UK: Suitable for retail and professional clients.

Quilter Investors

Monthly Income Portfolios

Monthly commentary – Review of May 2024

Marcus Brookes
Chief Investment Officer

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.

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.

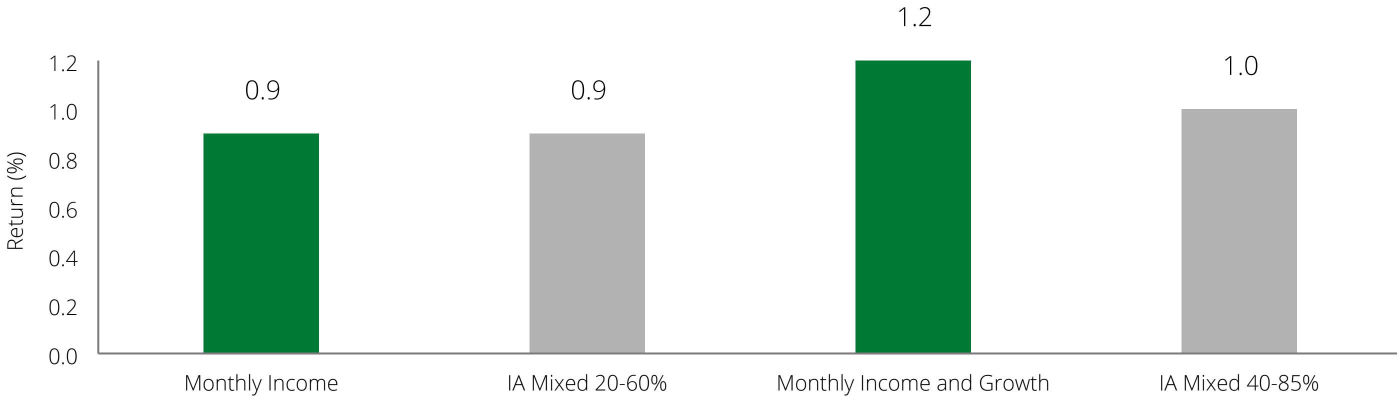
Performance review

In May, the Monthly Income and Monthly Income and Growth Portfolios returned 0.9% and 1.2%, respectively, to be modestly ahead of their Investment Association (IA) mixed sector performance comparators. European and UK equity exposure drove the bulk of positive returns, while Japanese holdings were a drag as a weaker yen wiped out positive local equity market returns. A strong month for utilities helped several holdings in the portfolios, which have outsized exposure to the sector due to its stable dividends.

Helen Bradshaw
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*
Monthly Income	**0.9**	**2.5**	**7.5**	**2.8**	**-**	**11.6**	**7.5**	**-3.5**	**-0.9**	**13.6**	**-**
IA Mixed 20-60%	0.9	2.7	8.5	2.3	-	13.1	8.5	-3.1	-2.7	12.9	-
Monthly Income and Growth	**1.2**	**4.0**	**9.4**	**8.3**	**-**	**21.8**	**9.4**	**-1.9**	**0.8**	**16.9**	**-**
IA Mixed 40-85%	1.0	4.5	10.6	7.8	-	24.5	10.6	-1.6	-0.9	17.1	-

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 Monthly Income Portfolios launched on 26 June 2019.

Portfolio activity

We reduced our exposure to the Hermes Unconstrained Credit Fund. The additional yield pick up over government bonds that investors receive from buying corporate and high-yield bonds has become very compressed. While we do not expect a significant market wobble, the remaining upside in holding corporate bonds is not commensurate with the potential downside if market conditions were to worsen, making it prudent to trim our positions. This comes at the same time as a manager departure from Hermes, so we have somewhat reduced conviction in the holding.

Investment outlook

Our outlook has been relatively consistent so far this year. Although we believe the global economy is on course for a soft landing, we expect economic divergence between regions to continue in the near term as US economic growth remains solid while Europe and the UK continue to struggle. Inflation in the US remains stubbornly above the Fed's target of 2%, while inflation is still falling in Europe and the UK. This presents the prospect of diverging monetary policy, although there's a limit to how far or fast, the UK and European central banks can cut interest rates in the absence of a Fed cut. In the meantime, the solid economic growth in the US should provide support for its equity market.

1. Real incomes improving

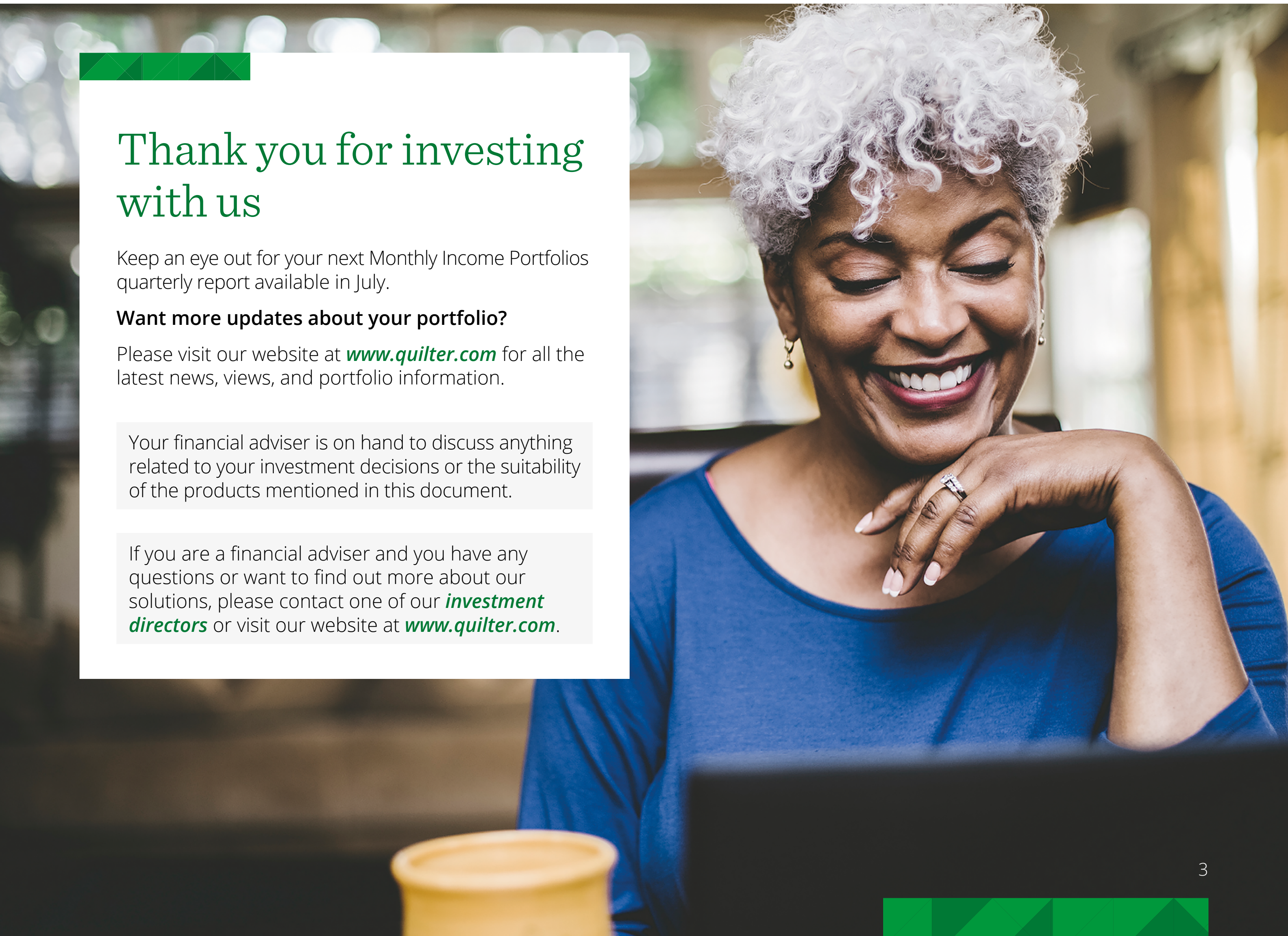
Over the past year, inflation has fallen faster than wage growth, which is improving inflation-adjusted incomes. This is restoring household purchasing power and helping to insulate economies from more significant recessions, but hopes of rapid interest-rate cuts have consequently been dialled back. This makes the outlook for bonds more difficult to forecast and we retain a neutral weighting, especially as government bonds still yield less than cash.

2. A positive backdrop for risk assets

We think the most likely path is for equity markets to continue grinding higher. Corporate earnings have remained solid and while interest-rate cuts would be an additional positive, there are few immediate signs that US growth is about to stall. This backdrop should be good for equity markets, although we note sentiment indicators are near to the exuberant levels of 2021, and political risk is elevated, with a raft of elections upcoming across Europe and the US.

3. What if we are wrong?

The biggest risk to our soft-landing view is that it develops into a hard landing. This would hurt equity markets, but provided we avoid stagflation, where ailing growth is accompanied by elevated inflation, bonds should perform well. In fact, economic data earlier in the year raised the prospect of a re-acceleration in US growth and inflation. While we think a continuation of this is unlikely, due to the delayed effects of the interest-rate rises, we remain aware of this risk.



Thank you for investing with us

Keep an eye out for your next Monthly Income 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. Future forecasts are not a reliable guide to future performance and may not be achieved. 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 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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