



## Creation 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 5%. China was the top-performing regional equity market. Its return of 9.1% boosted Asian and emerging markets. Meanwhile, US Treasuries gave up 1.3% in the face of persistent US inflation while UK gilts declined 1.2%.

### 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 6.1% 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 2.7%. 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 0.4% 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 9.1%, 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 5.5%. Korea, Taiwan, and Saudi 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% while UK gilts retreated 1.2% in the face of robust UK wage growth, which likewise impacted the likelihood of interest-rate cuts. Meanwhile, sterling-denominated corporate bonds declined 0.6%.

Source: Quilter Investors as at 29 February 2024. 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 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 (GBP Hedged) Index; UK government bonds by the ICE BofA UK Gilt Index; and sterling-denominated corporate bonds by the ICE BofA Sterling Corporate Index.



## Performance review

All Creation Portfolios outperformed their respective Investment Association (IA) performance comparators with modest gains rising in line with risk levels. The Creation Conservative Portfolio gained 0.3% while the Creation Adventurous Portfolio rose 2.4%. US, European and global equity exposures made the most ground, especially growth-focused holdings, while UK smaller company funds and government bonds declined. Meanwhile, our alternatives holdings delivered small aggregate gains.



**Ian Jensen-Humphreys**  
Portfolio Manager

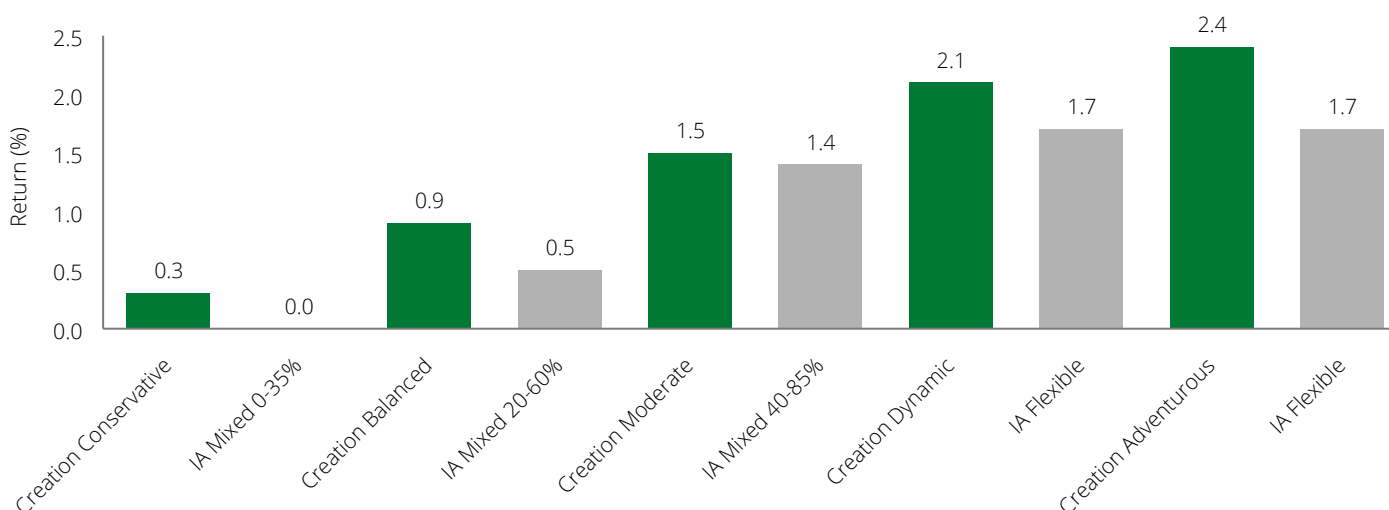


**Sacha Chorley**  
Portfolio Manager



**CJ Cowan**  
Portfolio Manager

## Monthly performance (%)



## Performance summary (%)

	Cumulative performance						Discrete annual performance 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
<b>Creation Conservative</b>	<b>0.3</b>	<b>-0.1</b>	<b>3.7</b>	<b>-1.3</b>	<b>5.0</b>	<b>17.0</b>	<b>3.7</b>	<b>-3.8</b>	<b>-1.0</b>	<b>2.4</b>	<b>3.9</b>
IA Mixed 0-35%	0.0	-0.5	4.1	-1.4	7.4	25.8	4.1	-5.6	0.4	3.5	5.2
<b>Creation Balanced</b>	<b>0.9</b>	<b>0.8</b>	<b>4.7</b>	<b>4.6</b>	<b>16.2</b>	<b>33.2</b>	<b>4.7</b>	<b>-0.4</b>	<b>0.2</b>	<b>6.2</b>	<b>4.7</b>
IA Mixed 20-60%	0.5	0.1	4.7	3.1	14.9	41.5	4.7	-3.0	1.6	6.6	4.6
<b>Creation Moderate</b>	<b>1.5</b>	<b>1.5</b>	<b>6.1</b>	<b>9.6</b>	<b>26.8</b>	<b>49.1</b>	<b>6.1</b>	<b>2.0</b>	<b>1.2</b>	<b>10.2</b>	<b>5.0</b>
IA Mixed 40-85%	1.4	1.3	6.3	9.5	27.7	68.0	6.3	-1.1	4.2	10.9	5.2
<b>Creation Dynamic</b>	<b>2.1</b>	<b>2.2</b>	<b>7.2</b>	<b>14.9</b>	<b>38.0</b>	<b>63.1</b>	<b>7.2</b>	<b>4.2</b>	<b>2.8</b>	<b>13.4</b>	<b>5.9</b>
IA Flexible	1.7	1.7	6.2	9.8	30.2	70.4	6.2	-0.2	3.7	13.4	4.6
<b>Creation Adventurous</b>	<b>2.4</b>	<b>2.6</b>	<b>7.8</b>	<b>17.4</b>	<b>41.5</b>	<b>42.2</b>	<b>7.8</b>	<b>5.2</b>	<b>3.5</b>	<b>14.3</b>	<b>5.5</b>
IA Flexible	1.7	1.7	6.2	9.8	30.2	33.9	6.2	-0.2	3.7	13.4	4.6

Source: Quilter Investors as at 29 February 2024. Total return, percentage growth, rounded to one decimal place. All performance figures are shown after the deduction of the charges of the underlying funds, but before the deduction of the Managed Portfolio Service charge. The deduction of this charge will impact on the performance shown. The WealthSelect Sustainable Active Portfolios launched on 8 March 2022.

## Portfolio activity

We reviewed our overweight to high-yield bonds and decided to halve our target weight. With the additional yield offered by high-yield bonds over government bonds at the low end of its historical range, we saw only modest upside potential in the event of a strong economic backdrop, but more significant downside risk if the US economy deteriorates. Consequently, we prefer to take equity-market risk instead and are gradually steering the portfolios in this direction. Elsewhere, we continued to build positions in the Schroder Alternative Secured Income Fund, as it should generate a strong and stable income in a range of different market environments.

## 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 Creation Portfolios quarterly report available 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 3600, 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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