Quilter Investors

Monthly Income Portfolios

Monthly commentary – Review of October 2024

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Chief Investment Officer

Our market summary

It was a disappointing month for equities and bonds across the board. In local currency terms, Japanese equities were the only positive developed market returning 2.3%. Uncertainty around future growth is still the main concern for investors, whilst the US election added further uncertainty about potential policy shifts affecting taxation, inflation, and interest rates.

However, it was not all gloom for sterling-based investors as the relative weakness of the pound against the US dollar over the month saw US and global equities deliver positive returns of 3.6% and 2.0%, respectively.

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

Equity markets

The uncertainty ahead of the US Presidential election and ongoing doubts about the future path of interest rates saw US equities end the month down by 0.7% (before the impact of currency movements). Weaker than expected earnings updates from some of the largest US companies also weighed on investor sentiment. At a sector level, healthcare, materials, and real estate saw the most significant declines whilst financials and communications performed well.

European ex UK equities fell by 1.9% in October due to concerns around growth and weakening economic momentum, particularly in the manufacturing sector. The real estate, information technology, and consumer staples sectors were the weakest sectors with industrials and communication services the only sectors to register a positive return. In line with expectations, the European Central Bank (ECB0 announced a third 0.25% rate cut of the year.

UK equities were down 1.7% in October amid concerns that the recently announced budget has worsened the longer-term economic and interest rate outlook for the UK. The market sell-off at the end of the month was particularly felt by UK small-cap companies as the index ended the month down by 3.5%. This change in market sentiment occurred despite positive news that headline inflation was back below the Bank of England's 2.0% target.

Emerging markets equities fell by 2.7% in local currency terms over the month with notable headwinds including rising US bond yields and the stronger US dollar. Chinese equities were also down 5.6% in local currency terms due to doubts about the effectiveness of the stimulus measures announced in September. Elsewhere, India, Korea, and Brazil underperformed whilst Taiwan was the only emerging market to deliver positive returns in October.

Fixed income

October was a challenging month for fixed income as the resilience of the US economy and uncertainty about potential post-election policy changes prompted a re-pricing of future US Federal Reserve (Fed) rate cuts. Global bonds were down 1.4% overall with UK gilts and US Treasuries down 2.8% and 2.6%, respectively.

Source: Quilter Investors as at 31 October 2024. Total return, percentage growth in pounds sterling except where shown, rounded to one decimal place. The performance shown for Japanese equities is represented by the MSCI Japan Index, US equities by the MSCI USA Index, global equities by the MSCI AC World Index, European ex UK 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, Chinese equities by the MSCI China Index, global bonds by the Bloomberg Global Aggregate (GBP Hedged) Index, US Treasuries by the ICE BofA US Treasury (GBP Hedged) Index, and UK Gilts by the ICE BofA UK Gilt Index.

Performance review

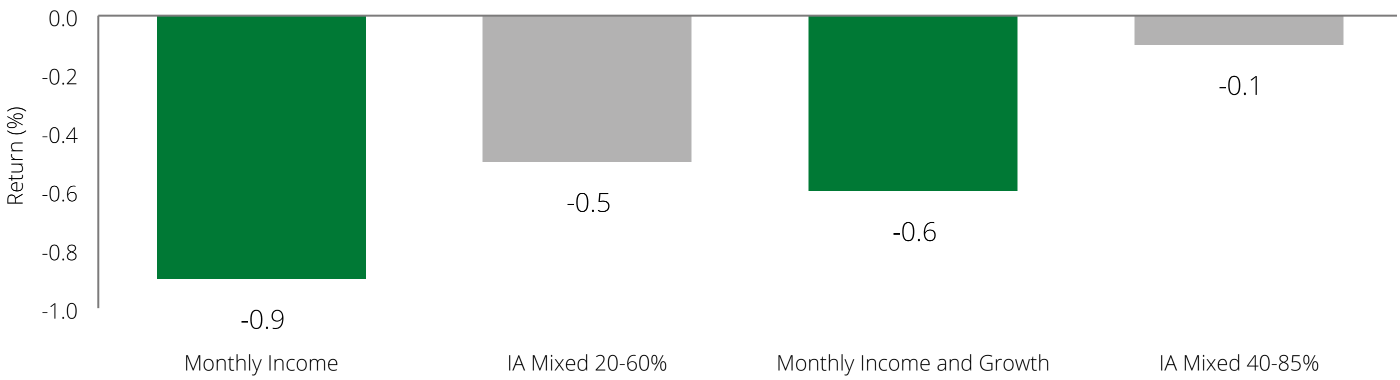
The Monthly Income Portfolios delivered modestly negative returns in October with the Monthly Income Portfolio declining by 0.9% and the Monthly Income and Growth Portfolio seeing a loss of 0.6%. The portfolios both lagged their Investment Association (IA) performance comparators.

All major asset classes were a drag on portfolio returns, although our bond holdings saw the biggest losses. The US equity market was a bright spot, but positive returns were driven by a strong US dollar rather than by stock prices.

Helen Bradshaw
Portfolio Manager

CJ Cowan
Portfolio Manager

Monthly performance (%)



Performance summary (%)

	Cumulative performance						*Discrete annual performance to end of October*				
	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**	**5.6**	**13.9**	**3.6**	**12.5**	**15.0**	**13.9**	**0.8**	**-9.7**	**14.5**	**-5.1**
IA Mixed 20-60%	-0.5	5.6	13.6	3.2	14.9	16.3	13.6	1.7	-10.7	13.3	-1.7
Monthly Income and Growth	**-0.6**	**7.2**	**16.3**	**8.2**	**22.2**	**25.5**	**16.3**	**1.2**	**-8.1**	**19.3**	**-5.3**
IA Mixed 40-85%	-0.1	7.5	16.7	6.3	26.7	28.1	16.7	2.0	-10.6	20.0	-0.7

Source: Quilter Investors as at 31 October 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

Our portfolio activity was limited to managing cashflows during October. This comes after several changes towards the end of September as we rebalanced the portfolios to their new strategic asset allocation and adjusted the manager lineup.

Investment outlook

It's been another good year for equity markets as the US economy has defied predictions of recession. Despite generally weaker economic data, particularly from the manufacturing sector, growth has remained above historic trend rates, and the labour market is showing only tentative signs of weakness. Meanwhile, inflation appears to be under control, giving central banks the green light to begin reducing interest rates.

1. What happens next?

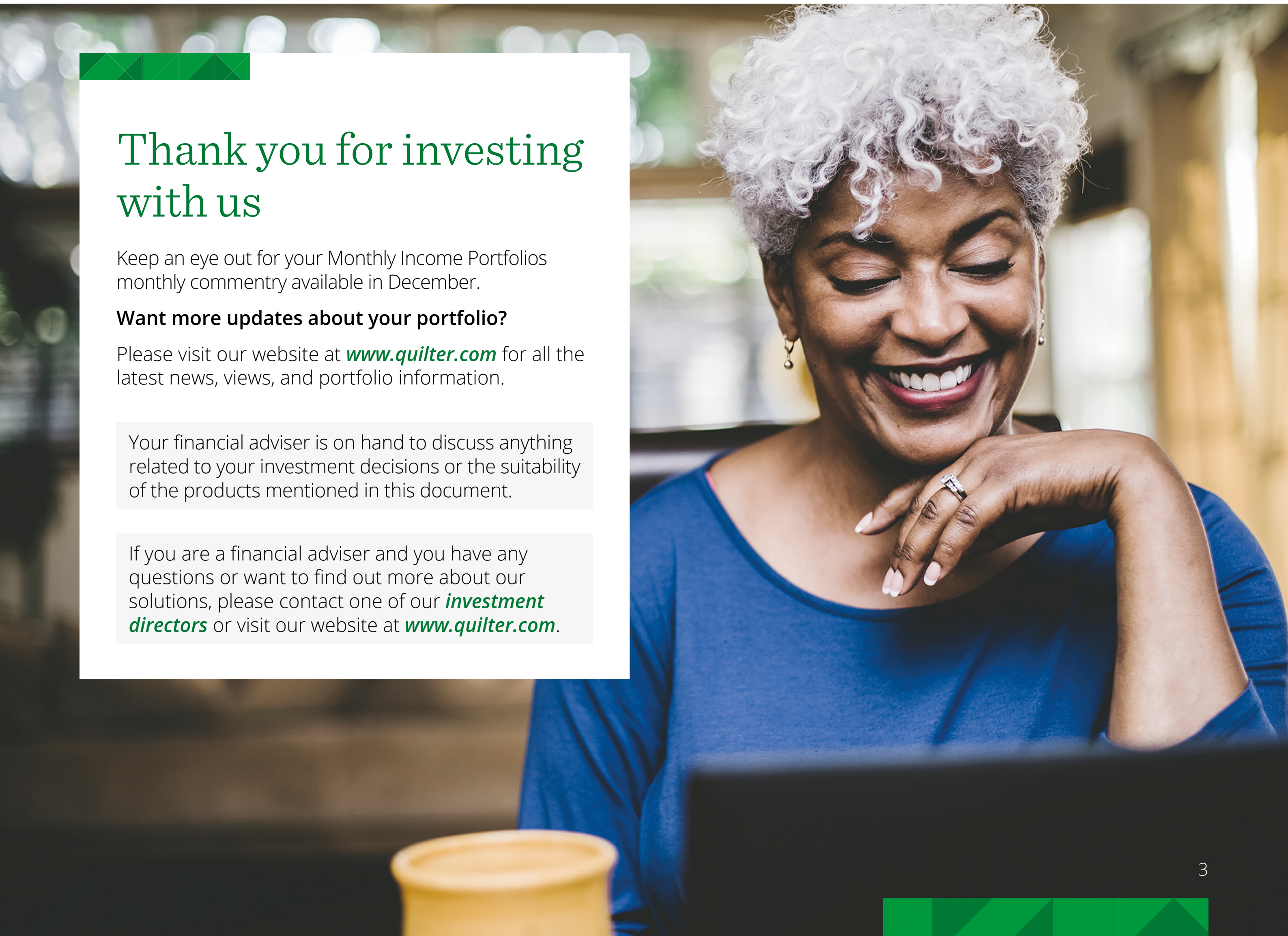
It is welcome news that central banks have pivoted to supporting growth rather than fighting inflation. However, since the start of September, bond markets have dialled back expectations for interest rate cuts due to worries over the inflationary implications of a Trump presidency. Now he has won the race, deregulation and his 'Make America Great Again' stance is suggestive of US equity outperformance versus the rest of the world, higher bond yields, and a stronger US dollar.

2. How are we positioned?

The Trump presidency presents both upside and downside risks to growth, but we lean towards him being positive for risk assets. Consequently, we remain overweight to equities and high-yield bonds. Meanwhile, we are modestly underweight government bonds despite the recent increase in yields as we expect ongoing giveaways from both the US and UK governments to put upward pressure on bond yields and limit the number of cuts central banks can deliver.

3. What if we are wrong?

If inflation rebounds and fewer interest rate cuts are delivered, we expect companies with high dividend yields to perform well as investors will value up front returns. Our equity mix should be a positive in this scenario. A fall in growth could be a problem given our overweight to risk assets, but corporate balance sheets remain strong, so we think high-yield bonds would perform better than in past recessions. We remain vigilant for signs of a slowdown and ready to act as required.



Thank you for investing with us

Keep an eye out for your Monthly Income Portfolios monthly commentry available in December.

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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Published: November 2024

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