



Cirilium Passive Portfolios

Monthly commentary review of January 2023



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Our market summary

Markets were upbeat in January due to improving inflation data in the US and expectations that the US Federal Reserve (Fed) may shift towards lowering interest rates later in 2023. Positive sentiment surrounding China's re-opening, following the end of its zero-covid policy, helped lead emerging market equities higher, while sectors within Europe and the UK also benefitted. Interest-rate rises from central banks remain on the cards, but at a much slower rate than witnessed throughout 2022.

Equity markets



January was a positive month for US stock markets with US equities rising by 4.1%. Improving investor sentiment continued from the last quarter of 2022, particularly regarding inflation, which continued to fall. This, paired with expectations of less aggressive interest-rate rises from the Fed, buoyed investor confidence, with growth sectors, such as technology, performing strongly during the month.



European stock markets continued their strong run with European (excluding UK) equities up by 6.9%. Europe was one of the top regional markets thanks to China's re-opening. Its luxury goods and consumer discretionary sectors (non-essential products and services that consumers tend to purchase when consumer confidence is positive) both added value. Meanwhile, inflation continued to fall, although further interest-rate rises are still expected.



The UK followed other regional stock markets higher, albeit to a lesser degree, with UK equities gaining 4.5% over the month. Better-than-expected economic data helped allay fears of a deeper recession, although growth remains muted relative to other developed economies. Domestically-focused companies were strong performers throughout January, while defensive sectors such as healthcare lagged the market.



China remained the big story for emerging markets, which continued to react positively to the former's re-opening. In January, Chinese equities rose by 9.2%, while emerging market equities gained 5.4%. Outside of China, the Czech Republic, Mexico, South Korea and Taiwan were among the top contributors to performance. Meanwhile, Brazil continued to drag on performance, due to political unrest and rising inflation.

Fixed income



Global bonds enjoyed a largely positive month in January due to improving inflation data coming out of the US and Europe, alongside expectations of less aggressive interest-rate rises from central banks. UK corporate bonds (issued by companies) rose by 4.1% and gilts (UK government bonds) climbed 2.8% during the month. Meanwhile, US Treasuries (US government bonds) gained 2.4%.



Performance review

The Cirilium Passive Portfolios delivered positive returns over the month. The higher-risk portfolios fared best thanks to their greater exposure to equities. Meanwhile, the fixed-income holdings in the four lower-risk Passive Portfolios also delivered gains with returns ranging from 2.4% for the Cirilium Conservative Passive Portfolio to 4.2% for the Cirilium Adventurous Passive Portfolio.

Performance summary (%)

| | Cumulative performance | | | | | | Discrete annual performance | | | | |
|--------------------------------------|------------------------|-----|--------|--------|--------|--------------|-----------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | 1 month | YTD | 1 year | 3 year | 5 year | Since launch | 31 Jan 22 - 31 Jan 23 | 31 Jan 21 - 31 Jan 22 | 31 Jan 20 - 31 Jan 21 | 31 Jan 19 - 31 Jan 20 | 31 Jan 18 - 31 Jan 19 |
| Cirilium Conservative Passive | 2.4 | 2.4 | -5.7 | -1.8 | 6.3 | 37.0 | -5.7 | 0.6 | 3.6 | 8.6 | -0.3 |
| Cirilium Balanced Passive | 3.0 | 3.0 | -4.6 | 3.0 | 13.3 | 65.7 | -4.6 | 3.6 | 4.2 | 11.5 | -1.3 |
| Cirilium Moderate Passive | 3.6 | 3.6 | -1.5 | 11.1 | 23.3 | 91.5 | -1.5 | 7.2 | 5.1 | 13.7 | -2.3 |
| Cirilium Dynamic Passive | 4.1 | 4.1 | 1.4 | 18.2 | 32.3 | 115.6 | 1.4 | 10.5 | 5.4 | 15.6 | -3.2 |
| Cirilium Adventurous Passive | 4.2 | 4.2 | 1.8 | 28.9 | 49.8 | 62.1 | 1.8 | 10.9 | 14.2 | 19.0 | |

Source: Quilter Investors as at 31 January 2023. Total return, percentage growth, net of fees of the R Acc share class rounded to one decimal place. The Cirilium Conservative Passive, Balanced Passive, Moderate Passive, and Dynamic Passive Portfolios launched on 8 February 2013; and the Cirilium Adventurous Passive Portfolio launched on 1 June 2017.



How our equity holdings performed

China re-opening drives returns

In a continuation of the theme that's dominated index returns since early November, China's economic re-opening underpinned robust returns from both our emerging market and European equity allocations. The biggest beneficiary was the Blackrock Pacific ex Japan Tracker Fund, which gained 6.7% in January.

Earnings and growth in focus

Earnings season was a focus for markets in January. Notably, US companies were boosted by better than expected earnings reports from companies such as Meta with the US market up over 6.5% in US dollar terms. However, the strength of the pound in January reduced this to closer to 4% for sterling-based investors. Even so, US equities were one of the biggest contributors to returns thanks to the region's high weighting in the portfolios.

Resurgence for UK domestic stocks

UK equity markets also performed well over the period, with the iShares UK Equity Tracker Fund delivering a 3.5% return. With the exception of the Cirilium Adventurous Passive Portfolio, which holds no UK equity exposure, the UK market accounted for a significant proportion of overall portfolio returns in January.



How our fixed income holdings performed

Bonds add to returns

After a challenging 2022, January was more favourable for fixed-income holdings with both the Vanguard Global Aggregate ETF and the Vanguard Global Bond Index Fund delivering returns of around 2%. Given the meaningful level of exposure, particularly within the Cirilium Conservative Passive Portfolio, this was beneficial for returns over the month.

Likewise, with interest rates having risen meaningfully through 2022, the 0.3% return from the money market holding within the Cirilium Conservative Passive Portfolio was also a welcome addition to returns.

Portfolio activity

The weighting of each holding drifts in line with relative market movements. Consequently, we use cashflows in and out of the Cirilium Passive Portfolios to help steer our holding weightings back towards their targets while minimising transaction costs. No new holdings were introduced over the quarter.

Investment outlook

We ended 2022 with a view of cautious optimism and have remained in this stance but keenly awaiting some crucial datapoints to help us assess whether this position remains warranted. The potential paths of the labour market and inflation are key to understanding where we go from here. As investors we also want to ensure company earnings growth continues to be delivered but commentary from corporate management teams can give some insight in and of themselves.

1. Labour market remains robust

The labour market in the US remains remarkably robust with healthy wage growth supporting consumption, and similar pictures can be seen in most major economies. But too strong a labour market means that central banks will need to continue to raise interest rates potentially more than the market is currently expecting.

2. Inflation rates are falling – but to what level

Many of the factors that drove inflation to the highs we saw in 2022 are unwinding – for example freight costs and many commodity prices have fallen back to levels we saw prior to the Ukraine invasion. But stickier components such as housing or services costs are continuing to rise, and this leads us to believe there is more upside risk to interest rates from here.

3. Are companies growing?

As noted in previous updates we are closely monitoring company earnings. In what we have seen so far, both revenue and earnings have continued to surprise positively, but earnings levels themselves have softened versus previous quarters. Once we have the full set of earnings reports we will reviewing the aggregate drivers behind the changes to help us understand how this may impact forward returns.

Thank you for investing with us

Keep an eye out for your next Cirilium Passive Portfolios monthly commentary in March.

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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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