UK: Suitable for retail and professional clients.

Quilter Investors

Monthly Income Portfolios

Monthly commentary – Review of January 2025

Marcus Brookes
Chief Investment Officer

Our market summary

It was a strong start to 2025, with both equities and fixed income delivering broadly positive returns. We saw a change from the recent norm in equity markets with Europe outperforming the US and value stocks beating their growth counterparts. The 'America First' policies of President Trump helped US equities, but the emergence of DeepSeek, a new Chinese artificial intelligence (AI) model, impacted US tech stocks.

Fixed income markets experienced increased volatility in January due to Trump's proposed mix of tariffs and tax cuts. These fuelled expectations of higher inflation, leading to rising bond yields globally. The UK also faced challenges of its own. Indications of slower economic growth raised worries about public finances, which caused significant volatility in gilt yields.

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

Equity markets

Trump's promise of deregulation and tax cuts fuelled optimism over the US economy with the IMF raising its GDP growth forecast from 2.2% to 2.7%. However, news of potential tariffs rattled markets at the end of the month. The emergence of DeepSeek and its challenge to the US leadership in AI, also weighed on sentiment. Whilst the tech sector fell, communication services, healthcare, and financials were among the top gainers. Overall, US equities were up 3.9%.

Europe was the best performing developed equity market in January returning 8.3% despite mixed economic data. The performance was supported by the consumer discretionary and financials sectors, with banks delivering particularly robust returns. European equities also benefited from a low weighting to technology stocks following the DeepSeek breakthrough, while signs of a long-awaited improvement in the luxury goods sector were welcomed.

UK equities also outperformed as they were up 5.5% in January. This was primarily driven by the large financial, industrial, and energy names. Sterling weakness also provided a tailwind for these UK large-cap names as much of their revenue is generated overseas. January's performance contrasted with the outlook for the domestic economy, which remained difficult with business confidence weakening.

Overall, emerging markets equities were up 2.6% in January. Chinese equities, the largest component of the index, were up 1.8% over the month. This was driven by encouraging domestic economic data and the possibility of less severe US tariffs compared to those mentioned during Trump's campaign. Elsewhere, Colombia was the top-performing region, followed by Poland and Brazil, with Malaysia and the Philippines posting the largest losses.

Fixed income

January was a mixed month for global government bonds. A weak start was followed by a rebound due to positive inflation news. Overall, global government bonds returned 0.3% and US Treasuries were up 0.6%. In the UK, concerns around the nation's fiscal health saw a sharp rise in gilt yields. However, as the focus shifted back to inflation, with core inflation surprisingly going down, yields fell back towards month end. Against this backdrop, UK gilts returned 0.8%.

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. *Source: Quilter Investors as at 31 January 2025. Total return, percentage growth, rounded to one decimal place. The performance shown for each equity market is represented by the appropriate MSCI index, global government bonds by the Bloomberg Global Aggregate Government Treasuries (GBP Hedged) Index, US Treasuries by the ICE BofA US Treasury (GBP Hedged) Index; and UK gilts by the ICE BofA UK Gilt Index.*

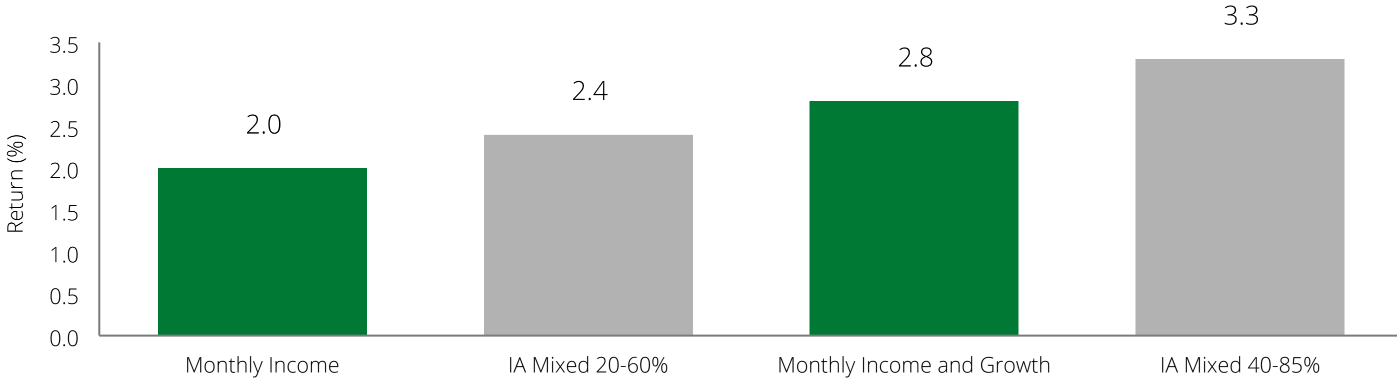
Performance review

Despite a volatile start to the year global equity markets ended up higher over the month, retracing December's losses. Both the Monthly Income Portfolios delivered positive returns, with the Monthly Income Portfolio up 2.0% and the Monthly Income and Growth Portfolio returning 2.8%. Within our equity holdings, the UK and Europe were the best performers. However, weak performance within our alternatives exposure disproportionately weighed on returns.weighed on relative returns. Fixed income also had a volatile month, first selling off sharply before rallying in the second half of the month to deliver modest positive returns.

Helen Bradshaw
Portfolio Manager

CJ Cowan
Portfolio Manager

Monthly performance (%)



Performance summary (%)

	Cumulative performance						*Discrete annual performance to end of January*				
	1 month	*YTD*	*1 year*	*3 year*	*5 year*	*Since launch*	*2023 - 2024*	*2022 - 2023*	*2021 - 2022*	*2020 - 2021*	*2019 - 2020*
Monthly Income	**2.0**	**2.0**	**8.6**	**6.8**	**12.1**	**17.7**	**8.6**	**2.1**	**-3.6**	**5.4**	**-0.4**
IA Mixed 20-60%	2.4	2.4	9.1	8.3	15.4	19.7	9.1	3.3	-3.9	3.3	3.1
Monthly Income and Growth	**2.8**	**2.8**	**11.1**	**12.7**	**22.2**	**29.7**	**11.1**	**2.7**	**-1.3**	**8.1**	**0.4**
IA Mixed 40-85%	3.3	3.3	12.6	14.7	28.5	34.0	12.6	4.4	-2.5	6.2	5.5

Past performance is not a guide to future performance and may not be repeated. Source: Quilter Investors as at 31 January 2025. 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

We introduced a new holding during the month, the Quilter Investors Europe (ex UK) Income Fund, managed by Schroders. The fund is managed by an experienced and highly regarded team within the value space and replaces our holding in the iShares Euro Dividend ETF.

Elsewhere, we made some changes to our fixed income holdings. We sold out of the Allianz Strategic Bond and Federated Hermes Unconstrained funds and added a new holding in the BNY Mellon Global Credit Fund. The managers have a strong investment process and risk management framework and have proven to add value for investors over time.

Investment outlook

As we look forward to the rest of the year, we think global growth will remain positive, driven by the US. This should be supportive of broad equity earnings, although valuations look stretched in some areas. Overall, this leaves us expecting positive, if not spectacular, returns from both equities and bonds.

1. Being aware of the politics

It's been a whirlwind start to Trump's second term in the White House, with a flurry of executive orders and negotiations underway in line with the areas he campaigned on. These should be beneficial for the US corporate sector, although we remain mindful of the inflationary risks posed by tariffs and immigration curbs. One thing we know for certain is that political noise and policy announcements via social media will continue, and we expect volatility to remain elevated.

2. Inflation still a worry

As we've discussed previously, inflation increasing again is a major risk. While interest rate hikes by the US Federal Reserve (Fed) seem like only a remote possibility, further cuts are already being called into question. A pivot towards hikes would cause pain across equity and bond markets, even if US growth stays strong. In the UK, growth is weakening further but inflationary risks remain elevated, causing a conundrum for both the government and the Bank of England.

3. Remaining vigilant

If inflation rebounds, we expect companies with high dividend yields to perform well as investors should value up front returns. In this scenario, our equity mix should be a positive. A fall in growth would be less positive given our risk assets overweight. However, corporate balance sheets remain strong, so we think high-yield bonds can perform better than in past recessions. We remain vigilant for signs of a slowdown and will reposition if we believe this is likely.

Thank you for investing with us

Keep an eye out for your Monthly Income Portfolios monthly commentry available in March.

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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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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