UK: Suitable for retail and professional clients.

Quilter Investors

Monthly Income Portfolios

Monthly commentary – Review of August 2023

Marcus Brookes
Chief Investment Officer

Our market summary

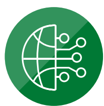
Global equity markets retreated 0.8% in August with both developed and emerging equity markets in decline. This was partially due to the ongoing economic slowdown in China and its knock-on effects for global manufacturing sectors. Meanwhile, uncertainty as to the direction of US interest rates soured investor sentiment with rate-sensitive sectors such as technology and consumer staples being especially impacted.

Equity markets

Conjecture over the direction of monetary policy weighed heavily on US equities in August which led to a 0.2% decline. Markets had assumed that the US Federal Reserve's (Fed) monetary tightening cycle had climaxed in July, but minutes released from the meeting highlighted a mix of opinions from within the Fed, casting doubt over the immediate direction of interest rates. As a result, technology stocks tumbled and dragged markets lower.

A mixed bag of eurozone economic data saw European equities fall by 2.5% in August. Annual inflation figures were resilient, although core inflation, which omits food and energy prices, fell. Meanwhile, business activity figures reached a 33-month low. This left the European Central Bank with much to consider ahead of next month's interest-rate decision meeting. The energy and real-estate sectors were the region's two bright spots, with both making gains.

Increasingly negative economic data and market sentiment impacted UK equities, leading to a 2.5% loss. Inflation remained stubbornly high, with the Bank of England (BoE) moving to increase interest rates once again. UK interest rates rose to 5.25% with the BoE warning that rates may need to stay higher for longer to bring inflation back to its target range of 2%. The UK energy sector was the only outlier; it delivered a positive gain in August.



Egypt, Hungary, and Turkey were the only positive contributors in what was a challenging month for emerging market economies. Negative sentiment stemming from China's economic malaise and the potential ramifications of US interest rates remaining higher delivered a 4.7% drop to emerging market equities. China's disappointing 're-opening' and its imploding domestic property sector had a heavy impact; Chinese equities were down by 7.6%.

Fixed income

In a notable development, the credit rating agency Fitch downgraded the US from Triple-A, the highest rating, to Double A+. Fitch cited the nation's increasing debt and an "erosion of governance" as its key rationale. The US announced ambitious borrowing plans in August which sparked a brief rise in US Treasuries (US government bonds) before they retreated to deliver a loss of 0.6%. Meanwhile, UK gilts (UK government bonds) fell by 0.5% with UK corporate bonds (issued by companies) down by 0.2%.

Source: Quilter Investors as at 31 August 2023. 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 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; emerging markets by the MSCI EM (Emerging Markets) Index; US Treasuries by the ICE BofA US Treasury (GBP Hedged) Index; UK gilts by the ICE BofA UK Gilt Index; and UK corporate bonds by the ICE BofA Sterling Corporate Index.

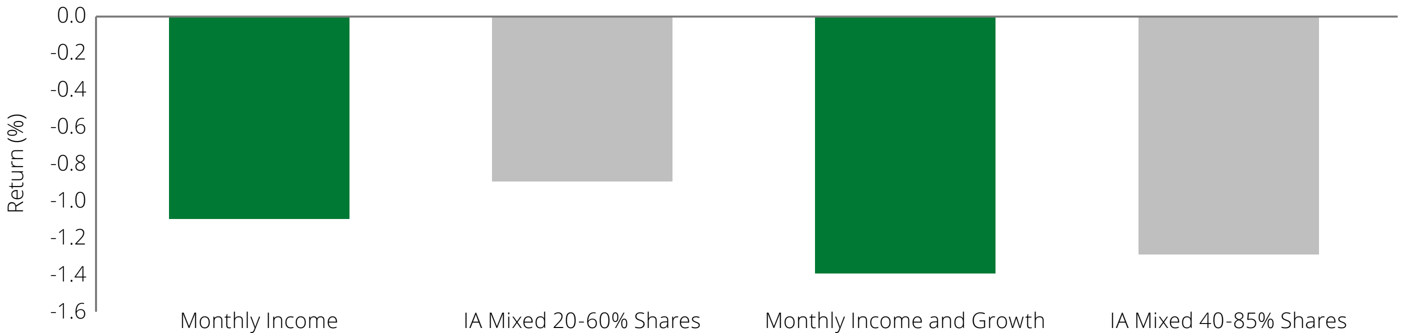
Helen Bradshaw
Portfolio Manager

CJ Cowan
Portfolio Manager

Performance review

The Monthly Income and Monthly Income and Growth Portfolios delivered losses of 1.1% and 1.4%, respectively in August. This was modestly behind their Investment Association (IA) performance comparators. It was a tough month for equities, with Asian and emerging markets holdings dragging on the portfolios. However, the iShares Core S&P 500 ETF and the Schroder US Equity Income Maximiser Fund both delivered positive returns, helped by a ***strong US dollar***. Bond holdings fared slightly better but still lost ground. The best of the bunch was the AXA US Short Duration High Yield Fund, which proved its worth by delivering a small positive return even as wider bond markets sold off.

Monthly performance (%)



Performance summary (%)

	Cumulative performance						*Discrete annual performance to end of August*				
	1 month	*YTD*	*1 year*	*3 year*	*5 year*	*Since launch*	*2022 - 2023*	*2021 - 2022*	*2020 - 2021*	*2019 - 2020*	*2018 - 2019*
Monthly Income	**-1.1**	**0.3**	**-1.1**	**5.0**	**-**	**3.6**	**-1.1**	**-6.6**	**13.6**	**-2.7**	**-**
IA Mixed 20-60% Shares	-0.9	1.7	-0.3	3.7	-	4.8	-0.3	-7.2	12.1	0.0	-
Monthly Income and Growth	**-1.4**	**1.0**	**-0.1**	**11.8**	**-**	**11.4**	**-0.1**	**-4.8**	**17.5**	**-2.0**	**-**
IA Mixed 40-85% Shares	-1.3	2.9	0.4	10.6	-	13.3	0.4	-6.6	17.9	1.3	-

Source: Quilter Investors as at 31 August 2023. 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

The primary change to the portfolios in August was to reduce exposure to ***cyclical*** equity holdings in favour of higher quality and ***larger cap*** ones. We increased our weighting to the Quilter Investors Global Equity Value Fund, managed by Redwheel, by reducing our position in the iShares Euro Dividend ETF. The former has underperformed global equities so far this year as high quality and more stable companies have not been rewarded by investors as economic data have generally been stronger than expected. Meanwhile, the cyclicality inherent in the higher-yielding iShares Euro Dividend ETF is likely to be less desirable going forward as interest-rate increases slow economic growth. In the UK we also trimmed the iShares UK Dividend ETF, recycling the capital into the iShares FTSE 100 ETF. Both moves add to the defensiveness and resilience of the portfolios.

Investment outlook

Economic data this year has been stronger than widely expected, with the start date of one of the most 'consensus' global recessions being pushed further into the future. Interest-rate rises have not impacted consumers as quickly as many thought with low unemployment and strong wage growth, particularly for lower-income segments, helping households maintain much of their spending power. Meanwhile, both businesses and households that took on fixed-rate debt at historically low rates during the covid period have some runway before this debt requires refinancing.

1. Waiting for policy lags

Consequently, despite higher levels of indebtedness, interest payments for households and businesses are rising relatively slowly and the near-term sensitivity of economic activity and inflation to central bank policy rates may be waning. We are inclined to think the most likely outcome is 'high rates for longer', with central banks nearing the end of their hiking cycles but wanting to wait for these policy changes to take effect as a 'soft(ish) landing', where interest rates are raised just enough to stop an economy from overheating and experiencing high inflation, without causing a severe downturn, is engineered.

2. Risk of more hikes means 'good news' can be 'bad news'

If inflation re-accelerates, then more rate hikes could be forthcoming, increasing the chance of a harder economic landing. It's this fear that drives the somewhat perverse paradigm of good news for the economy, being bad news for markets. Conversely, it's plausible that interest rates are already too high and as policy bites, recession will ensue, followed by interest-rate cuts. We think this is less likely and are sceptical that the US rate cuts priced-in for 2024 will be delivered.

3. Neutral weighting with a more defensive equity mix

The finely-balanced economic picture leads us to maintain a relatively neutral positioning. We prefer less cyclical, high-quality, large cap equity holdings as, even if the economic landing is a soft one, it will still be a landing, so a more defensive equity mix is desirable. Market expectations for rate cuts against a backdrop of elevated inflation, make us reticent of being too overweight bonds but we maintain some exposure to high-yielding corporate bonds for the income they deliver.

Thank you for investing with us

Keep an eye out for your next Monthly Income Portfolios quarterly report available in October.

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***.

Need additional help reading documents?

More and more of our investors are using screen reading software as a quick and easy way to read their documentation if they are blind, partially sighted, or dyslexic. Alternatively, we can write to you in several alternative formats, such as large print, braille, audio, and OpenDyslexic font.

Find out more about screen readers, accessing your documents online, and our alternative format options at ***www.quilter.com/document-help***.

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.

This communication is issued by Quilter Investors Limited ("Quilter Investors"), Senator House, 85 Queen Victoria Street, London, United Kingdom, EC4V 4AB. Quilter Investors is registered in England and Wales (number: 04227837) and is authorised and regulated by the Financial Conduct Authority (FRN: 208543).

Quilter Investors Monthly Income Portfolio and Quilter Investors Monthly Income and Growth Portfolio (the "Funds") are sub-funds of Quilter Investors Multi-Asset OEIC, an investment company with variable capital incorporated in England and Wales.

Quilter Investors Multi-Asset OEIC is authorised by the Financial Conduct Authority as a non-UCITS retail scheme and can be distributed to the public in the United Kingdom.

Quilter Investors uses all reasonable skill and care in compiling the information in this communication and in ensuring its accuracy, but no assurances or warranties are given. You should not rely on the information in this communication in making investment decisions. Nothing in this communication constitutes advice or personal recommendation. An investor should read the Key Investor Information Document(s) ("KIID") before investing in any sub-fund of Quilter Investors Multi-Asset OEIC. The KIID and the prospectus can be obtained from www.quilter.com in English.

The Funds invest principally in other collective investment schemes. Your attention is drawn to the stated investment policy which is set out in the prospectus.

Data from third parties ("Third-Party Data") may be included in this communication and those third parties do not accept any liability for errors and omissions. Therefore, you should make sure you understand certain important information, which can be found at www.quilter.com/third-party-data/. Where this communication contains Third-Party Data, Quilter Investors cannot guarantee the accuracy, reliability or completeness of such Third-Party Data and accepts no responsibility or liability whatsoever in respect of such Third-Party Data.

QI 26361/29/4432/September 2023/SK19958