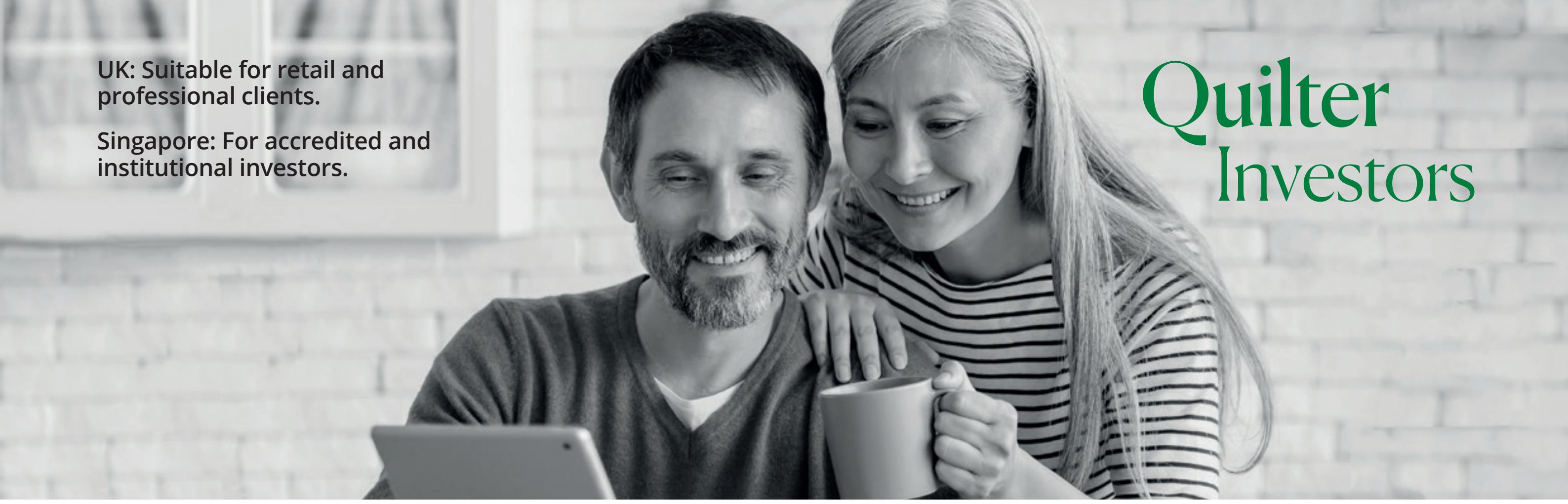


UK: Suitable for retail and professional clients.

Singapore: For accredited and institutional investors.

Quilter Investors

Quilter Cheviot International Portfolios

Market commentary – Q4 2024

Donnacha Fox
Chief Investment Officer,
Quilter Cheviot Europe

Our market summary

We take this opportunity to provide a broader summary of the year as a whole.

Global equities enjoyed another exceptionally strong year in 2024. US stocks were the standout performers due to higher economic growth rates and a greater weighting to the best performing sectors of the past 12 months, in particular technology.

Although major central banks began cutting interest rates, the size of the reductions was smaller than many had anticipated at the start of the year, causing bonds to underperform.

Earnings growth and revaluation drove equities higher

The MSCI North America Index posted a 2024 return of 24.5%, outperforming the 18.0% for the MSCI All Country World Index (all returns in US dollar, unless otherwise stated). This marked the second year running that US equities returned over 20%. Although higher valuations partly explain the strong US performance, stocks were also supported by rising earnings, driven by revenue growth and increasing margins (the difference between your earnings and your expenses).

While valuations have risen over the past year, wthis is only slightly above the long run average and is heavily skewed by the US. The gains mean that US stocks now account for more than two thirds of the MSCI All Country World Index.

USA

Donald Trump's re-election poses a potentially significant change to the prevailing macroeconomic order. Republican control of both houses of Congress, albeit with a narrow majority in the House of Representatives, further supports so-called 'Trump trades', and has sent US stock benchmarks to new all-time highs. Technology, financials, and industrials have performed well since election day, on expectations of higher GDP growth, a lighter regulatory touch, and a greater focus on reshoring. Staying nimble and responsive to ongoing Trump developments offers a distinct advantage for active managers.

Europe

The MSCI Europe (ex UK) Index returned 1.0% during the year with continued concerns of a region-wide recession alongside political uncertainty – particularly in France and Germany. Moreover, Trump's re-election impacted investor sentiment to the region on the back of the threat of tariffs impacting bi-lateral trade with the US, and Chinese businesses redirecting their efforts away from North America to focus on Europe.

UK

The MSCI UK Index returned a respectable 7.6% in 2024. Softer export demand due to China's slowdown and the political instability in Germany and France — the Eurozone's two largest economies — weighed on performance. The pound ended the year 1.7% lower at USD1.26, towards the lower end of its 12-month range, after the US dollar strengthened significantly following the US election.

The level of tax rises announced during the UK Budget in Q4 impacted markets with expectations of interest rates staying higher for longer and more pressure on domestic businesses given the rise in National Insurance contributions.

Fixed income

The outcome of the US election, and to a lesser extent the UK Budget, have caused bond yields to move higher, and markets are now expecting interest rates to be higher for longer. In 2024, the Bank of England (BoE) lowered its base rate from 5.25% to 4.75%, the Federal Reserve (Fed) from 5.50% to 4.50%, and the European Central Bank (ECB) reduced its benchmark rate from 4.5% to 3.0%. Derivatives markets are pricing in rates of around 4% for the BoE and Fed at the end of 2025, with the ECB expected to cut its key rate to below 2%.

Yields rose in response:

The US 10-year Treasury yield rose by almost 1% since mid-September despite 1% of Fed rate cuts. This move largely explains the comparable rise in the UK, with the 10-year gilt yield rising around 3.75% to 4.65%, suggesting higher UK yields are mainly due to external factors and not questions regarding the UK's fiscal credibility. In 2024, 10-year gilts returned -4.0%, although short-dated (0-5 years) bonds were positive, returning 2.5%. Meanwhile, investment grade corporate bonds delivered a 2.1% return.

We believe bond market valuations are attractive at current levels, but potentially sticky inflation and the strength of the US economy keeps us fairly neutral with regards to duration (the number of years we hold a bond for). Credit spreads tightened during the year and UK spreads are at their tightest levels since 2007.

Performance review

For the year, the portfolios delivered robust returns of 6.4% for Balanced, 7.6% for Growth, and 9.3% for the Equity portfolio. The greatest gains went to those portfolios with the highest level of equity exposure and the US in particular.

For reference, the portfolios experienced a slight pullback during the final quarter of the year. For A USD (Acc) share classes this ranged from a loss of 2.4% for the Balanced portfolio to a loss of 3.6% for the Equity portfolio as investors digested the implications of a Trump victory and associated concerns over trade and tariffs.

It will come as no surprise to note that our dedicated US funds made the most meaningful contribution during the year, with notable contributions from Schroder US Large Cap Fund, Sands Capital US Select Growth Strategy, and JP Morgan American Investment Trust. To a lesser extent, although still positive, the portfolio's US value, income, and small cap exposure (via Dodge & Cox US Stock, Fidelity US Quality Income, and Artemis US Smaller Companies funds) also helped.

Elsewhere, our dedicated physical gold ETF, which was a relatively new holding, fared well. The price of gold breached USD2,600 for the first time ever, as US equity markets continued to rise together and escalating geopolitical tensions elsewhere around the world led investors (both retail and institutional) to take refuge in gold as a safe haven. This was in stark contrast to the portfolio's other commodity exposures (BlackRock World Mining and Rio Tinto), which struggled to keep pace with the wider market.

A key region of underperformance this year was Europe with both our fund and direct exposure hurting. The Janus Henderson and BlackRock Continental European funds alongside Pernod Ricard, LVMH, and Nestle all struggled against the backdrop of weaker underlying earnings and poor investor sentiment.

Portfolio activity

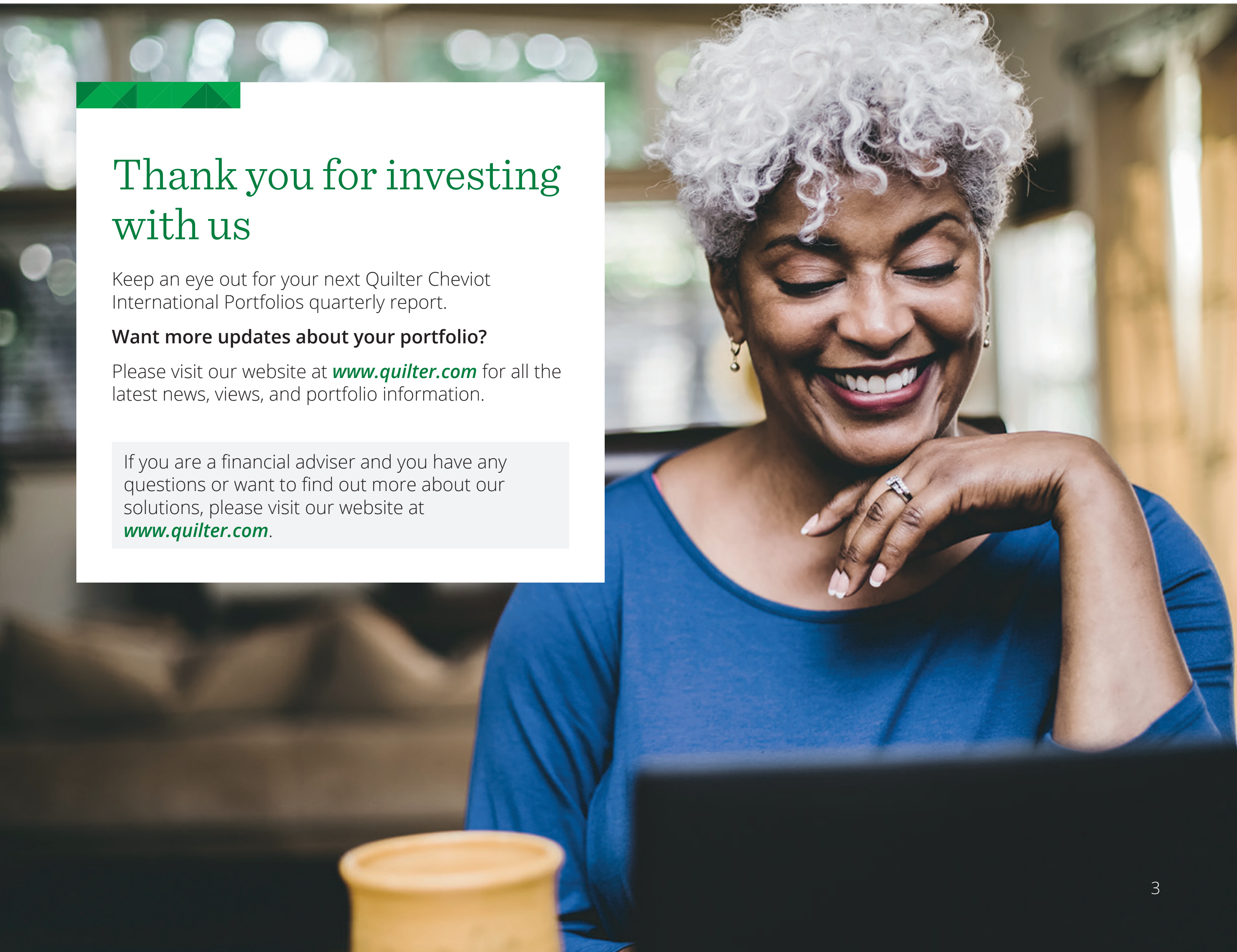
The last quarter of the year saw more muted activity within the portfolios reflecting a desire for the significant changes made in 2024 to bed in. That being said, the rise in yields on long-term US and UK bonds raised the spectre of a more elongated period of higher interest rates. As such, it was felt that some of our more interest-rate sensitive holdings looked vulnerable and we subsequently exited our infrastructure and renewables funds (The Renewables Infrastructure Group, HICL Infrastructure, International Public Partnership, and the Schroder Global Energy Transition Fund). Their performance since the start of 2025 indicates that the sales were well timed. This money was then invested into a select number of European and US-focused equities given their relative attractiveness.

Investment outlook

We believe a global economic growth outlook of 3% real GDP for 2025 is reasonable and supports risk assets, such as equities. The US economy remains robust and although labour markets have weakened slightly from tight levels this is little cause for concern at present. Inflation has returned close to target and core inflation is moving in the right direction. We see potential risks from inflation staying higher than expected and geopolitical tensions increasing.

There is a lot of uncertainty surrounding the impact on trade and geopolitics from the implementation of tariffs and we are monitoring developments closely. However, we believe aggregate impacts on inflation from tariffs to be moderate compared to the inflationary backdrop of recent years.

After a couple of good years global equities have above average valuations due to the US market impact, but we take reassurance in that they remain supported by strong earnings growth and interest-rate cuts. Having said that, we expect the breadth of market contributors to widen and are also looking towards Europe where valuations look interesting. We also like bonds at current levels with attractive yields on offer and more interest rate cuts expected.



Thank you for investing with us

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If you are a financial adviser and you have any questions or want to find out more about our solutions, please visit our website at ***www.quilter.com***.

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Where the shares are acquired by persons who are relevant persons specified in Section 305A of the SFA, namely:

A corporation (which is not an accredited investor (as defined in Section 4A of the SFA) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

A trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor, the shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within 6 months after that corporation or that trust has acquired the shares pursuant to an offer made under Section 305 of the SFA except:

(1) to an institutional investor or to a relevant person as defined in Section 305(5) of the SFA, or which arises from an offer referred to in Section 275(1A) of the SFA (in the case of that corporation) or Section 305A(3)(c)(ii) of the SFA (in the case of that trust)

(2) where no consideration is or will be given for the transfer

(3) where the transfer is by operation of law

(4) as specified in Section 305A(5) of the SFA

(5) as specified in Regulation 36A of the Securities and Futures (Offers of Investments) (Collective Investment Schemes) Regulations 2005 of Singapore.

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