



Creation Portfolios

Monthly commentary – Review of February 2023



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Our market summary

Although all asset classes made gains in January, it was a different story in February with only UK and European equities making progress. All other regional equity markets declined as did government and corporate (issued by companies) bonds. While the latest data showed inflation to be slowing, any hopes of a swift easing in interest rates were dashed by the central banks. Despite headline inflation visibly waning, central bank policymakers cautioned that interest rates are likely to head higher than expected.

Equity markets



US equities (company shares) were down 0.7% over the month. The US Federal Reserve (Fed) raised interest rates by 0.25% while acknowledging that inflation appeared to be slowing. The Fed also indicated that rate rises would continue in the short term and that its 'terminal rate' (the peak in US rates) may be higher than originally hoped. At a sector level, technology stocks were more resilient than of late, while energy stocks were weaker.



European stock markets were once again positive with European equities up 0.8% in February. The European Central Bank (ECB) raised interest rates by 0.5% as inflation remained high in certain parts of the bloc. Even so, economic data for the continent continued to deliver positive surprises with most commentators expecting less encouraging numbers due to the region's proximity to the Ukraine war and its reliance on Russian oil and gas.



The UK was the top performing regional market gaining 1.5%. News that the UK had narrowly avoided recession in the last quarter of 2022 helped the FTSE 100 Index to a new all-time high. Energy, healthcare, and telecoms companies outperformed, partly due to the strength of the US dollar, while some more domestically-focused stocks also benefited. Meanwhile, the Bank of England raised interest rates by 0.25%.



After a positive start to the year, emerging market equities fell 4.9% in February. This was in large part due to negative investor sentiment surrounding China, following its 'spy balloon' debacle which, once again, raised tensions with the US. Chinese equities fell by 8.9% during the month. India and Poland were two of the stronger performers, while Brazil continued to stall.

Fixed income



Global bond prices fell (meaning their yields rose) in February as markets re-evaluated the outlook for interest rates. Following more interest-rate hikes and guidance from central banks, markets grappled with the prospect of interest rates remaining higher for longer. This saw US Treasuries (US government bonds) fall by 1.3% while gilts (UK government bonds) lost 3.4%. European bond markets performed better on the back of improving economic data.





**Sacha
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Portfolio Manager



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Portfolio Manager

Performance review

The Creation Portfolios delivered top quartile performance relative to their respective Investment Association (IA) fund sector peer groups, with returns ranging from a modest decline of 0.7% for the Creation Conservative Portfolio to 1.1% for the Creation Adventurous Portfolio. While relative performance benefitted from our underweight to bonds, a greater contribution came from our manager selection with most of our underlying equity fund holdings outperforming their peers. Overall, our fixed-income holdings lost ground with corporate bonds (issued by companies) declining less than government bonds as interest rates rose. Our alternatives holdings also gave up some ground due to the rising interest-rate environment.

Performance summary (%)

	Cumulative performance						Discrete annual performance				
	1 month	YTD	1 year	3 year	5 year	Since launch	28 Feb 22 - 28 Feb 23	28 Feb 21 - 28 Feb 22	28 Feb 20 - 28 Feb 21	28 Feb 19 - 29 Feb 20	28 Feb 18 - 28 Feb 19
Creation Conservative	-0.7	1.1	-3.9	-2.8	-0.9	18.5	-3.9	-1.2	2.3	3.8	-1.7
IA Mixed 0-35% Shares	-1.2	1.4	-5.6	-1.9	3.5	27.1	-5.6	0.4	3.5	5.2	0.3
Creation Balanced	0.0	2.4	-0.4	5.7	8.4	32.1	-0.4	0.1	6.1	4.6	-1.9
IA Mixed 20-60% Shares	-0.8	2.2	-3.0	5.0	9.6	43.6	-3.0	1.6	6.6	4.6	-0.2
Creation Moderate	0.4	3.6	1.9	13.4	16.4	47.4	1.9	1.1	10.1	4.8	-2.1
IA Mixed 40-85% Shares	-0.3	3.1	-1.1	14.3	20.2	72.5	-1.1	4.2	10.9	5.2	0.0
Creation Dynamic	0.9	4.8	4.1	21.1	24.8	62.3	4.1	2.7	13.3	5.8	-2.6
IA Flexible	-0.7	2.8	-0.2	17.2	21.4	75.1	-0.2	3.7	13.4	4.6	-1.0
Creation Adventurous	1.1	5.4	5.2	24.5	27.3	32.0	5.2	3.5	14.3	5.5	-3.1
IA Flexible	-0.7	2.8	-0.2	17.2	21.4	25.9	-0.2	3.7	13.4	4.6	-1.0

Source: Quilter Investors as at 28 February 2023. Total return, percentage growth, net of fees of the R Acc share class rounded to one decimal place. The Creation Conservative Portfolio launched on 25 February 2013; the Creation Balanced Portfolio launched on 19 February 2013; the Creation Moderate Portfolio launched on 15 February 2013; the Creation Dynamic Portfolio launched on 18 February 2013; and the Creation Adventurous Portfolio launched on 3 July 2017





How our equity holdings performed

Underlying managers outperform

Most of our underlying managers, irrespective of region or investment style, outperformed their respective benchmarks helping to soften losses in several areas. The biggest contributions came from our more defensive, 'higher-quality' equity managers; the Wellington Durable Enterprises Fund outperformed the MSCI AC World Index by 1.5% while the higher-growth Premier Miton European Opportunities Fund outperformed its benchmark by 1.1%.

UK and Europe outperform the US

Both UK and continental European markets outperformed their transatlantic cousins over the month, consequently our holdings in these regions were among the top performers in February. The Liontrust UK Growth Fund gained 3.2% while the Quilter Investors Europe ex UK Equity Fund gained 3.3%. Meanwhile, the BNY Mellon US Equity Income Fund added only 1.6%, although it significantly outperformed broader US equity markets.

Healthcare underwhelms

Our overweight to the healthcare sector via the iShares MSCI World Health Care Sector ETF was a small detractor from returns as the sector fared worse than broader equity markets due largely to the impact of rising interest rates. The global healthcare sector declined 2.5% in February while the MSCI World Index fell just 0.7%.



When a fund is 'overweight', it holds a larger position in a particular stock, sector, or region than the stock market index or portfolio model against which it's benchmarked. 'Underweight' means the opposite.



How our fixed-income holdings performed

Rising interest rates hurt bond holdings

Fixed-income markets struggled over the period as unexpectedly strong economic data triggered a market re-pricing of interest-rate expectations. In the US, markets are now expecting interest rates to be above 5% in a year's time; at the end of January, the same expectation was for 4.5%. Given this, bond yields generally rose (meaning their prices fell) which delivered losses for our fixed-income holdings. Our underweight to government bonds helped to mitigate such losses, as did the outperformance of our high-yield bond exposures in funds such as the Premier Miton Financial Capital Securities Fund, as high-yield bonds tend to be less sensitive to interest-rate moves.



How our alternative holdings performed

Inflation-linked strategies struggle

Overall our alternatives holdings lost ground in February although most of our 'carry' strategies, including the Quilter Investors Absolute Return Bond Fund, delivered positive returns. Meanwhile, it was a mixed bag for our alpha managers. The JP Morgan Opportunistic Long Short Equity Fund continued its run of poor performance with a 2.3% fall while the Jupiter UK Specialist Fund gained 0.2%. However, our inflation-linked holdings were the weakest with both the 'real asset' holding HICL Infrastructure and the commodity holding Wisdom Tree Enhanced Commodity ETF falling close to 4% over the month as interest rates rose.



'Carry strategies seek regular, low-risk returns regardless of market direction. 'Carry trades' try to exploit differences in future pricing points, interest rates or currencies.

Portfolio activity

We reviewed many of our tactical tilts in February and acted in two instances. In the first, we tempered our cautious optimism as we saw corporate earnings deteriorate. Combined with the substantial rally seen since October of last year, this led us to cut the equity exposure in the lower-risk Blend Portfolios by selling down some of our passive equity fund holdings.

In tandem with this, our review of the high-yield bond market identified that the investment case had strengthened – particularly in the case of a 'muddle-through' economic outcome (which is now looking increasingly likely). Consequently, we topped up our existing high-yield exposures to the Quilter Investors Dynamic Bond and the Premier Miton Financial Capital Securities funds.

Investment outlook

After our stance of cautious optimism through 2022, we have turned slightly more pessimistic as some of the data in the corporate world are indicating lower earnings; this typically means weaker share price returns on a forward-looking basis. However, some economic data remain surprisingly resilient.

Currently, we're focusing on the three key questions below to help us adjust the portfolios to deliver the best outcomes for our investors in the coming months.

1. Are activity levels peaking?

The labour market in the US remains remarkably robust with healthy wage growth supporting consumption; similar pictures can be seen in most major economies. However, there are weaker signs from economic activity surveys, weaker business demand for industrial goods and increasing corporate layoffs. Our base case is now for a gradual slowdown after the high economic growth rates of 2021, but we're also watching for signs of something potentially more harmful.

2. How quickly will inflation fall?

Many of the factors that drove inflation to the highs we saw in 2022 are unwinding. For example, freight costs and many commodity prices have fallen back to the levels we saw prior to the Russian invasion of Ukraine. However, 'stickier' components such as housing or services costs are continuing to rise. This leads us to believe that interest rates will go still higher before they start to relent.

3. When will companies return to growth?

The latest earnings season showed a decline in aggregate corporate earnings, which is a signal for weaker forward returns. As we progress through the months ahead, we will be looking for signs that corporate earnings are once again on the up, regardless of whether this comes from increased revenue, due to stronger demand, or through the stout defence of company margins.



Earnings seasons are quarterly. They are the periods when listed companies release their financial data including information on company revenues, sales, profits, and margins as well as more granular details of the underlying business, its liabilities and its forecasts for future revenue growth ([find out more](#)).

Thank you for investing with us

Keep an eye out for your next Creation Portfolios quarterly reports in April.

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.



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