



# Cirilium Passive 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.



## Performance review

The Cirilium Passive Portfolios delivered mixed returns over the month. This was driven by their respective exposure to fixed-income assets, with the lower-risk Cirilium Conservative Passive and Cirilium Balanced Passive portfolios delivering modest losses while the three higher-risk Cirilium Passive Portfolios made modest gains.

### 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
<b>Cirilium Conservative Passive</b>	-0.8	1.5	-5.0	-2.1	6.4	35.9	-5.0	-0.1	3.2	7.1	1.4
Cirilium Balanced Passive	-0.4	2.6	-3.3	4.2	14.4	65.1	-3.3	2.2	5.5	8.2	1.5
<b>Cirilium Moderate Passive</b>	<b>0.3</b>	<b>4.0</b>	<b>0.5</b>	<b>14.4</b>	<b>26.0</b>	<b>92.2</b>	<b>0.5</b>	<b>4.9</b>	<b>8.5</b>	<b>8.4</b>	<b>1.6</b>
Cirilium Dynamic Passive	1.0	5.1	4.0	23.8	36.5	117.6	4.0	7.4	10.9	8.5	1.5
<b>Cirilium Adventurous Passive</b>	<b>0.8</b>	<b>5.1</b>	<b>4.1</b>	<b>36.4</b>	<b>53.4</b>	<b>63.5</b>	<b>4.1</b>	<b>8.8</b>	<b>20.4</b>	<b>10.4</b>	-

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 Cirilium Conservative Passive, Balanced Passive, Moderate Passive, and Dynamic Passive Portfolios launched on 8 February 2013; and the Cirilium Adventurous Passive Portfolio launched on 1 June 2017.



### How our equity holdings performed

#### UK market leads the way

It was yet another month in which the UK equity market outperformed its global peers with the UK's FTSE 100 Index gaining 1.8% while the MSCI World Index declined 0.7%. With the exception of the Cirilium Adventurous Passive Portfolio, which has no UK equity allocation, the remaining Cirilium Passive Portfolios have around 35% of their equity weighting in the UK. Consequently, our UK exposure was the greatest contributor to returns in February.

#### Europe outperforms US and Canada

Continental European markets outperformed their transatlantic cousins over the month with the MSCI Europe ex UK Index gaining a modest 0.8% while the MSCI North America Index declined by 0.9%. However, as the European equity weightings in the Cirilium Passive Portfolios are somewhat smaller than those to North America, the positive returns from our European holdings weren't sufficient to outweigh the modest losses from our North American exposure.

#### Overseas holdings boosted by sterling weakness

A key driver of returns in February was the weakness of the pound, which fell by around 2.4% relative to the US dollar. When sterling declines like this, it naturally increases the value of holdings that are denominated in overseas currencies; it also boosts stocks in the FTSE 100 as around 75% of their earnings come from overseas. Consequently, while the MSCI USA fell 2.4% for US dollar-based investors in February, the loss was only 0.7% for sterling investors.



Currency exchange rates impact investments in other countries. If the currency of the investment rises compared to sterling, this adds to returns; if it falls, this reduces returns.



### 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.

Consequently, both the Cirilium Conservative Passive and the Cirilium Balanced Passive portfolios suffered losses in February as a result of their higher exposure to bond markets.

## Portfolio activity

The weighting of each holding drifts in line with relative market movements. Consequently, we use cashflows in and out of the Cirilium Passive Portfolios to help steer our holding weightings back towards their targets while minimising transaction costs.

### 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 is indicating lower earnings; this typically means weaker share price returns on a forward-looking basis. However, some economic data remains 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 Ukraine invasion. But '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.





## Thank you for investing with us

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

### Want more updates about your portfolio?

Please visit our website at [www.quilter.com](http://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](mailto:enquiries@quilter.com), or visit our website at [www.quilter.com](http://www.quilter.com).

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