UK: Suitable for retail and professional clients.

Quilter Investors

Cirilium Blend Portfolios

Monthly commentary – Review of August 2023

Marcus Brookes
Chief Investment Officer

Our market summary

Global equity markets retreated 0.8% in August with both developed and emerging equity markets in decline. This was partially due to the ongoing economic slowdown in China and its knock-on effects for global manufacturing sectors. Meanwhile, uncertainty as to the direction of US interest rates soured investor sentiment with rate-sensitive sectors such as technology and consumer staples being especially impacted.

Equity markets

Conjecture over the direction of monetary policy weighed heavily on US equities in August which led to a 0.2% decline. Markets had assumed that the US Federal Reserve's (Fed) monetary tightening cycle had climaxed in July, but minutes released from the meeting highlighted a mix of opinions from within the Fed, casting doubt over the immediate direction of interest rates. As a result, technology stocks tumbled and dragged markets lower.

A mixed bag of eurozone economic data saw European equities fall by 2.5% in August. Annual inflation figures were resilient, although core inflation, which omits food and energy prices, fell. Meanwhile, business activity figures reached a 33-month low. This left the European Central Bank with much to consider ahead of next month's interest-rate decision meeting. The energy and real-estate sectors were the region's two bright spots, with both making gains.

Increasingly negative economic data and market sentiment impacted UK equities, leading to a 2.5% loss. Inflation remained stubbornly high, with the Bank of England (BoE) moving to increase interest rates once again. UK interest rates rose to 5.25% with the BoE warning that rates may need to stay higher for longer to bring inflation back to its target range of 2%. The UK energy sector was the only outlier; it delivered a positive gain in August.

Egypt, Hungary, and Turkey were the only positive contributors in what was a challenging month for emerging market economies. Negative sentiment stemming from China's economic malaise and the potential ramifications of US interest rates remaining higher delivered a 4.7% drop to emerging market equities. China's disappointing 're-opening' and its imploding domestic property sector had a heavy impact; Chinese equities were down by 7.6%.

Fixed income

In a notable development, the credit rating agency Fitch downgraded the US from Triple-A, the highest rating, to Double A+. Fitch cited the nation's increasing debt and an "erosion of governance" as its key rationale. The US announced ambitious borrowing plans in August which sparked a brief rise in US Treasuries (US government bonds) before they retreated to deliver a loss of 0.6%. Meanwhile, UK gilts (UK government bonds) fell by 0.5% with UK corporate bonds (issued by companies) down by 0.2%.

Source: Quilter Investors as at 31 August 2023. Total return, percentage growth in pounds sterling except where shown, rounded to one decimal place. The performance shown for global equities is represented by the MSCI 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 EM (Emerging Markets) Index; US Treasuries by the ICE BofA US Treasury (GBP Hedged) Index; UK gilts by the ICE BofA UK Gilt Index; and UK corporate bonds by the ICE BofA Sterling Corporate Index.

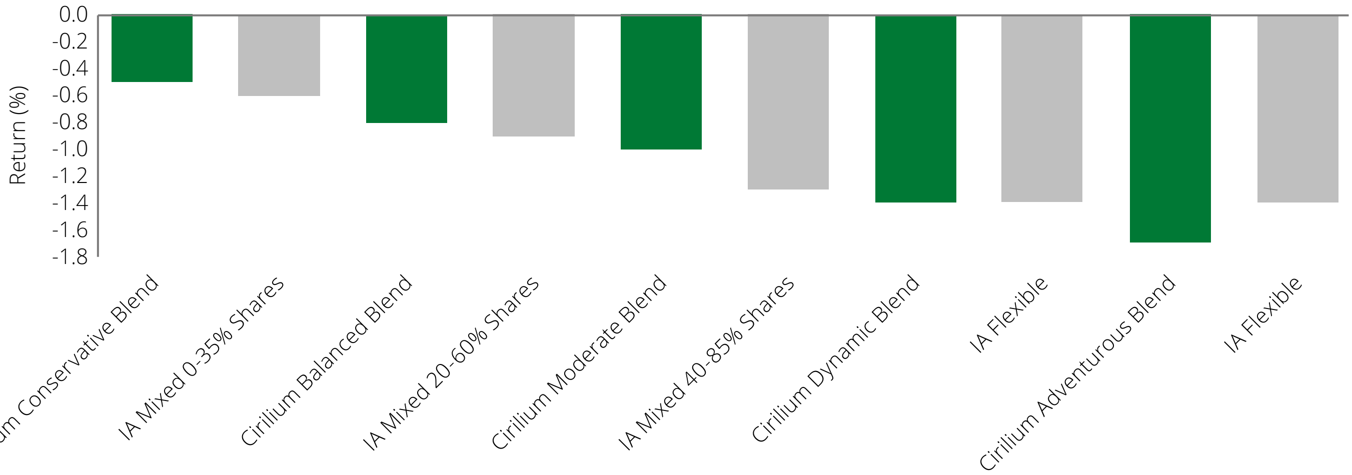
Sacha Chorley
Portfolio Manager

Ian Jensen-Humphreys
Portfolio Manager

Performance review

The Cirilium Blend Portfolios suffered losses in August ranging from 0.5% for the Cirilium Blend Conservative Portfolio to 1.7% for the Cirilium Blend Adventurous Portfolio. Equity markets struggled due to renewed weakness in Chinese economic data, which underlined its anaemic post-covid recovery alongside increased fears that interest rates would stay higher for longer than anticipated due to persistent inflation. This naturally impacted the higher-risk Cirilium Blend Portfolios that have greater equity exposure.

Monthly performance (%)



Performance summary (%)

	Cumulative performance						*Discrete annual performance to end of August*				
	1 month	*YTD*	*1 year*	*3 year*	*5 year*	*Since launch*	*2022 - 2023*	*2021 - 2022*	*2020 - 2021*	*2019 - 2020*	*2018 - 2019*
Cirilium Conservative Blend	**-0.5**	**1.1**	**-0.3**	**-2.4**	**-**	**2.0**	**-0.3**	**-6.3**	**4.5**	**4.4**	**-**
IA Mixed 0-35% Shares	-0.6	1.1	-1.3	-3.0	-	-2.0	-1.3	-8.2	7.1	0.6	-
Cirilium Balanced Blend	**-0.8**	**2.8**	**1.7**	**7.2**	**-**	**9.8**	**1.7**	**-4.3**	**10.0**	**2.9**	**-**
IA Mixed 20-60% Shares	-0.9	1.7	-0.3	3.7	-	3.3	-0.3	-7.2	12.1	0.0	-
Cirilium Moderate Blend	**-1.0**	**3.8**	**3.0**	**15.5**	**-**	**16.6**	**3.0**	**-3.0**	**15.6**	**2.2**	**-**
IA Mixed 40-85% Shares	-1.3	2.9	0.4	10.6	-	11.0	0.4	-6.6	17.9	1.3	-
Cirilium Dynamic Blend	**-1.4**	**4.6**	**3.8**	**21.3**	**-**	**20.1**	**3.8**	**-3.1**	**20.7**	**0.9**	**-**
IA Flexible	-1.4	2.6	0.4	12.6	-	13.8	0.4	-6.1	19.4	2.2	-
Cirilium Adventurous Blend	**-1.7**	**5.1**	**4.2**	**22.4**	**-**	**20.2**	**4.2**	**-4.2**	**22.6**	**1.0**	**-**
IA Flexible	-1.4	2.6	0.4	12.6	-	13.8	0.4	-6.1	19.4	2.2	-

Source: Quilter Investors as at 31 August 2023. Total return, percentage growth, net of fees, rounded to one decimal place of the U1 (GBP) Accumulation shares. The Cirilium Blend Portfolios launched on 26 July 2019.

Portfolio activity

The key new addition to the portfolios was the M&G European Strategic Value Fund. This addition was the conclusion of an extensive search for a European ***value***-tilted active manager to replace the portfolios' value factor ETF exposure, which was sold to fund the new position. We particularly like the manager's long-term horizon; this spares it from seeking near-term catalysts and allows it instead to identify fundamentally cheap companies and to give them sufficient time to re-rate (investors are willing to pay more for them) as markets start to better appreciate their qualities. Within the alternatives holdings we finished building our positions in the AQR Managed Futures Fund and the Clearbridge Infrastructure Income Fund, which in the case of the latter, replaced a prior holding in the Lyxor Inflation Expectations ETF.

Investment outlook

The global economy has continued on a trajectory that implies a 'soft landing' or 'muddle through' environment: growth is slowing (but not too severely) while inflation is falling, but slower than most of us would like. Consequently, we don't see many compelling opportunities at current market levels, where valuations are neutral and profit growth uncertain. Therefore, we are positioned fairly cautiously, close to our ***strategic asset allocation*** (SAA), with high cash weightings. Meanwhile, the notable absence of consensus as to likely market direction accounts for why many markets remain range-bound (where the price stays between a specific high price and a low price).

1. Can US consumers stay fit?

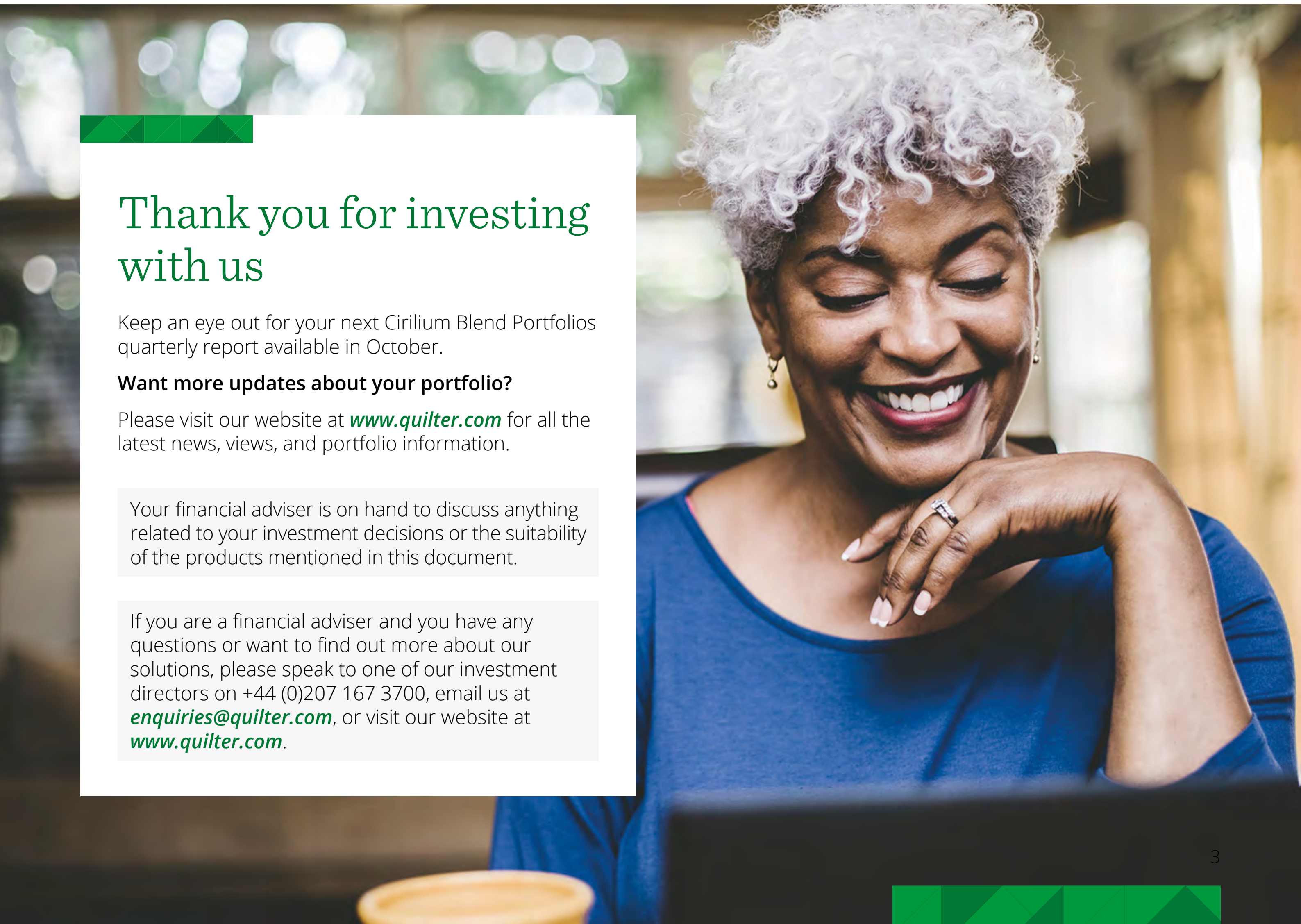
We see the US economy as being the marginal driver of global growth. This means that much will depend on US consumer confidence. The scorecard here is increasingly mixed: while US unemployment remains extremely low and job creation and wage growth are robust, especially for lower-income workers, savings rates are falling while loan and credit card defaults are rising, suggesting that many US consumers are living beyond their means.

2. Murky outlook for corporate profits

Company profits have stalled as revenue increases have been swallowed up by rising commodity and wage costs. One reason for optimism is the pick-up in capital expenditure as companies invest in reworking supply chains and 'onshoring' manufacturing. This should lead to more efficient processes, improved productivity, and more domestic jobs. However, we've yet to see the full impact of higher interest rates feeding into company financing costs.

3. 'Good news' still 'bad news' for markets

We're continuing to see an unusual paradigm where good economic data triggers a short-term sell-off in equity and bond markets due to fears it will force central banks to keep interest rates higher for longer. This will make life harder for consumers and companies, but we think it's better to be worried about too much growth, rather than too little. The counter is that greater overheating today could mean even higher rates and a harder, more painful landing in the future.



Thank you for investing with us

Keep an eye out for your next Cirilium Blend Portfolios quarterly report available in October.

Want more updates about your portfolio?

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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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