UK: Suitable for retail and professional clients.

Quilter Investors

# Monthly Income 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

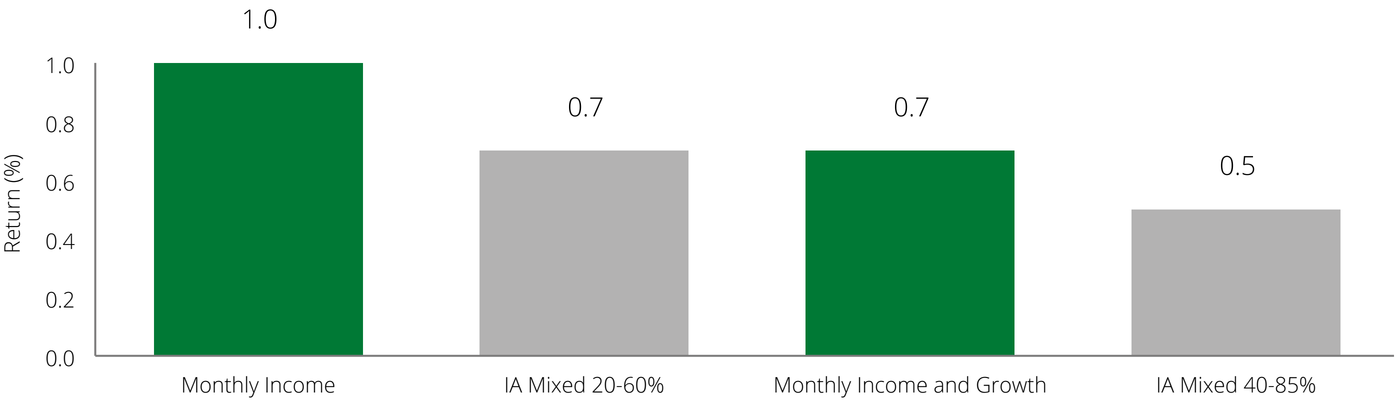
Helen Bradshaw
Portfolio Manager

CJ Cowan
Portfolio Manager

The Monthly Income and Monthly Income and Growth Portfolios were both ahead of their respective Investment Association (IA) sector performance comparators in August, returning 1.0% and 0.7%, respectively.

All the major asset classes delivered positive returns despite the market volatility at the start of the month. Japan had been at the epicentre with its equity market down more than 15% at one point, but this fall was almost entirely unwound by month-end meaning our Japanese equity allocation had little impact on performance. Overall, it was our European and UK holdings that drove the positive returns within equities, while all bond holdings were also up on the month.

### *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* |
| **Monthly Income** | **1.0** | **6.2** | **11.7** | **3.2** | **14.1** | **15.7** | **11.7** | **-1.1** | **-6.6** | **13.6** | **-2.7** |
| IA Mixed 20-60% | 0.7 | 5.5 | 10.8 | 2.4 | 14.8 | 16.2 | 10.8 | -0.3 | -7.2 | 12.1 | 0.0 |
| **Monthly Income and Growth** | **0.7** | **7.7** | **13.2** | **7.7** | **24.0** | **26.1** | **13.2** | **-0.1** | **-4.8** | **17.5** | **-2.0** |
| IA Mixed 40-85% | 0.5 | 7.1 | 12.5 | 5.5 | 26.0 | 27.5 | 12.5 | 0.4 | -6.6 | 17.9 | 1.3 |

*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 Monthly Income Portfolios launched on 26 June 2019.*

## Portfolio activity

At the beginning of the month we increased our US equity weighting in the portfolios and locked in some of the recent outperformance of UK smaller companies by modestly shifting into larger companies. This helps add more defensiveness to the portfolios as global growth appears to be slowing.

## 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 Monthly Income 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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Find out more about screen readers, accessing your documents online, and our alternative format options at ***www.quilter.com/document-help***.

## *Important information*

***Past performance is not a guide to future performance and may not be repeated. Future forecasts are not a reliable guide to future performance and may not be achieved. 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 portfolio is 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 portfolio may invest in a range of assets such as bonds, equities (company shares), and other investment funds. This means the portfolio 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 portfolio deducts the charges from the income of the portfolio, which means there is the potential for capital erosion if insufficient income is achieved to cover the charges. The portfolio may use derivatives, which means there may be a higher level of risk. The portfolio may hold investments that may be more difficult to sell, which may affect the ability of investors to withdraw their money. The portfolio invests in emerging markets, which may be more volatile than investments in developed markets. The portfolio is likely to favour value stocks (as they typically provide higher dividend payments), which may be subject to periods of underperformance, as value and growth stocks typically outperform each other, and markets generally, at different times.*



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