



WealthSelect Managed Active Portfolios

Monthly commentary – Review of August 2023



Our market summary

Global equity markets retreated 1.6% 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.

Marcus Brookes
Chief Investment Officer

Equity markets



Conjecture over the direction of monetary policy weighed heavily on US equities in August which led to a 0.4% 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.



Increasingly negative economic data and market sentiment impacted UK equities, leading to a 2.2% 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%.



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 4.0% 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 7.0%.

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), which settled at a 1% gain for the month in sterling terms. Global corporate bonds (issued by companies) fell by 0.1% while global government bonds dipped by 0.4%.

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 is represented by an appropriate IA sector average.





Stuart Clark
Portfolio Manager

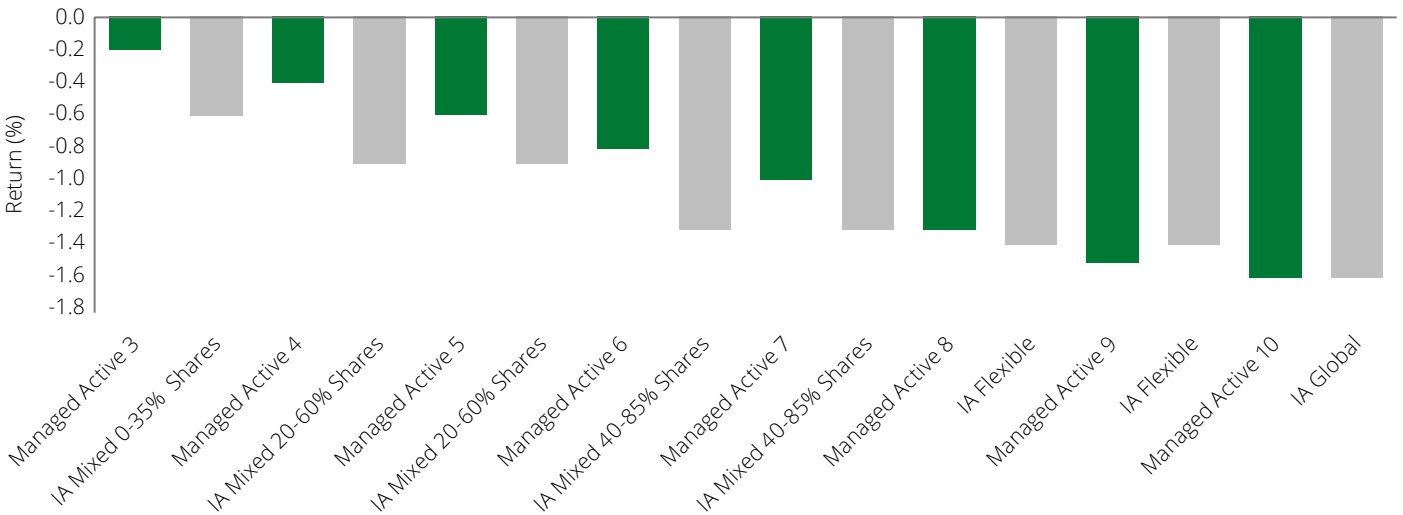
Performance review

August was a difficult month for markets as investors reassessed the expected path of western interest rates, when they might finally peak, and when we might expect to see the first interest-rate cut. This was against a backdrop of persistently high inflation and robust US economic data, which sparked fears that central banks would need to keep interest rates higher for longer.

The cautious positioning of the WealthSelect Managed Active Portfolios helped, but they weren't immune to the challenging market backdrop. They declined between 0.2% at risk level 3 and 1.6% at risk level 10.

With equity and bond markets selling off in August, our higher exposure to cash (risk levels 3-6) and alternatives, compared to our peers, was a key driver of our relative performance.

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
Managed Active 3	-0.2	2.5	2.3	3.7	12.3	37.9	2.3	-6.1	7.9	2.6	5.5
IA Mixed 0-35% Shares	-0.6	1.1	-1.3	-3.0	1.7	22.7	-1.3	-8.2	7.1	0.6	4.2
Managed Active 4	-0.4	2.9	3.0	7.2	15.8	48.5	3.0	-5.5	10.3	2.4	5.5
IA Mixed 20-60% Shares	-0.9	1.7	-0.3	3.7	6.8	34.9	-0.3	-7.2	12.1	0.0	3.1
Managed Active 5	-0.6	3.2	3.6	10.8	19.1	58.8	3.6	-5.1	12.7	2.1	5.3
IA Mixed 20-60% Shares	-0.9	1.7	-0.3	3.7	6.8	34.9	-0.3	-7.2	12.1	0.0	3.1
Managed Active 6	-0.8	3.5	4.1	14.6	22.4	68.0	4.1	-4.1	14.8	1.8	4.9
IA Mixed 40-85% Shares	-1.3	2.9	0.4	10.6	15.3	58.1	0.4	-6.6	17.9	1.3	3.0
Managed Active 7	-1.0	3.9	4.7	18.6	25.9	78.4	4.7	-3.4	17.1	1.4	4.8
IA Mixed 40-85% Shares	-1.3	2.9	0.4	10.6	15.3	58.1	0.4	-6.6	17.9	1.3	3.0
Managed Active 8	-1.3	4.3	5.4	22.7	30.2	89.6	5.4	-2.7	19.7	1.1	5.0
IA Flexible	-1.4	2.6	0.4	12.6	17.3	63.2	0.4	-6.1	19.4	2.2	1.9
Managed Active 9	-1.5	4.5	5.3	26.6	35.8	109.3	5.3	-1.5	22.0	2.0	5.1
IA Flexible	-1.4	2.6	0.4	12.6	17.3	63.2	0.4	-6.1	19.4	2.2	1.9
Managed Active 10	-1.6	4.8	5.3	29.0	39.9	132.0	5.3	-0.5	23.3	2.7	5.5
IA Global	-1.6	6.9	3.2	22.8	37.5	129.6	3.2	-5.8	26.4	6.4	5.3

Source: Quilter Investors as at 31 August 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.

Investment outlook

Last month we highlighted that we retained a cautious stance allowing for the possibility that the soft-landing scenario, where interest rates are raised just enough to stop the economy from overheating and experiencing high inflation, without causing a severe downturn, might not be the only viable outcome or, indeed, even the most likely one. During the month, we started to see a variety of potential outcomes being priced-in, leading to the pull-back we saw in equity markets.

1. Consumers still holding out

Economic data this year has been stronger than widely expected and this continued to be so in August. Interest-rate rises have not impacted consumers as quickly as many observers thought they would. Meanwhile, businesses and households that took on fixed-rate debt at historically low rates during the lockdown period still have some runway left before these debts require refinancing.

2. 'Good news' is still 'bad news' for markets

If inflation re-accelerates, as it did in August, then more interest-rate hikes could be forthcoming, increasing the chance of a harder economic landing down the line. It's this fear that drives the somewhat perverse paradigm of 'good news' for the economy, being 'bad news' for markets. In other words, the better the economic data, the more likely central banks are to keep interest rates higher for longer.

3. Core beliefs

Our core view remains one of caution, reflecting over optimistic earnings expectations based on a soft landing being achieved. If we view this scenario as being priced-in, then it requires a positive surprise to validate higher equity markets from here. If interest rates continue to drive higher, then we will use this as an opportunity to increase the portfolios' exposure to bonds.

Thank you for investing with us

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

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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.

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