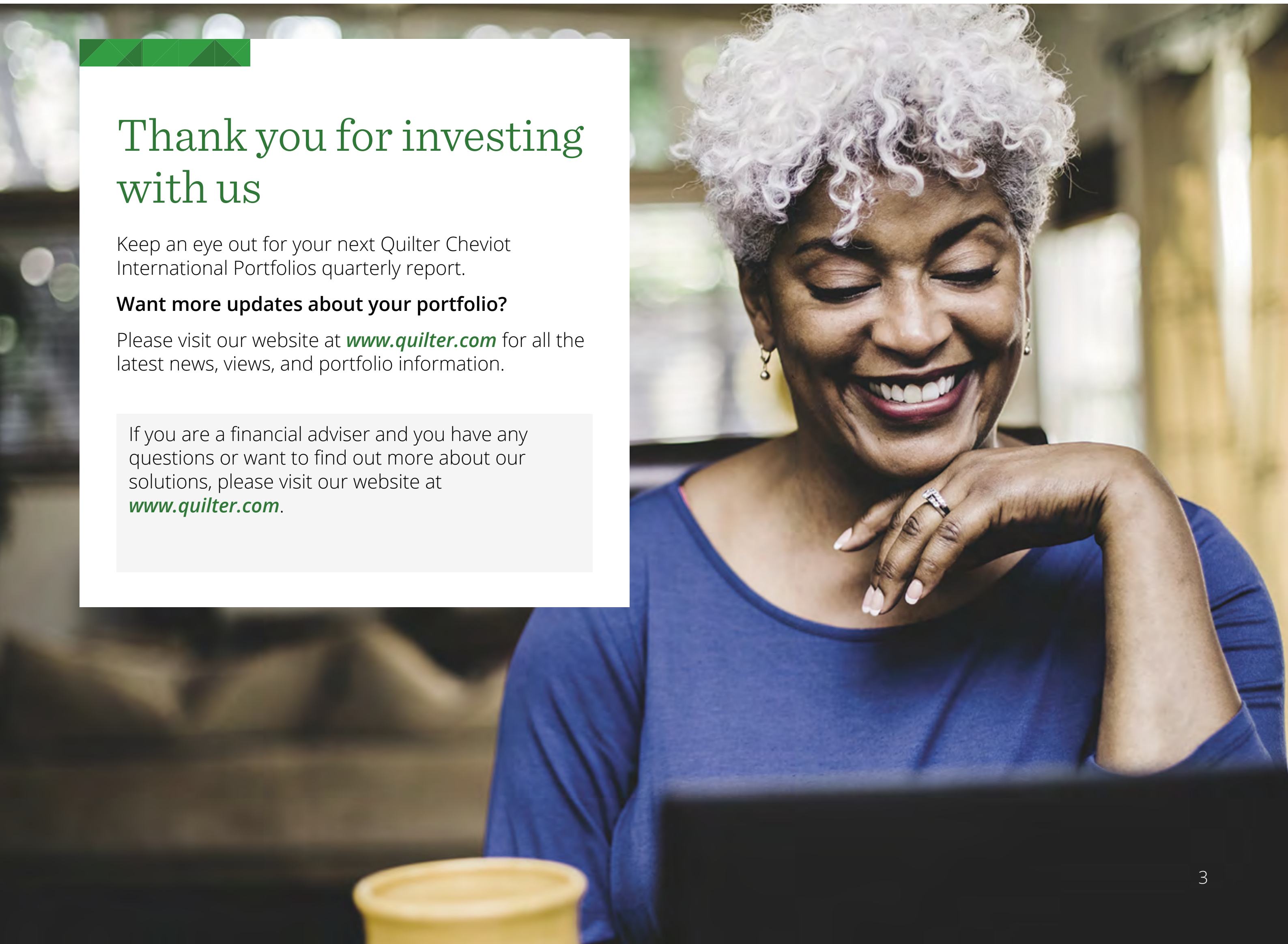
As already stated, due to the persistency of global inflation, particularly services inflation, and given the fact that the global economy continues to deliver reasonable economic growth (which is positive for equities generally), we think we may get only one or two interest rate cuts at most from the main central banks for the balance of the year.

2. Implication for fixed income.

The lack of monetary easing probably means that positioning in fixed income should be more biased to shorter maturities matching the 'higher for longer' reality of official rates.

3. Political risk and geopolitics may be more to the fore as we go through the year

As we draw nearer to the US Presidential election in November, volatility may begin to rise if its apparent that another protracted result is in prospect.



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

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Where the shares are acquired by persons who are relevant persons specified in Section 305A of the SFA, namely:

A corporation (which is not an accredited investor (as defined in Section 4A of the SFA) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

A trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor, the shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within 6 months after that corporation or that trust has acquired the shares pursuant to an offer made under Section 305 of the SFA except:

(1) to an institutional investor or to a relevant person as defined in Section 305(5) of the SFA, or which arises from an offer referred to in Section 275(1A) of the SFA (in the case of that corporation) or Section 305A(3)(c)(ii) of the SFA (in the case of that trust)

(2) where no consideration is or will be given for the transfer

(3) where the transfer is by operation of law

(4) as specified in Section 305A(5) of the SFA

(5) as specified in Regulation 36A of the Securities and Futures (Offers of Investments) (Collective Investment Schemes) Regulations 2005 of Singapore.

Produced: July 2024

QI 26680/25/7517