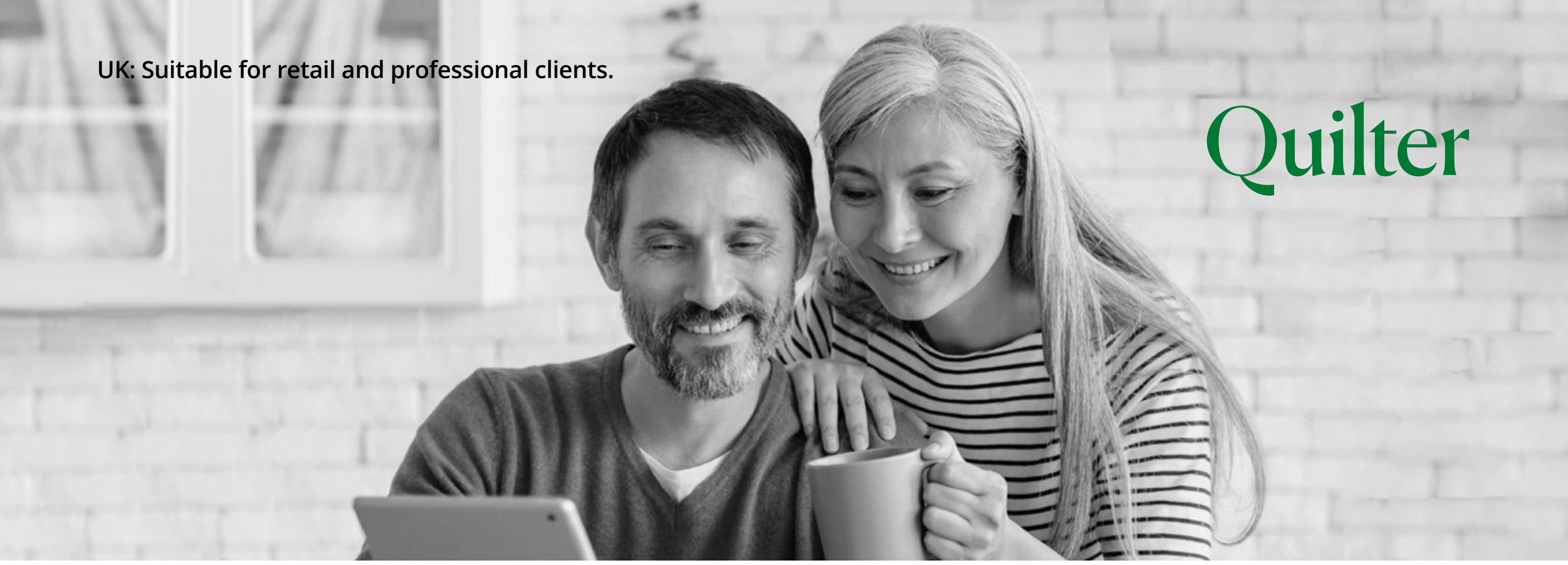

UK: Suitable for retail and professional clients.

WealthSelect Managed Active Portfolios

Monthly commentary review of January 2023

Marcus Brookes
Chief Investment Officer

Our market summary

Markets were upbeat in January due to improving inflation data in the US and expectations that the US Federal Reserve (Fed) may shift towards lowering interest rates later in 2023. Positive sentiment surrounding China's re-opening, following the end of its zero-covid policy, helped lead emerging market equities higher, while sectors within Europe and the UK also benefitted. Interest-rate rises from central banks remain on the cards, but at a much slower rate than witnessed throughout 2022.

Equity markets

January was a positive month for US stock markets with US equities rising by 3.7%. Improving investor sentiment continued from the last quarter of 2022, particularly regarding inflation, which continued to fall. This, paired with expectations of less aggressive interest-rate rises from the Fed, buoyed investor confidence, with growth sectors, such as technology, performing strongly during the month.

European stock markets continued their strong run with European (excluding UK) equities up by 6.0%. Europe was one of the top regional markets thanks to China's re-opening. Its luxury goods and consumer discretionary sectors (non-essential products and services that consumers tend to purchase when consumer confidence is positive) both added value. Meanwhile, inflation continued to fall, although further interest-rate rises are still expected.

The UK followed other regional stock markets higher, albeit to a lesser degree, with UK equities gaining 4.5% over the month. Better-than-expected economic data helped allay fears of a deeper recession, although growth remains muted relative to other developed economies. Domestically-focused companies were strong performers throughout January, while defensive sectors such as healthcare lagged the market.

China remained the big story for emerging markets, which continued to react positively to the former's re-opening. In January, Chinese equities rose by 8.4%, while emerging market equities gained 5.8%. Outside of China, the Czech Republic, Mexico, South Korea and Taiwan were among the top contributors to performance. Meanwhile, Brazil continued to drag on performance, due to political unrest and rising inflation.

Fixed income

Global bonds enjoyed a largely positive month in January due to improving inflation data coming out of the US and Europe, alongside expectations of less aggressive interest-rate rises from central banks. US Treasuries (US government bonds) were up over the month, while corporate bonds in both the US and Europe outperformed their government equivalents.

Total return, percentage growth in pounds sterling. Each return figure is represented by an appropriate IA sector average.

Stuart Clark
Portfolio Manager

Performance review

The portfolios provided strong positive returns in January, increasing in line with their risk profiles and their respectively higher equity exposures. Indeed, all our underlying holdings posted positive returns – a welcome respite from 2022!

Performance summary (%)

	Cumulative performance						*Discrete annual performance*				
	1 month	*YTD*	*1 year*	*3 year*	*5 year*	*Since launch*	*31 Jan 22 - 31 Jan 23*	*31 Jan 21 - 31 Jan 22*	*31 Jan 20 - 31 Jan 21*	*31 Jan 19 - 31 Jan 20*	*31 Jan 18 - 31 Jan 19*
Managed Active 3	**2.5**	**2.5**	**-2.2**	**5.4**	**12.1**	**37.8**	**-2.2**	**1.5**	**6.2**	**7.8**	**-1.4**
IA Mixed 0-35% Shares	2.6	2.6	-5.4	-2.4	3.6	24.5	-5.4	0.3	2.8	7.6	-1.3
Managed Active 4	**2.7**	**2.7**	**-1.2**	**8.5**	**15.7**	**48.3**	**-1.2**	**2.6**	**6.9**	**8.5**	**-1.7**
Managed Active 5	**2.9**	**2.9**	**-0.2**	**11.5**	**19.2**	**58.4**	**-0.2**	**3.7**	**7.7**	**9.4**	**-2.2**
IA Mixed 20-60% Shares	3.0	3.0	-3.9	2.4	9.0	36.7	-3.9	3.3	3.1	9.2	-2.5
Managed Active 6	**3.2**	**3.2**	**1.2**	**14.8**	**22.7**	**67.5**	**1.2**	**4.8**	**8.3**	**9.7**	**-2.6**
Managed Active 7	**3.5**	**3.5**	**2.4**	**18.1**	**26.5**	**77.8**	**2.4**	**6.0**	**8.7**	**10.4**	**-3.0**
IA Mixed 40-85% Shares	3.4	3.4	-2.5	9.3	18.7	58.9	-2.5	6.2	5.5	11.9	-3.0
Managed Active 8	**3.8**	**3.8**	**3.6**	**21.5**	**30.9**	**88.7**	**3.6**	**7.0**	**9.6**	**11.6**	**-3.4**
Managed Active 9	**4.0**	**4.0**	**4.8**	**26.7**	**36.6**	**108.3**	**4.8**	**7.8**	**12.1**	**12.1**	**-3.9**
IA Flexible	3.5	3.5	-1.3	12.6	20.4	64.6	-1.3	6.2	7.4	11.3	-3.9
Managed Active 10	**4.2**	**4.2**	**5.8**	**29.9**	**40.6**	**130.6**	**5.8**	**7.8**	**14.0**	**12.8**	**-4.0**
IA Global	4.4	4.4	-0.2	24.7	43.0	124.4	-0.2	9.3	14.4	16.8	-1.8

Source: Quilter Investors as at 31 January 2023. Total return, percentage growth rounded to one decimal place. All performance figures are net of underlying fund charges, but gross of the Managed Portfolio Service charge. Deduction of this charge will impact on the performance shown. The WealthSelect Managed Active Portfolios launched on 24 February 2014.

How our equity holdings performed

Early spring for European markets

Europe's equity markets benefitted from the ongoing mild winter. This mitigated previous concerns around the impact of rising energy costs on corporate earnings, both in terms of rising input costs for manufacturing and the added pressure on household spending. Alongside the lower valuations that were prevalent in Europe, this has allowed the bounce in the region's equity markets to continue into 2023.

Emerging markets flourish as China re-opens

Another region that performed especially well was emerging markets. These benefitted from the weakening dollar as well as the ongoing re-opening of China. There is renewed optimism that the re-opening will allow pent-up demand to be unleashed, boosting activity in the region and helping further ease pressures on global supply chains.

UK equity returns more modest in January

UK equities posted reasonable gains but lagged other developed markets as major institutional investors focused on some of the more nuanced issues impacting the UK outlook. A bright spot for the portfolios was the Quilter Investors UK Opportunities Fund where trading updates from the airlines and pubs, as well as its financials exposure, led to significant outperformance of the market over the month.

How our fixed-income holdings performed

Fixed income pays off in January

Our fixed-income holdings also contributed positively towards portfolio returns in January. Government bond yields came down (meaning their prices rose) as the market outlook for further interest-rate increases receded in line with US inflation numbers. Our exposure to corporate bonds (issued by companies) also benefitted from the increase in investor risk appetite, which saw corporate bonds outperform government bonds significantly.

How our alternative holdings performed

Still doing what it says on the tin

This segment of the portfolios looks to drive positive returns in an uncorrelated manner and our alternatives holdings achieved this in January. The PIMCO Dynamic Multi-Asset Fund, which endured a tough year in 2022, bounced back as its position that the US dollar would fall in value and its exposure to cheaper parts of the equity market were rewarded in January, with the fund subsequently reducing some of these positions during the month.

Portfolio activity

No activity was undertaken during the month.

Investment outlook

It's fair to say that the rally seen in January is a challenge to our base-case scenario. So far, earnings weakness (lower company profits), a core part of our concern, is not being punished by the market in the way it would historically be. Indeed, the response to weaker earnings so far has been a rise in share prices. Meanwhile, although headline inflation is falling, core inflation is more 'sticky' (meaning resilient). While central banks are slowing their interest-rate increases, they are not yet pausing them. Their guidance remains that fighting inflation is their main concern.

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 calculated using the consumer price index (CPI), a measure of prices for goods and services.

1. Weighing up the options

With the above in mind, we need to assess whether the market's current view of a 'soft landing' (inflation returning to target and moderate corporate earnings growth) can be delivered and whether this justifies the current valuations on offer. Meanwhile, if core inflation remains stubborn, or wage inflation becomes embedded, it could eat away at corporate earnings. The flipside is that if a recession develops it would erode such wage pressures due to job losses.

2. Safety first

Unsurprisingly, our view remains a cautious one. Where equity and corporate bond markets have rallied the portfolios have been able to participate in these rallies, increasing their capital value.

3. Time to face the music

We continue to believe that the paradigm shift in interest rates, namely to an environment where rates remain higher for longer, is not yet reflected in valuation levels. Meanwhile, there's a risk of further corrections in equity markets should the current expectations of a well-managed, 'soft landing' prove untenable.

Thank you for investing with us

Keep an eye out for your next WealthSelect monthly commentary available in March.

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*.

Important information

Past performance is not a guide to future performance and may not be repeated. Investment involves risk. The value of investments and the income from them may go down as well as up and investors may not get back the amount originally invested. Because of this, an investor is not certain to make a profit on an investment and may lose money. Exchange rate changes may cause the value of overseas investments to rise or fall.

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