

Creation Portfolios

Monthly commentary – Review of May 2024



Our market summary

Global equities gained 2.4% in May. Growth stocks strongly outperformed value stocks over the period with developed markets well ahead of emerging markets. These delivered small losses, despite China making a modest gain. Although the likely timing of US interest-rate cuts was pushed back again, markets continued to anticipate rate cuts with Europe outperforming other regions thanks partly to expectations of a June rate cut. Meanwhile, US Treasuries and UK gilts delivered modest gains while corporate bonds outperformed.

Marcus Brookes
Chief Investment Officer



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

Equity markets



US equities rebounded from April's losses to gain 3% in another strong month for growth stocks as better-than-expected first quarter earnings across a number of sectors boosted the market. The Magnificent Seven mega-cap stocks were also prominent amid ongoing investor appetite for AI-related stocks. The top sectors were information technology, utilities, and communication services while energy stocks trailed as oil prices weakened.



Europe was the top performing regional equity market. It gained 3.7% as corporate profits generally surprised, and the economy improved. Thanks to the widely-anticipated June rate cut from the European Central Bank (ECB), interest-rate sensitive areas such as real estate and utilities outperformed, as did financial stocks. As in the US, falling oil prices hit European energy stocks while several major luxury goods and automakers also struggled.



UK equities trailed those of other developed markets with a return of 2.4% but UK smaller companies jumped 5.7% due to record levels of bid activity from overseas investors. Amid news of positive GDP growth in the first quarter, UK financial and industrial stocks were the top performers despite UK CPI inflation disappointing. It declined to 2.3% in April, which further pushed out the expected timing for the first Bank of England rate cut.



Emerging markets declined 1.1%, despite Chinese equities making a modest 0.7% gain. Egypt was the top performer with the Czech Republic, Colombia, Chile, Peru, and Turkey all posting gains. Taiwan also outperformed thanks to its heavy tech sector weighting. Elections impacted South Africa, Mexico and India. Korea and Brazil also trailed while Greece and Thailand suffered losses alongside Middle East markets, which declined in line with the oil price.

Fixed income



Despite the lack of progress in containing US inflation to target levels, which pushed expectations of rate cuts further back into the year, the rejection of the need for further US rate hikes by Federal Reserve Chairman, Jay Powell, was sufficient for US Treasuries to rally 1.5% over the month. Meanwhile, UK gilts added 0.8%, despite selling-off late in the period as UK inflation numbers disappointed. Sterling corporate bonds gained 1%.

Source: Quilter Investors as at 31 May 2024. Total return, percentage growth in pounds sterling except where shown, rounded to one decimal place. The performance shown for global equities is represented by the MSCI AC World Index; developed market equities by the MSCI World Index; US equities by the MSCI USA Index; European equities by the MSCI Europe ex UK Index; UK equities by the MSCI United Kingdom All Cap Index; UK smaller companies by the MSCI United Kingdom Small Cap Index; emerging markets by the MSCI Emerging Markets Index; US Treasuries by the ICE BofA US Treasury (GBP Hedged) Index; UK government bonds by the ICE BofA UK Gilt Index; and sterling-denominated corporate bonds by the ICE BofA Sterling Corporate Index.



Performance review

In May, the Creation Portfolios delivered modest gains that were slightly behind their Investment Association (IA) performance comparators. Returns ranged from a 0.4% gain for the Creation Conservative Portfolio, to a 0.7% gain for the Creation Adventurous Portfolio. Equities outperformed bonds, buoyed by strong corporate earnings, particularly from US tech companies, although all developed markets showed strength.



Ian Jensen-Humphreys
Portfolio Manager

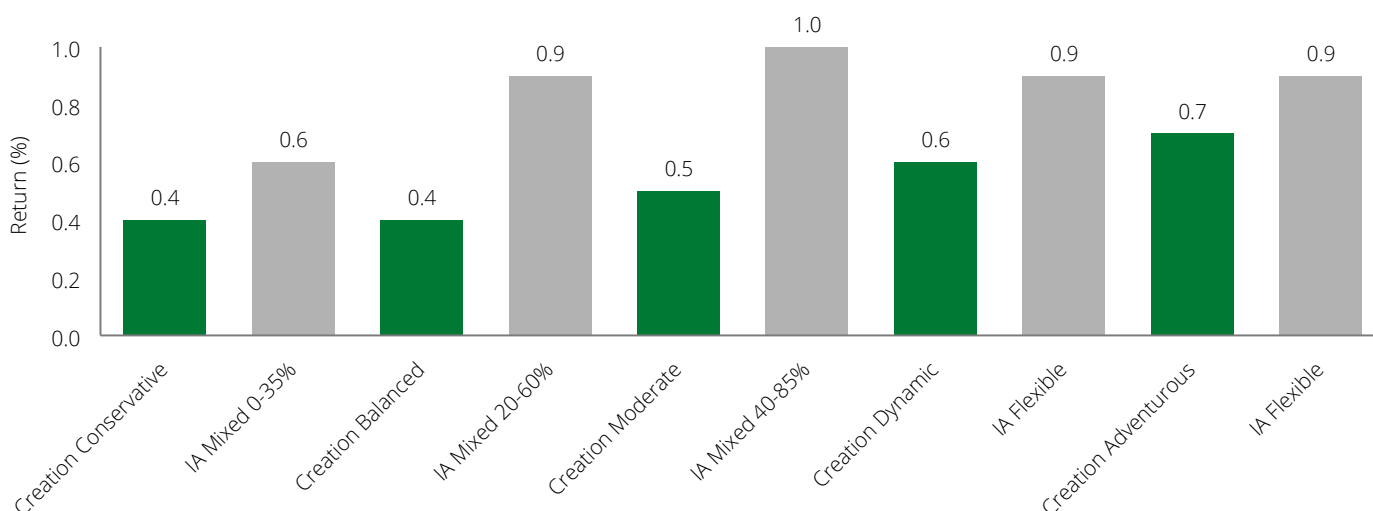


Sacha Chorley
Portfolio Manager



CJ Cowan
Portfolio Manager

Monthly performance (%)



Performance summary (%)

	Cumulative performance						Discrete annual performance to end of May				
	1 month	YTD	1 year	3 year	5 year	Since launch	2023 - 2024	2022 - 2023	2021 - 2022	2020 - 2021	2019 - 2020
Creation Conservative	0.4	1.0	4.6	-1.6	4.5	18.3	4.6	-1.9	-4.1	6.9	-0.7
IA Mixed 0-35%	0.6	1.0	6.2	-2.1	6.7	27.7	6.2	-4.1	-3.9	7.2	1.6
Creation Balanced	0.4	2.8	7.4	4.1	16.1	35.9	7.4	-0.2	-2.9	12.0	-0.5
IA Mixed 20-60%	0.9	2.7	8.5	2.3	15.5	45.1	8.5	-3.1	-2.7	12.9	0.0
Creation Moderate	0.5	4.6	10.5	9.1	27.2	53.6	10.5	1.0	-2.3	17.2	-0.6
IA Mixed 40-85%	1.0	4.5	10.6	7.8	28.0	73.3	10.6	-1.6	-0.9	17.1	1.4
Creation Dynamic	0.6	6.1	12.8	13.9	38.4	69.3	12.8	2.1	-1.1	23.0	-1.2
IA Flexible	0.9	4.9	10.6	8.0	31.3	75.8	10.6	-1.0	-1.3	19.8	1.5
Creation Adventurous	0.7	6.8	13.9	16.7	42.9	48.0	13.9	2.4	0.2	23.5	-0.9
IA Flexible	0.9	4.9	10.6	8.0	31.3	38.1	10.6	-1.0	-1.3	19.8	1.5

Source: Quilter Investors as at 31 May 2024. Total return, percentage growth, net of fees, rounded to one decimal place of the U1 (GBP) accumulation shares. The Creation Conservative Portfolio launched on 6 June 2014, the Creation Balanced Portfolio launched on 28 April 2014, the Creation Moderate Portfolio launched on 16 May 2014, the Creation Dynamic Portfolio launched on 5 June 2014, and the Creation Adventurous Portfolio launched on 3 July 2017.

Portfolio activity

The main asset allocation change within the portfolios was a reduction in our tilt towards the healthcare sector. We halved our exposure to the iShares MSCI World Health Care Sector ETF from 3% to around 1.5% by month end. We are still optimistic on the long-term demographic tailwinds that should support robust earnings growth in the healthcare sector for a number of years, but in the shorter term the sector faces some tactical headwinds with earnings volatility as well as, unsurprisingly, trailing returns in the strong market rally seen over the past six months. We reinvested the proceeds back into our preferred regional managers to maintain the same overall equity exposure.

Investment outlook

As we pass through spring into a, so far, damp summer, it's worth stepping back to assess the broad investment environment, in particular, the amount of risk we think it appropriate to take in the portfolios at the moment. We are currently slightly optimistic on equity markets and, as a result, are slightly overweight relative to the neutral positions of our [strategic asset allocation](#). Below we share the conclusions we've drawn based on our VTEC (valuations, technicals, economics, and corporates) approach to investment and market analysis.

1. Neutral on valuations (V) and sentiment and positioning positive for technicals (T)

Valuations vary depending on the regional focus. We see stocks as expensive in North America, fairly priced in Japan, and cheap elsewhere, particularly in Europe and the UK. Overall, the blended valuation is relatively close to where we see neutral levels. Looking at technical factors, equity markets have clearly been in an uptrend for the past six months with positive momentum, while positioning data suggest investors aren't too stretched to add further to their holdings.

2. Neutral on economics (E) and muted earnings growth for corporates (C)

Economic data has been benign this year with continued economic growth and falling inflation. However, the trend is one of weakening, rather than strengthening, growth. Meanwhile, persistent inflation is reducing the likelihood of supportive rate cuts from central banks. At the global level, while corporate profits have resumed a growth trajectory after a lacklustre 2023, only AI-related stocks really impress, while broader corporate profit growth remains anaemic.

3. Where next?

The most likely catalyst for us to increase our equity weighting would be an improvement in corporate profit growth and, more specifically, a broadening out of that growth from the tech sector to others. This would be more supportive of robust investor returns. Conversely, an increase in inflation, accompanied by weak growth, would be problematic for risk appetite and leave central banks with little room to ease interest rates. This would make us turn more cautious.

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 contact one of our [investment directors](#) or visit our website at www.quilter.com.



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Important information

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.

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 portfolios are 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 portfolios may invest in a range of assets such as bonds, equities (company shares), and other investment funds. This means the portfolios 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 portfolios deduct the charges from the capital of the portfolios, which means there is the potential for capital erosion if insufficient capital growth achieved to cover the charges. The portfolios may use derivatives, which means there may be a higher level of risk. The portfolios may hold investments that may be more difficult to sell, which may affect the ability of investors to withdraw their money. The portfolios invest in emerging markets, which may be more volatile than investments in developed markets.

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