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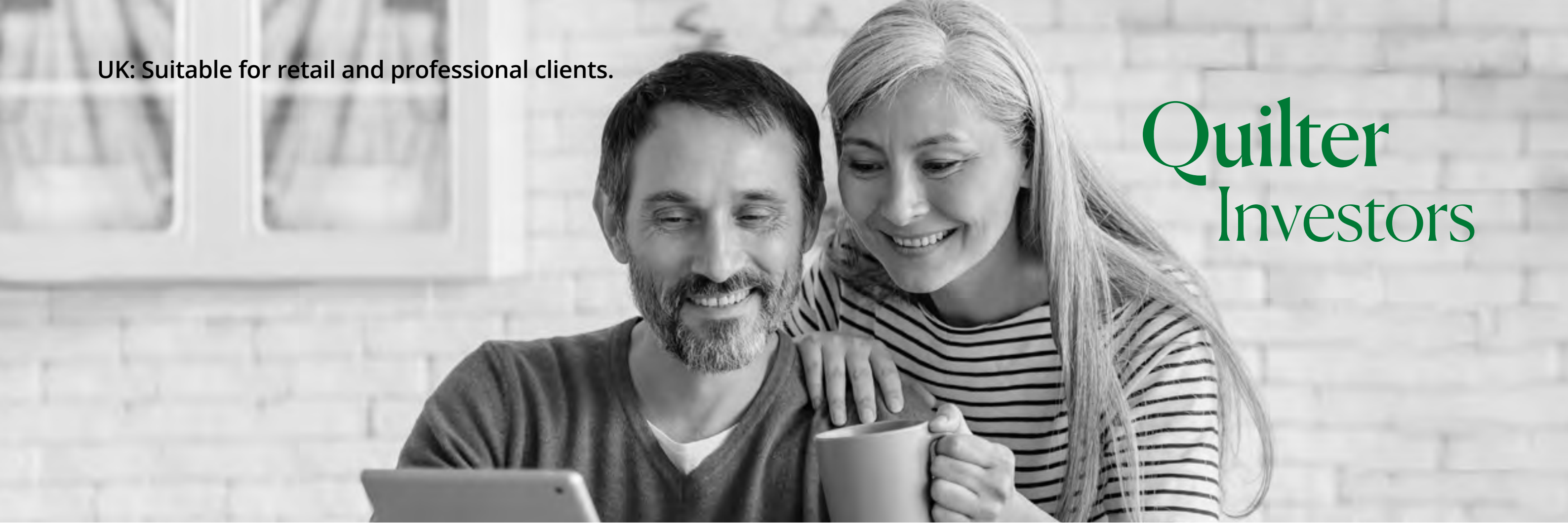
Quilter Investors



Creation 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 Creation Portfolios delivered modest losses ranging between 0.7% and 0.8%. Within this, the three lower-risk portfolios outperformed their respective Investment Association (IA) comparators while the two higher-risk portfolios were modestly behind their peer groups. Equity markets mostly declined, with only our allocations to the US and Japan delivering gains. Our fixed-income allocations also gave up a little ground while our alternatives holdings, with some exceptions, also disappointed.

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*
Creation Conservative	**-0.7**	**1.3**	**-2.0**	**0.3**	**-0.2**	**18.7**	**-2.0**	**-4.2**	**6.8**	**-0.9**	**0.4**
IA Mixed 0-35% Shares	-1.1	0.9	-4.1	-1.2	1.8	26.4	-4.1	-3.9	7.2	1.6	1.4
Creation Balanced	**-0.8**	**1.8**	**-0.2**	**8.2**	**7.7**	**31.3**	**-0.2**	**-3.1**	**12.0**	**-0.7**	**0.2**
IA Mixed 20-60% Shares	-1.0	1.2	-3.1	6.4	7.0	42.1	-3.1	-2.7	12.9	0.0	0.6
Creation Moderate	**-0.7**	**2.5**	**0.9**	**15.3**	**14.0**	**45.8**	**0.9**	**-2.4**	**17.1**	**-0.7**	**-0.4**
IA Mixed 40-85% Shares	-0.8	2.1	-1.6	14.1	16.2	70.8	-1.6	-0.9	17.1	1.4	0.5
Creation Dynamic	**-0.7**	**3.3**	**2.0**	**23.7**	**21.0**	**59.9**	**2.0**	**-1.3**	**22.8**	**-1.4**	**-0.8**
IA Flexible	-0.6	1.8	-1.0	17.0	18.2	73.4	-1.0	-1.3	19.8	1.5	-0.4
Creation Adventurous	**-0.7**	**3.8**	**2.4**	**26.6**	**22.8**	**30.0**	**2.4**	**0.2**	**23.5**	**-0.9**	**-2.2**
IA Flexible	-0.6	1.8	-1.0	17.0	18.2	24.7	-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 of the U1 Acc share class rounded to one decimal place. The Creation Portfolios launched on 18 February 2013.

How our equity holdings performed

US debt ceiling weighs 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 in May.

'Cyclicality' 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 Quilter Investors US Equity Growth Fund (JP Morgan), which gained 8%, and the M&G Japan Fund, which was up 1.9%.

Active managers outperform benchmarks

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 benchmarks with the Premier Miton European Opportunities some 3% ahead of its benchmark and the Quilter Investors UK Equity Mid-Cap Growth Fund, managed by Jupiter, 2.6% ahead of its UK index.

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%. The declining investor sentiment in equity markets also undermined corporate bonds (issued by companies). Hence, the Quilter Investors Sterling Corporate Bond Fund's (Fidelity), loss of 2.3%. However, our higher-risk holdings outperformed; the Quilter Investors Dynamic Bond Fund was down only 0.1% while the Premier Miton Financial Capital Securities Fund rebounded 1.4%.

How our alternative holdings performed

Mixed performance across alternatives

Within the alternatives portfolios we enjoyed mixed success. Notably, our two long/short equity fund holdings, Jupiter UK Specialist and JP Morgan US Opportunistic, performed well, with both funds delivering a gain of 2.4%. However, performance was weaker across the absolute return fixed-income line up. Other, more interest-rate sensitive, holdings fared worse, with the Allianz Fixed Income Macro Fund down by 2% as interest rates rose once more.

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

Portfolio activity this month centred around the removal of the Quilter Investors Global Dynamic Equity Fund (managed by Quilter Investors) from the portfolio and the reallocation of the capital to other managers. We added a new holding in the Fidelity China Consumer Fund, which complements our existing emerging market exposures and adds a China-specific allocation. We also added the Quilter Investors Global Unconstrained Fund (Royal London), as a source of global equity 'alpha' (market outperformance) as well as adding to our position in the Premier Miton US Opportunities Fund, one of our favoured growth managers.

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. 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.

Thank you for investing with us

Keep an eye out for your next Creation 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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