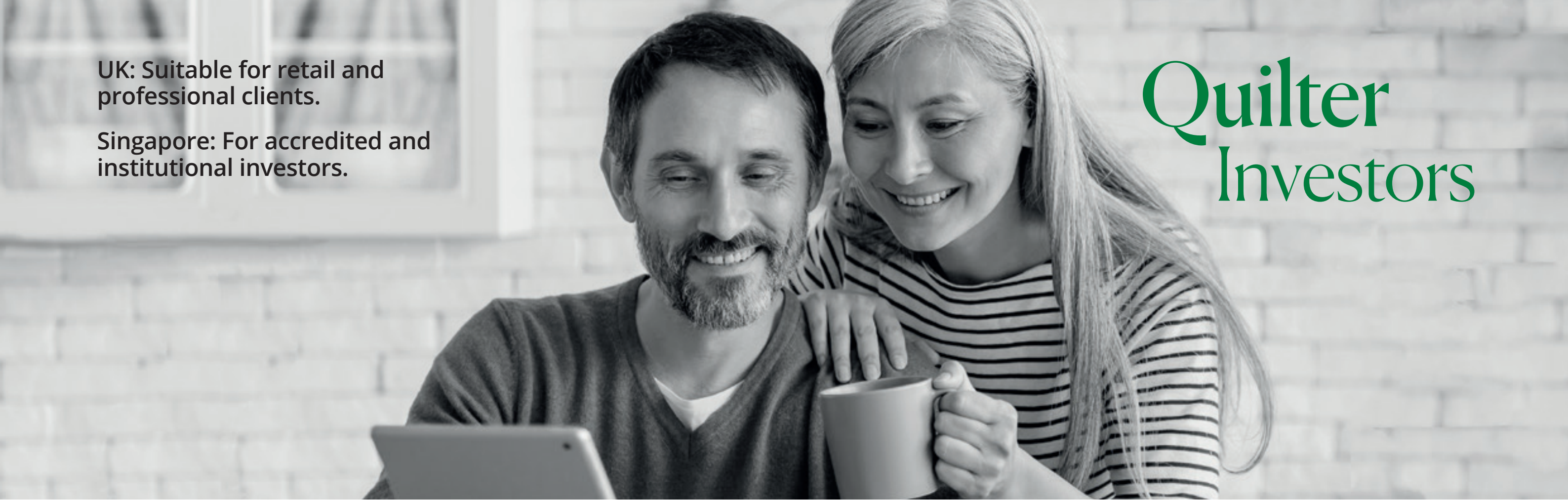

UK: Suitable for retail and professional clients.

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Quilter Investors

Quilter Cheviot International Portfolios

Market commentary – Q3 2024

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Our market summary

Central banks took centre stage in Q3, as the Bank of England (BoE) and Federal Reserve (Fed) followed the European Central Bank (ECB) in delivering their first interest-rate cuts in over four years. Markets welcomed the moves with Wall Street and global stock benchmarks hitting fresh all-time highs. The Japanese Central Bank also raised interest rates, but quickly had to backtrack on further proposed increases following the turbulence prompted by the 'Yen carry trade' phenomenon on 5 August, which caused the biggest correction in Japanese equities since 1987.

Despite some summer turbulence, it has been a largely positive three months for markets, with global equities rising 2.38% in Q3. A growing expectation of more interest rate cuts boosted bond markets sooner than expected, with European government bonds rising 4.0% over the quarter. Having said that, European fixed income has underperformed for the three consecutive quarters to the end of September, with a return of just 2.0%.

As the global economy has continued to fare relatively well throughout 2024, rate-setters have been able to keep interest rates firmly in restrictive territory for longer than many expected, so that they could ensure the stubborn inflationary pulses that haunted the monetary authorities were vanquished. With core inflation readings now back within central banks' targets, the focus has clearly shifted, with an aim to not stifle economic growth.

The BoE lowered rates in August by 0.25% to bring its base rate to 5.0%. The news came the day after the Bank of Japan (BoJ) delivered a hawkish hike and the Fed held its benchmark rate at a 23-year high. The very next day, a weak US jobs report sparked some consternation that the US central bank had once more fallen behind the curve in holding rates too high for too long, potentially precipitating a US recession.

Markets reacted negatively, experiencing a significant bout of volatility as technical factors, such as the unwinding of carry trades — based on borrowing in Japan at near-zero interest rates to invest in higher-returning assets, such as US tech stocks and emerging market currencies — appeared to exacerbate the declines, as a sharp yen appreciation sparked a rush for the exit.

It is the inherent nature of markets to overreact, and it remains a key tenet of successful investing to avoid panicking and selling into a capitulation. The subsequent market recovery demonstrated this, as US and global indices not only recouped the near 10% drop but have since gone on to hit new highs.

USA

Heading into the Fed's September meeting there was a widespread expectation that rates would be lowered, although the size of the move was far from certain. Ultimately, the Fed decided to go with a 0.50% cut, lowering the federal funds rate to 5.00%, perhaps compensating for their lack of policy easing in the previous month and because the Fed would not be meeting during the month of October.

Although the ECB and the BoE moved sooner, their reductions were smaller than the Fed's as the US central bank played catch up. Furthermore, looking forward, the US is expected to lower rates faster than their European peers, potentially putting downward pressure on the US dollar. Markets are pricing in another 0.50% cut by the Fed before year-end and a Fed funds rate below 3% by the end of 2025.

It appears now that central bankers are seeking to move policy towards the neutral rate, where it is not stimulative nor restrictive to economic growth. The question is, what level is that? Fed chair Jerome Powell recently stated that the central bank is 'recalibrating' what the Fed funds neutral rate is.

Europe

Recent softening in a series of Eurozone economic indicators has raised expectations for another one or two 0.25% interest rate cuts from the ECB before year-end, potentially bringing the deposit facility to 3.0% and the refinancing rate to 3.5%. This growing expectation of monetary easing has arisen due to dramatically lower inflation across the Eurozone particularly in France, Germany, and Spain.

The overall economic picture remains fairly robust, and it appears the often talked about but rarely seen 'soft-landing' scenario has been delivered, for which central banks deserve credit. That said we remain vigilant, closely monitoring developments and ready to act should volatility return.

Performance review

It was a solid quarter for the portfolios with returns of 4.3% for Balanced, 4.9% for Growth and 5.5% for the Equity portfolio. In particular, the funds enjoyed a strong September as the 0.5% interest rate cut from the Fed combined with some better US economic data helped support a soft-landing narrative in the US and subsequently had a positive impact on investor sentiment across the board.

With the Chinese authorities taking a more accommodative stance, our two Fidelity Asian-focused funds in the portfolios (China Consumer Fund and Asian Pacific Opportunities) enjoyed one of their best quarters of performance since 2015.

A relatively new position – the Invesco Physical Gold ETC also fared well as the price of gold breached $2,600 for the first time ever, as a larger-than-expected rate cut in the US and continued geopolitical tensions around the world led investors (both retail and institutional) to take refuge in gold as a safe haven.

With the US, UK, and European central banks beginning to cut rates, our more interest rate-sensitive funds continued the turnaround in performance that was first witnessed during the last quarter. In particular, our infrastructure funds (The Renewables Infrastructure Group, HICL Infrastructure, 3i Infrastructure, and INPP) all enjoyed double-digit gains.

On the negative side, Pershing Square suffered a series of setbacks with several key holdings lagging the market by mid-teens. Moreover, the discount to net asset value (NAV) widened to 33% - largely due to the disappointment that the launch of a US-listed vehicle was dropped, something that could have contributed to lower costs for Pershing Square. We have spoken to the team very recently, and they confirmed that they expect to come back to market with an amended US vehicle soon, and this may again have a positive impact on the discount.

Portfolio activity

It was a busy period for portfolio activity as changes in market sentiment and greater market volatility afforded us the opportunity to rotate the portfolio. We initiated a position in the iShares Gold ETC as a natural hedge against the spectre of inflation and strong equity performance with heightened geopolitical risk. Continuing the theme in commodities, we also added to our position in BlackRock World Mining.

Following a review of our regional fund exposure, several new ideas were introduced on the grounds of higher conviction and greater appeal. As a result, we added the SGA Global Growth, Veritas Asian, JPMorgan Emerging Markets, Janus Henderson Continental European, Dodge & Cox US Equity, and Schroder US Large Cap funds. The new positions were largely funded by sales of relevant regional funds.

We also took advantage of our equity research team's top ideas by initiating positions in several new direct holdings such as TSMC, LVMH, Alstom, Rio Tinto, Amazon, Nike, and Visa with the proviso that these are quality companies with leading market positions and sustainable competitive advantages.

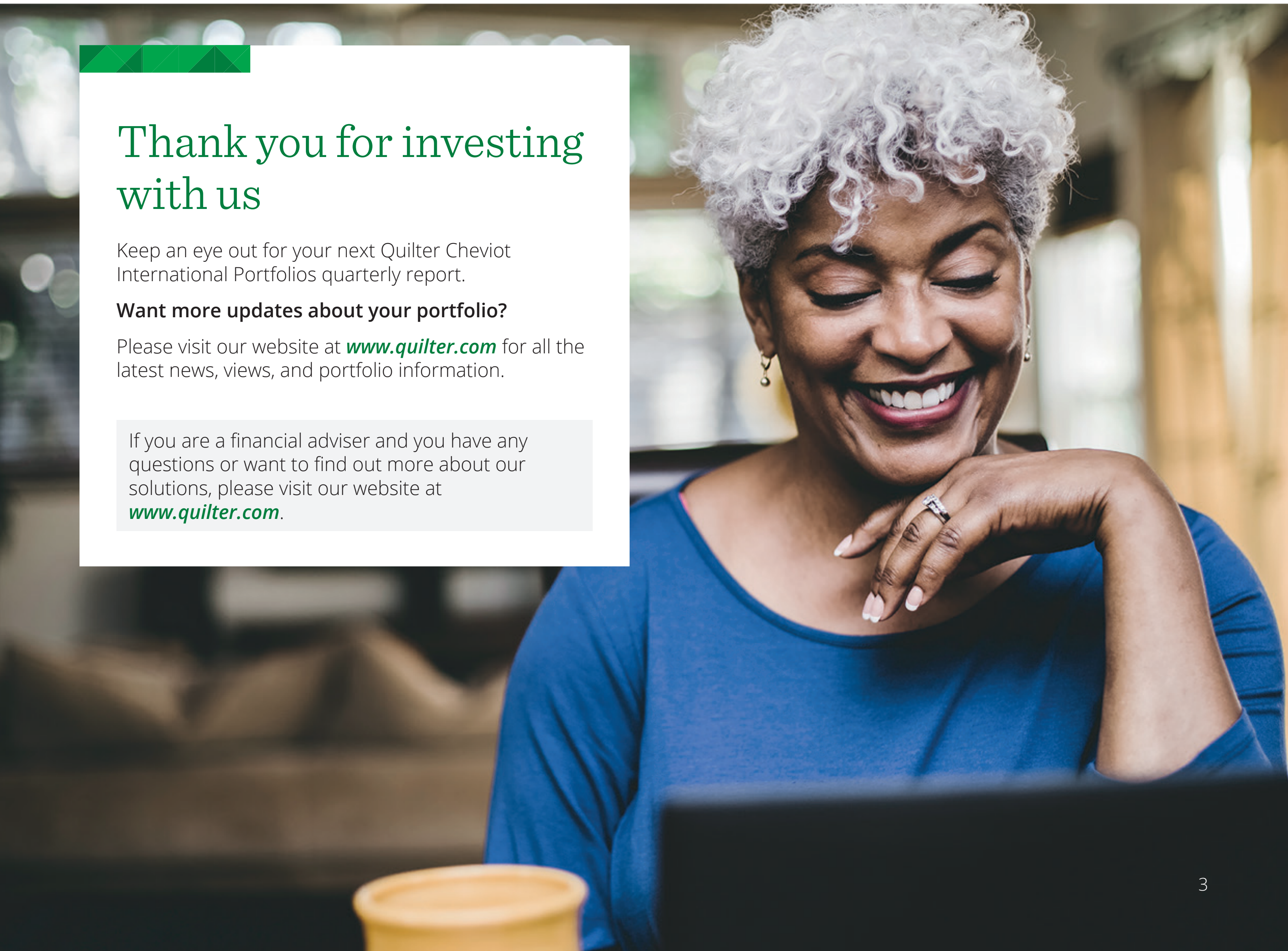
Investment outlook

Global central banks are now all in interest rate-cutting cycles, which is supportive for risk assets. Although rates are expected to fall further, a return to the near-zero interest rate policy prevalent since 2008 remains unlikely, given the lingering persistency of inbuilt inflationary trends and expansionary fiscal policies in many economies, particularly the US. Corporate earnings continue to grow across most sectors and regions, underpinning our positive outlook for equities.

Equity markets remain on track for another good year despite the significant bout of volatility during August with global and US equities sitting on double-digit gains and UK equities not far behind. We are broadening out our US equity exposure to other areas such as smaller-cap companies, which should act as a counterbalance to mega-cap tech.

Looking ahead, by far the biggest 'tail risk' we face before year-end is the outcome of the US presidential election. Polling suggests a neck and neck race between two candidates with diverging proposed policies in a number of areas. Derivatives markets are already pricing a spike in volatility around 5 November. As well as the unpredictability of the outcome there is also the chance that the result will be contested. Whatever happens, we will remain invested and calmly navigate our way through any uncertainty that may arise, as we have done on many occasions in the past.

Source: Quilter Investors as at 30 September 2024. Total return, percentage growth in euros, rounded to one decimal place. The performance shown for global equities is represented by the MSCI AC World Index; European government bonds by the Bloomberg Euro Government Index. Performance shown is for the USD share class portfolios.



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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