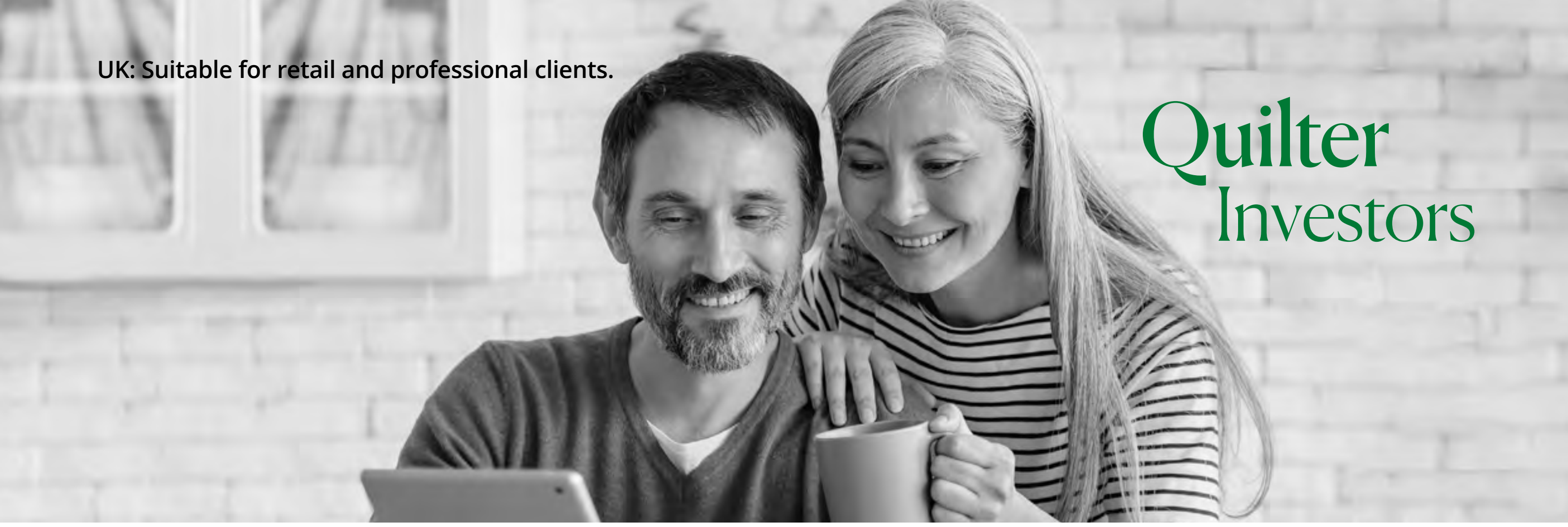


UK: Suitable for retail and professional clients.

Quilter Investors

# Cirilium Passive 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.*

# Performance review

With the exception of the Cirilium Conservative Passive Portfolio, which declined by a very modest 0.1%, and the Cirilium Balanced Passive Portfolio which delivered a return of 0.0%, the remaining Cirilium Passive Portfolios all delivered modest gains. The Cirilium Adventurous Passive Portfolio was significantly ahead of the lower-risk portfolios with a gain of 2.1%, thanks to its zero allocation to UK equities and much greater allocation to US markets. Within this, it was US growth stocks that were the standout performers 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 Passive | -0.1 | 2.8 | -1.3 | -0.9 | 6.8 | 37.6 | -1.3 | -3.9 | 4.5 | 4.6 | 3.0 |
| Cirilium Balanced Passive | 0.0 | 3.5 | -1.1 | 6.0 | 13.7 | 66.5 | -1.1 | -1.8 | 9.2 | 4.1 | 3.1 |
| Cirilium Moderate Passive | 0.3 | 4.3 | 0.4 | 16.4 | 23.8 | 92.8 | 0.4 | 1.5 | 14.3 | 3.4 | 2.8 |
| Cirilium Dynamic Passive | 0.5 | 5.1 | 1.9 | 26.4 | 32.9 | 117.6 | 1.9 | 4.4 | 18.8 | 2.6 | 2.5 |
| Cirilium Adventurous Passive | 2.1 | 6.6 | 3.5 | 33.9 | 53.6 | 65.8 | 3.5 | 5.1 | 23.1 | 9.7 | - |

*Source: Quilter Investors as at 31 May 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*

### Large cap growth leadership

Equity markets were heavily driven by the performance of a handful of companies, notably those with a link to artificial intelligence (AI). A substantial rally late in the month was triggered by strong results and earnings guidance from the US chip-maker Nvidia. The concentration of these companies in the US meant that our US holdings were the top contributor to performance, in particular for the Cirilium Adventurous Passive Portfolio.

### European assets lag

European markets were the laggards over the month, having more of an industrial bias than the more technology-centric businesses listed in the US. The UK market fell 5.3% while equity markets on the continent fell by 4.1%. As the UK weighting is substantial in all the Passive Portfolios (bar the Cirilium Adventurous Passive Portfolio), this was a significant drag on returns in May.

### Japan rises

It was a strong month for Japanese markets, which were also beneficiaries of the sudden clamour for semiconductor (chip-maker) stocks. Indeed, gains in Japan's tech sector outpaced those in the US. Although the weighting to Japanese equities is modest across the Passive Portfolios our holdings here boosted returns in May.

## *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).
The losses suffered by our fixed-income holdings were sufficient to deliver a loss for the Cirilium Conservative Passive Portfolio while sapping returns from the Cirilium Balanced, Moderate and Dynamic Passive Portfolios.

# Portfolio activity

The portfolios are rebalanced each quarter. However, the relative weighting of each holding drifts in line with market movements. Consequently, we use cashflows in and out of the Cirilium Passive Portfolios to help steer our weightings back towards their targets while minimising costs.

## 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.

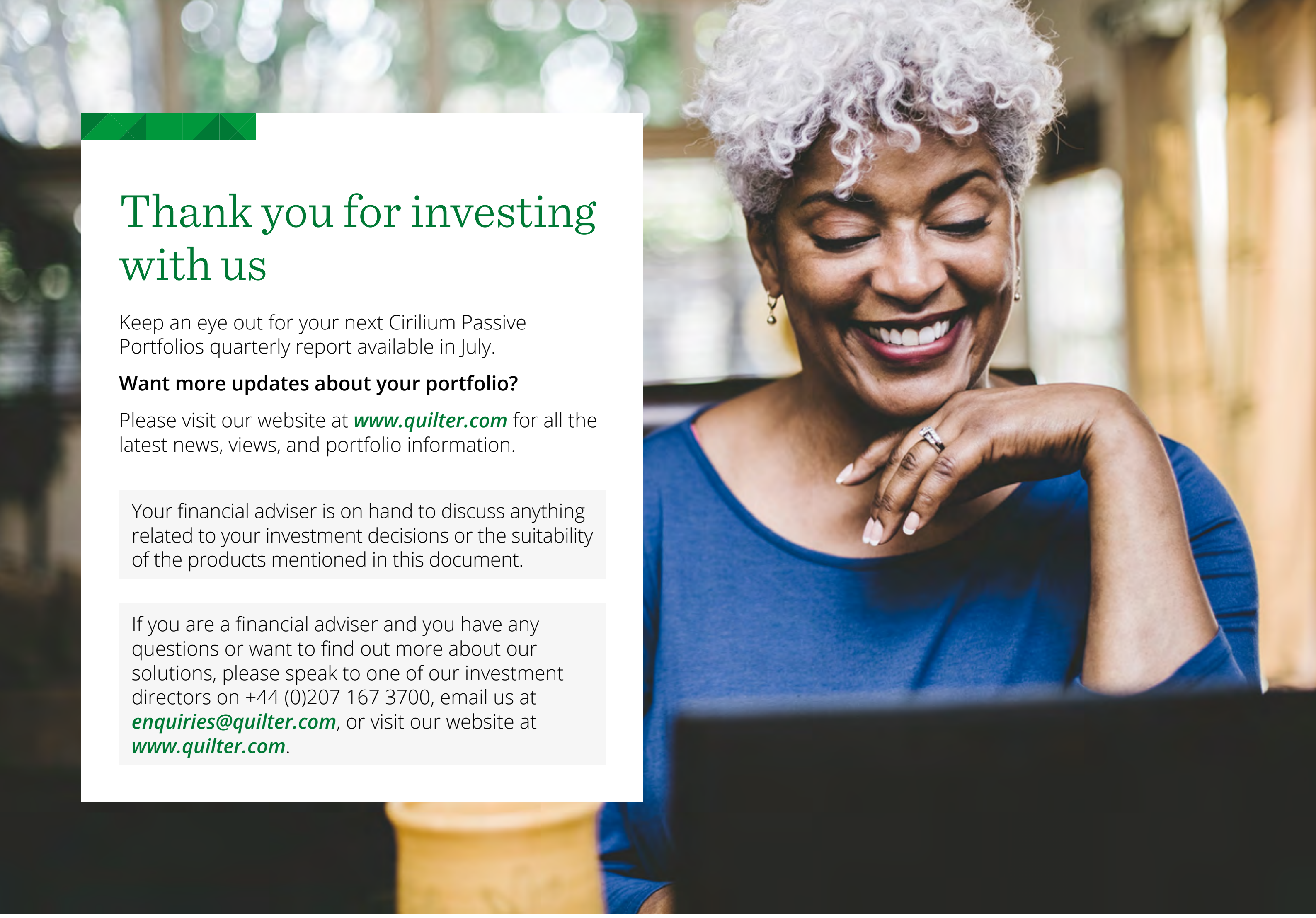
Core inflation is a measure of the rise in prices, which excludes the (more volatile) changes in the price of food and energy. It is most often calculated using the consumer price index (CPI), a measure of prices for goods and services.

### *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 a tighter central bank policy setting, 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.



# Thank you for investing with us

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

**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 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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