UK: Suitable for retail and professional clients.

Quilter Investors

Compass Portfolios

Monthly commentary – Review of February 2024

Marcus Brookes
Chief Investment Officer

Our market summary

While global equities delivered robust gains in February, bond markets retreated as investors pared back expectations for interest-rate cuts in the face of stronger than expected inflation and economic data. Buoyed by the same resilient economic data, strong US company earnings numbers and a sharp bounce in Chinese equities following the latest raft of policy initiatives, global equities delivered 4.3%. China was the top-performing regional equity market. Its return of 8.4% boosted Asian and emerging markets. Meanwhile, US Treasuries gave up 1.4% while global bonds declined 0.7%.

Equity markets

Despite US inflation remaining higher than expected, with five of the Magnificent Seven reporting earnings, and exceptional share-price gains for the likes of Meta and Nvidia, major US equity indices continued to register new all-time highs. US equities gained 5.4% in a month when 75% of US companies to report earnings, beat analysts' expectations. Consumer discretionary and industrial stocks led the market while defensive sectors trailed.

Europe's equity markets trailed developed markets but still returned 2%. Along the way, European market indices passed new record highs, surpassing those set more than two years ago. The renewed excitement toward AI stocks helped to lift Europe's technology stocks late in the period. Consumer discretionary and industrial stocks also outperformed while more interest-rate sensitive areas, such as real estate and utilities, trailed.

UK equities eked out a 0.3% gain in the face of a technical recession after UK GDP shrank 0.3% in the last quarter of 2023 (to deliver two consecutive quarters of decline). Meanwhile, UK inflation remaining steady at 4%, and strong wage growth, deterred hopes of interest-rate cuts while analysts cut their UK profit forecasts. Industrial, financial and consumer discretionary stocks made modest gains while consumer staples, real estate and materials stocks declined.

Chinese equities bounced back from five-year lows to deliver 8.4%, thanks to Chinese New Year spending, cuts to mortgage rates, curbs on short selling and major stock purchases by state-owned entities. This boosted emerging markets, which gained 4.8%. Korea, Taiwan, and Saudia Arabia were among the top performers as were Peru, Chile, and Poland. India, Brazil, South Africa, Greece, and Turkey all underperformed the broader emerging market index.

Fixed income

Although annual US consumer price inflation (CPI) dropped to 3.1% in January, from 3.4% a month before, the smaller than expected decline piled more pressure on government bonds as investors re-appraised the outlook for interest-rate cuts. US Treasuries fell 1.4% in the face of persistent US inflation, while broader global bond markets eased down 0.7%. Meanwhile, global high-yield bonds gained a modest 0.9%.

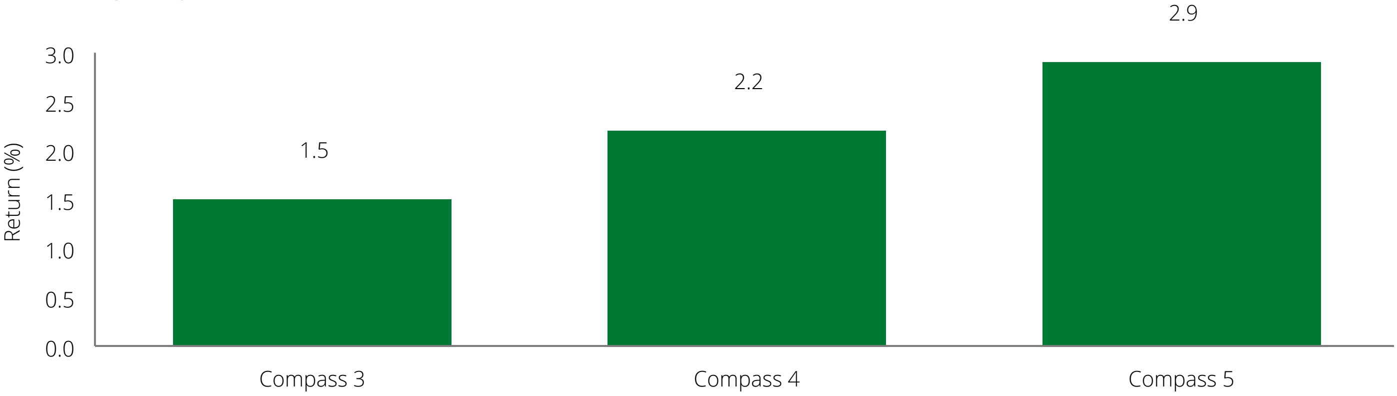
Source: Quilter Investors as at 29 February 2024. Total return, percentage growth in US dollars except where shown, rounded to one decimal place. The performance shown for global equities is represented by the MSCI AC World Index; developed market equities by the MSCI World Index; US equities by the MSCI USA Index; European equities by the MSCI Europe ex UK Index; UK equities by the MSCI United Kingdom All Cap Index; UK smaller companies by the MSCI United Kingdom Small Cap Index; emerging markets by the MSCI Emerging Markets Index; US Treasuries by the ICE BofA US Treasury Index; global bonds by the Bloomberg Global Aggregate (US dollar hedged) Index; and global high-yield bonds by the Bloomberg Global High Yield (US dollar hedged) Index.

Performance review

Sacha Chorley
Portfolio Manager

The Compass Portfolios delivered gains ranging from 1.5% for the Compass 3 Portfolio, to 2.9% for the Compass 5 Portfolio, thanks to robust equity market returns. Although our large-cap growth holdings prospered, more value-oriented positions, such as the Redwheel Global Equity Income Fund, trailed the broader market. Our fixed-income holdings lost ground as bond markets declined, but our alternatives holdings performed well, with the AQR Managed Futures Fund delivering a 7% return.

Monthly performance (%)



Performance summary (%)

	Cumulative performance						*Discrete annual performaznce to end of February*				
	1 month	*YTD*	*1 year*	*3 year*	*5 year*	*Since launch*	*2023 - 2024*	*2022 - 2023*	*2021 - 2022*	*2020 - 2021*	*2019 - 2020*
Compass 3	**1.5**	**1.6**	**9.0**	**0.5**	**17.9**	**28.8**	**9.0**	**-6.5**	**-1.4**	**15.1**	**1.9**
Compass 4	**2.2**	**2.3**	**12.2**	**4.0**	**28.5**	**47.8**	**12.2**	**-7.1**	**-0.1**	**20.8**	**2.2**
Compass 5	**2.9**	**3.5**	**16.5**	**5.9**	**36.8**	**65.3**	**16.5**	**-9.5**	**0.5**	**27.4**	**1.3**

Source: Quilter Investors as at 29 February 2024. Total return, percentage growth, net of fees, rounded to one decimal place of the A (USD) accumulation shares in US dollars. The Old Mutual Compass Portfolios were launched on 19 April 2016 as a sub-fund of Merian Global Investors Series PLC and were merged on 1 March 2024 into the Quilter Investors Compass Portfolios. The performance history shown includes the performance of the of the Old Mutual Compass Portfolios from 19 April 2016 to 1 March 2024 until the portfolios merged.

Portfolio activity

Activity in the portfolios was relatively muted over the month, although we reduced our high-yield bond positions by half. With the additional yield offered by high-yield bonds over government bonds at the low end of its historical range, we see only modest upside potential in the event of a strong economic backdrop, but more significant downside risk if the US economy deteriorates.

Investment outlook

We expect the global economy to experience a soft landing. Inflation has been trending lower across the world for the past year and, while labour markets are weakening, unemployment is still surprisingly low. Inflation has fallen faster than wage growth, which is improving real incomes and restoring household purchasing power. This is insulating economies from more material slowdowns in growth. The backdrop of slowing inflation, still positive growth (in the US at least), and the potential for interest-rate cuts, should be good for most financial assets, but much of this good news already appears to be priced-in to markets.

1. Inflation sticking around for now

A strong US employment report in early February, coupled with hotter than expected inflation in both the US and eurozone, has raised doubts over further progress in lowering inflation. There are several likely statistical quirks in the data, but expectations of imminent interest-rate cuts have been dialled back, and bond markets have retreated. Even so, equity markets continue to set new highs amid solid numbers from the latest US corporate earnings season.

2. Interest-rate cuts delayed

Although we think the path of least resistance is for equity indices to continue hitting new highs, with sentiment looking stretched, this raises the risk of a short-term market pullback. We expect to see further progress on the inflation front in the coming months, which should pave the way for central bank rate cuts. Even so, the pace of interest-rate cuts baked into bond prices looks fair to us, which doesn't present a clear buying opportunity for now.

3. What if we are wrong?

The biggest risk to our soft-landing view is that it develops into a hard landing. This would hurt equity markets, but provided we avoid stagflation, where ailing growth is accompanied by elevated inflation, bonds should perform well. Although recent economic numbers might have suggested a re-acceleration of growth and inflation, we think this is unlikely (without a clear policy misstep) due to the delayed economic effects of the interest-rate rises to date.

Thank you for investing with us

Keep an eye out for your next Compass Portfolios quarterly report available 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 3600, email us at ***enquiries@quilter.com***, or visit our website at ***www.quilter.com***.

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The ICAV has appointed KBA Consulting Management Limited as manager of the ICAV (the "Manager"). The Manager was incorporated on 4 December 2006 as a limited liability company in Ireland under number 430897. The Manager's main business is the provision of fund management services to collective investment schemes such as the ICAV.

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Your attention is drawn to the stated investment policies which are set out in the Funds' prospectus.

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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)(i)(B) 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; Or

(5) As specified in Regulation 36 of the Securities and Futures (Offers of Investments) (Collective Investment Schemes) Regulations 2005 of Singapore.

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