

Cirilium Portfolios

Monthly commentary – Review of May 2023



Marcus Brookes
Chief Investment Officer

Our market summary

Global equities posted a gain of just 0.5% in May. An impasse over the mounting US debt-ceiling crisis fuelled investor concerns as the deadline approached, although optimism returned towards the end of the month as an agreement was finally reached. Equity markets in the UK, Europe, and China declined while the US and Japan made gains, chiefly due to semiconductor and other technology stocks, which boomed thanks to the sudden appetite for artificial intelligence companies.

Equity markets



In May, the US news cycle was dominated by the prospect of a debt default as the deadline to raise the nation's borrowing threshold loomed large. Investor jitters were eventually allayed as President Biden reached a consensus with the Republican-controlled House of Representatives to raise the debt ceiling in time for the next round of repayments. US equities ultimately gained 2.1%, powered in the main by surging technology stocks.



After strong progress in the first four months of the year, European equities fell by 4.1% in May. Investor sentiment was soured by negative economic data, which included news that Germany had entered recession over the winter period. Even so, inflation fell in both Germany and France. Technology stocks were the one positive area as semiconductor manufacturers rallied on the sudden appetite for stocks exposed to artificial intelligence.



The UK declined more than Europe in May, with UK equities sinking 4.6%. Much like in the US and Europe, technology stocks were the only notable positives, although the UK's extensive financials sector was relatively flat for the month. While inflation fears eased elsewhere, the Bank of England continued to grapple with higher-than-expected inflation in the UK, and subsequently raised interest rates to 4.5%.



Emerging markets equities declined very modestly in May, with a fall of 0.3%. Greece was the top-performing emerging market due to a decisive vote for the New Democracy Party in the national election, easing concerns over a coalition government. South Africa was the worst-performing market, dogged by a tumbling currency and accusations of supplying weapons to Russia. China and the Czech Republic also declined notably.

Fixed income



Global bond markets were a mixed bag as investors responded to a raft of economic data from the various central banks and processed the continued rise in interest rates across developed economies. This resulted in a 1.3% loss for US Treasuries (US government bonds), a 3.8% loss for gilts (UK government bonds), and a 2.4% fall in UK corporate bonds. European bond markets generally outperformed, while the UK struggled as inflation proved more resilient than elsewhere.

Total return, percentage growth in pounds sterling except where shown, rounded to one decimal place. Global equities are represented by the MSCI World Index; US equities by the MSCI US Index; European (excluding UK) equities by the MSCI Europe ex UK Index; UK equities by the MSCI UK Index, emerging market equities by the MSCI EM (Emerging Markets) Index; Chinese equities by the MSCI China Index; UK corporate bonds by the ICE BofA Sterling Corporate Index; gilts by the ICE BofA UK Gilt Index; and US Treasuries by the ICE BofA US Treasury (GBP hedged) Index.



**Sacha
Chorley**
Portfolio Manager



**Ian Jensen-
Humphreys**
Portfolio Manager

Performance review

The Cirilium portfolios delivered modest losses of between 1.2% and 0.2% over the month. Even so, with the exception of the Cirilium Conservative Portfolio, all of the remaining Cirilium Portfolios were ahead of their respective Investment Association (IA) performance comparators in May.

Performance summary (%)

	Cumulative performance						Discrete annual performance to end of May				
	1 month	YTD	1 year	3 year	5 year	Since launch	2022 - 2023	2021 - 2022	2020 - 2021	2019 - 2020	2018 - 2019
Cirilium Conservative	-1.2	0.4	-4.5	1.5	-0.4	38.7	-4.5	-5.4	12.5	-2.3	0.4
IA Mixed 0-35% Shares	-1.1	0.9	-4.1	-1.2	1.8	35.6	-4.1	-3.9	7.2	1.6	1.4
Cirilium Balanced	-0.7	1.6	-2.8	9.4	4.9	112.6	-2.8	-4.8	18.2	-3.7	-0.4
IA Mixed 20-60% Shares	-1.0	1.2	-3.1	6.4	7.0	73.5	-3.1	-2.7	12.9	0.0	0.6
Cirilium Moderate	-0.2	1.9	-2.0	14.9	8.2	158.3	-2.0	-5.3	23.8	-4.0	-2.0
IA Mixed 40-85% Shares	-0.8	2.1	-1.6	14.1	16.2	106.9	-1.6	-0.9	17.1	1.4	0.5
Cirilium Dynamic	-0.2	1.6	-2.3	18.1	8.0	165.3	-2.3	-6.2	28.9	-5.2	-3.6
IA Flexible	-0.6	1.8	-1.0	17.0	18.2	104.6	-1.0	-1.3	19.8	1.5	-0.4
Cirilium Adventurous	-0.3	1.7	-2.2	21.2	10.2	18.1	-2.2	-5.6	31.3	-6.9	-2.4
IA Flexible	-0.6	1.8	-1.0	17.0	18.2	24.0	-1.0	-1.3	19.8	1.5	-0.4

Source: Quilter Investors as at 31 May 2023. Total return, percentage growth, net of fees, rounded to one decimal place of the R (GBP) Accumulation shares. The Cirilium Conservative Portfolio launched on 30 March 2012; the Cirilium Balanced Portfolio, the Cirilium Moderate Portfolio, and the Cirilium Dynamic Portfolio launched on 2 June 2008; and the Cirilium Adventurous Portfolio launched on 30 March 2012.





How our equity holdings performed

US debt-ceiling fears weigh on sentiment

Stock market jitters until late in the month undermined returns from most markets as risk appetite waned in the face of the US approaching its federal debt ceiling and the looming prospects of a potential US debt default and government shut down. More cyclical markets, such as the UK and Europe, were especially hard hit and were among our worst performing holdings. Funds such as JO Hambro UK Dynamic and Liontrust UK Growth were down over 4% in May.



'Cyclical' refers to cyclical companies. These are companies whose fortunes are closely linked to the economic cycle. This means their revenues generally rise during periods of economic expansion and fall during recession.

Technology stocks provide respite

The bright spot for markets was the strong performance of information technology stocks which, notably, pushed US and Japanese markets into positive territory over the month. This benefitted holdings such as the SGA US Large Cap Growth Fund, which gained 3% and M&G Japan, which was up 1.9%. Our private equity holdings also benefitted from these tailwinds with Pantheon International gaining 8%.



Private equities are investments into the shares of private companies that aren't yet listed on a stock exchange.

Active managers outperform falling markets

Although markets broadly fell over the month, the backdrop was conducive to active fund managers who can generate 'alpha' (market outperformance) from their stock picking acumen. Most of our active managers outperformed their declining benchmarks in May with European funds such as Martin Currie European Unconstrained and Premier Miton European Opportunities both more than 3% ahead of their benchmarks.



Active management is a traditional investment approach where the investment manager 'actively' trades the holdings in their portfolios, such as equities, bonds, or property assets to take advantage of investment opportunities or to minimise potential losses. It is the opposite of 'passive' management.



How our fixed-income holdings performed

Interest rates rise

Bond yields rose (meaning their prices fell) as investors priced-out the prospect of interest-rate cuts. This impacted our fixed-income allocations with broad global bond markets down by 0.5%. It was a challenging environment given the declining investor sentiment in equity markets also undermined corporate bonds (issued by companies). Hence, the Federated Hermes Unconstrained Credit Fund lost 1%. Funds with greater exposure to government bonds were punished more severely with the Allianz Strategic Bond Fund down 4.5% in May.



How our alternative holdings performed

Good contribution from diversifiers

Performance across our alternatives holdings was generally positive, with notably strong returns from the long/short equity manager Cooper Creek, which delivered a 2.9% gain, thanks to strong returns from its 'short' book. Likewise, the investment trust holding Pantheon Infrastructure performed well with a 5.4% return.

Elsewhere, returns were more modest with the Brevan Howard Absolute Return Government Bond Fund up 0.7%.



A long/short equity fund is a strategy based on buying, or going 'long', on equities that are expected to rise in value and selling 'short' equities that are expected to fall in value.

Portfolio activity

We have continued the transition of the portfolio into our preferred manager line up. By the end of May we had approximately 75% of our equity portfolio in our desired weights. During the month we sold out of the Premier Miton US Smaller Companies Fund and the Fair Oaks Income trust while continuing to build positions in holdings such as the Brandes US Value Fund, the M&G Japan Fund, the AB International Healthcare Portfolio and the Quilter Investors Global Equity Value Fund (managed by Redwheel).

Investment outlook

May's market moves included the repricing of bond markets to remove any expectations of interest-rate cuts before the end of the year. We still need to see that inflationary data points are truly cooling before having confidence that central bankers are ready to pause their rate hikes. The extent to which interest rates and central bank policy normalisation is feeding into the real economy is also uncertain and we remain focused on data points that confirm how spending and investment are progressing at a corporate level.

1. Inflation remains challenging

Although US inflation has been the most responsive to higher interest rates, the latest data release saw a higher than expected reading in the 'core' components of US inflation. Meanwhile, the last few data points in the UK have remained stubbornly higher than expectations. The persistence of this inflation keeps the pressure on central banks to continue to raise interest rates.



Core inflation is a measure of the rise in prices, which excludes the (more volatile) changes in the price of food and energy. It is most often calculated using the consumer price index (CPI), a measure of prices for goods and services.

2. Markets repricing central bank policy

The higher inflation numbers have caused a reaction in fixed-income markets: interest-rate expectations for the next six months have been increased as the prospect of the cuts previously priced-in for the end of the year, dissipated. Given that inflationary pressures appear 'stickier' than we had expected, we are mindful that there remains scope for further increases in interest rates from here.

3. Focus on corporate earnings

While bond markets are pricing-in interest rates to be higher for longer, equity markets have somewhat shrugged off such concerns. Although we have seen positive moves from stocks overall this year, market leadership is narrow with only a handful of equities driving index returns. Our focus will continue to be on the earnings that companies deliver and ensuring that the companies in which we are invested are able to grow their profits over time.



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Keep an eye out for your next Cirilium Portfolios quarterly report available in July.

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