UK: Suitable for retail and professional clients.

Quilter Investors

Cirilium Blend Portfolios

Monthly commentary – Review of August 2024

Marcus Brookes
Chief Investment Officer

Our market summary

The end of July and the start of August began with a resurgence of volatility in stock markets, as both bond yields and equity markets declined, making it an eventful period for investors. Early in the month, disappointing US economic data heightened concerns about a potential slowdown in the US economy. This, paired with an interest-rate hike from the Bank of Japan, triggered a significant sell-off in global equity markets. However, by month's end, markets recovered as investors started to factor in anticipated interest-rate cuts by the US Federal Reserve (Fed). Overall, global equities ended the month up by 0.2%.

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

Equity markets

In early August, fears of a US recession were fuelled by disappointing jobs and employment data, and manufacturing data well below expectations. However, later in the month, better economic data and a dovish message from Fed Chair, Jerome Powell, calmed markets. Overall, US equities rose 2.4% in dollar terms, but due to the dollar's weakness against the pound, sterling-based investors only saw a 0.1% return.

In August, European equities underperformed compared to the US in local currency terms but yielded 1.8% for sterling-based investors. The French service sector got a boost from the Olympics, pushing the eurozone Purchasing Managers' Index (PMI) higher than expected. Nonetheless, the overall economy remains sluggish, and earnings from cyclical companies were disappointing.

In the UK, large-cap stocks were hampered by the strength of the pound weighing on overseas earnings. There was also weak performance from commodities based on growth concerns, and the aversion of investors to economically sensitive areas impacted mid-cap and small-cap stocks. Nonetheless, UK equities still delivered returns of 0.7% in August.

The strength of the pound again weighed on overseas returns as emerging markets were up 0.4% in local currency, but down 0.7% for sterling-based investors. The continued challenges in the Chinese real estate sector and the spillover effects on the broader economy are still being felt. The weakness of the Chinese consumer was evidenced by poor earnings results from the e-commerce platform, Pinduoduo, better known by Western consumers for its Temu brand.

Fixed income

August was a positive month for fixed income investors. The volatility observed at the start of the month led to a flight to quality, and with investors pricing-in more aggressive rate cuts, it was a strong month for government bonds with US Treasuries up 1.2% and UK gilts returning 0.5%. Meanwhile, global corporate bonds were up 1.1% and sterling corporate bonds returned 0.3%.

Source: Quilter Investors as at 30 August 2024. 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 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, US Treasuries by the ICE BofA US Treasury (GBP Hedged) Index, UK government bonds by the ICE BofA UK Gilt Index, global corporate bonds by the Bloomberg Global Aggregate (GBP Hedged) Index, and sterling-denominated corporate bonds by the ICE BofA Sterling Corporate Index.

Performance review

The Cirilium Blend Portfolios delivered positive returns in August and outperformed their Investment Association (IA) performance comparators. The returns ranged from 0.9% for the Conservative Blend Portfolio to 0.4% for the Dynamic Blend Portfolio.

Equities ended the month broadly unchanged, recovering from the sharp sell-off in the early part of the month. The regions more tilted towards value stocks, such as European equities, were the best performing developed markets. Bond markets gained slightly, with US Treasuries outperforming gilts as investors sought to avoid increased equity volatility.

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Portfolio Manager

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Portfolio Manager

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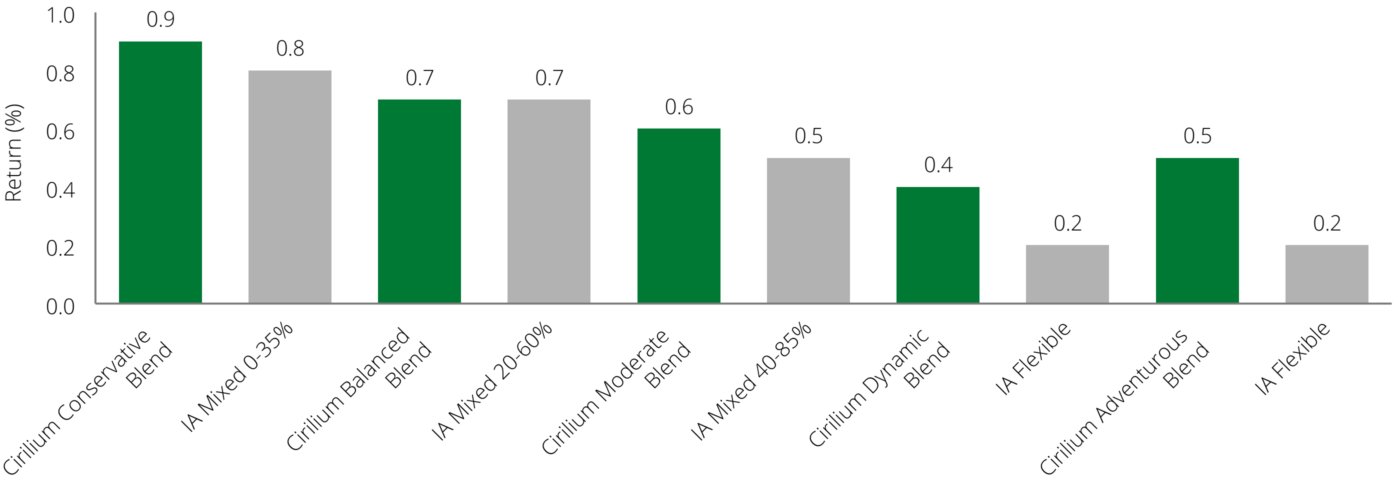
Monthly performance (%)



Performance summary (%)

	Cumulative performance						*Discrete annual performance to end of August*				
	1 month	*YTD*	*1 year*	*3 year*	*5 year*	*Since launch*	*2023 - 2024*	*2022 - 2023*	*2021 - 2022*	*2020 - 2021*	*2019 - 2020*
Cirilium Conservative Blend	**0.9**	**2.8**	**6.4**	**-0.7**	**8.4**	**8.5**	**6.4**	**-0.3**	**-6.3**	**4.5**	**4.4**
IA Mixed 0-35%	0.8	4.0	9.1	-1.2	6.5	6.9	9.1	-1.3	-8.2	7.1	0.6
Cirilium Balanced Blend	**0.7**	**4.6**	**8.6**	**5.8**	**19.8**	**19.3**	**8.6**	**1.7**	**-4.3**	**10.0**	**2.9**
IA Mixed 20-60%	0.7	5.5	10.8	2.4	14.8	14.3	10.8	-0.3	-7.2	12.1	0.0
Cirilium Moderate Blend	**0.6**	**6.1**	**10.6**	**10.5**	**30.5**	**29.0**	**10.6**	**3.0**	**-3.0**	**15.6**	**2.2**
IA Mixed 40-85%	0.5	7.1	12.5	5.5	26.0	24.7	12.5	0.4	-6.6	17.9	1.3
Cirilium Dynamic Blend	**0.4**	**7.4**	**12.4**	**13.0**	**37.5**	**34.9**	**12.4**	**3.8**	**-3.1**	**20.7**	**0.9**
IA Flexible	0.2	6.8	11.8	5.3	28.6	27.1	11.8	0.4	-6.1	19.4	2.2
Cirilium Adventurous Blend	**0.5**	**8.0**	**13.5**	**13.3**	**40.4**	**36.5**	**13.5**	**4.2**	**-4.2**	**22.6**	**1.0**
IA Flexible	0.2	6.8	11.8	5.3	28.6	27.1	11.8	0.4	-6.1	19.4	2.2

Source: Quilter Investors as at 30 August 2024. 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

We reduced our equity exposure by approximately 2% across the low- and medium-risk portfolios in early August following the increase in market volatility. This reduction was spread across the equity regions in line with our strategic asset allocation (SAA).

Meanwhile, we continued to implement our new SAA across the portfolios. We increased our exposure to the new holdings introduced in July and exited our positions in the Granahan US SMID Select, iShares Edge MSCI USA Value Factor ETF, Baillie Gifford Japanese Income Growth, Quilter Investors Europe (ex UK) Equity, and iShares China CNY Bond ETF funds.

Investment outlook

The recent bout of market volatility, initially driven by concerns of a weakening US labour market, was most acutely felt in Japan. While the size of the moves is clearly worthy of note, we view this being a technically driven event rather than a notable change in economic fundamentals. However, market leadership in the equity market appears to have shifted away from mega-cap US tech, with returns now driven by a broader set of the market.

1. Is the US headed for recession?

In a word, no. The US economy is clearly slowing, but we don't think a recession is imminent. US job growth is slowing, but is still positive, whilst the specific employment data that appeared to trigger early August's volatility was most likely impacted by Hurricane Beryl and overstated any true weakness in the labour market. Lower-income consumers are struggling as higher rates start to bite but middle-income consumers, the driving force behind the economy, remain in decent shape.

2. What about interest rates?

The Fed has clearly signalled that interest rate cuts will begin in September (markets are debating a 0.25% or 0.5% cut), with the Bank of England already beginning their cutting cycle in August. The rate of inflation is falling back towards target levels, giving central banks room to ease off the brakes. However, we are hesitant that the extent of interest rate cuts expected in the US can or will be delivered, given the growth outlook is still OK.

3. Equities or bonds?

We expect an environment of slower, but still positive, growth and modest rate cuts to be supportive for equity markets. Meanwhile, there appears to be momentum in the bond rally of recent months as major central banks begin rate cutting cycles. However, the risks are two way – rapidly weakening growth could see equity markets falter and unnecessarily rapid rate cuts may re-ignite inflation. For bonds, we would see further strength as a potential opportunity to go underweight.

Thank you for investing with us

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

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. 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 portfolios are 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 portfolios may invest in a range of assets such as bonds, equities (company shares), and other investment funds. This means the portfolios 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 portfolios deduct the charges from the capital of the portfolios, which means there is the potential for capital erosion if insufficient capital growth achieved to cover the charges. The portfolios may use derivatives, which means there may be a higher level of risk. The portfolios may invest more than 15% in cash, which could reduce returns in rising markets and reduce losses in falling markets. The portfolios may hold investments that may be more difficult to sell, which may affect the ability of investors to withdraw their money. The portfolios invest in emerging markets, which may be more volatile than investments in developed markets.

Quilter Investors Cirilium Conservative Blend Portfolio, Quilter Investors Cirilium Balanced Blend Portfolio, Quilter Investors Cirilium Moderate Blend Portfolio, Quilter Investors Cirilium Dynamic Blend Portfolio, and Quilter Investors Cirilium Adventurous Blend Portfolio are sub-funds of Quilter Investors Cirilium OEIC, an investment company with variable capital incorporated in England and Wales.

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