WealthSelect Responsible Blend 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, bond prices fell with US Treasuries and UK gilts among the worst casualties.

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 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 more than 1% while UK gilts retreated due to robust wage growth, which likewise impacted the likelihood of interest-rate cuts. Although corporate bonds fared better, they still declined slightly.

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.

Performance review

February saw equity markets continuing to push higher, buoyed by a robust fourth quarter earnings season and stronger than expected economic data, particularly in the US and Europe. Emerging markets fared better than of late, thanks to a strong bounce in Chinese equities. Government bonds weakened as markets continued to reassess the timing of interest-rate cuts in 2024, while corporate bonds fared slightly better, but still declined. Our allocation to alternatives helped offset the weakness in fixed-income markets, with most of our holdings here delivering modest gains.

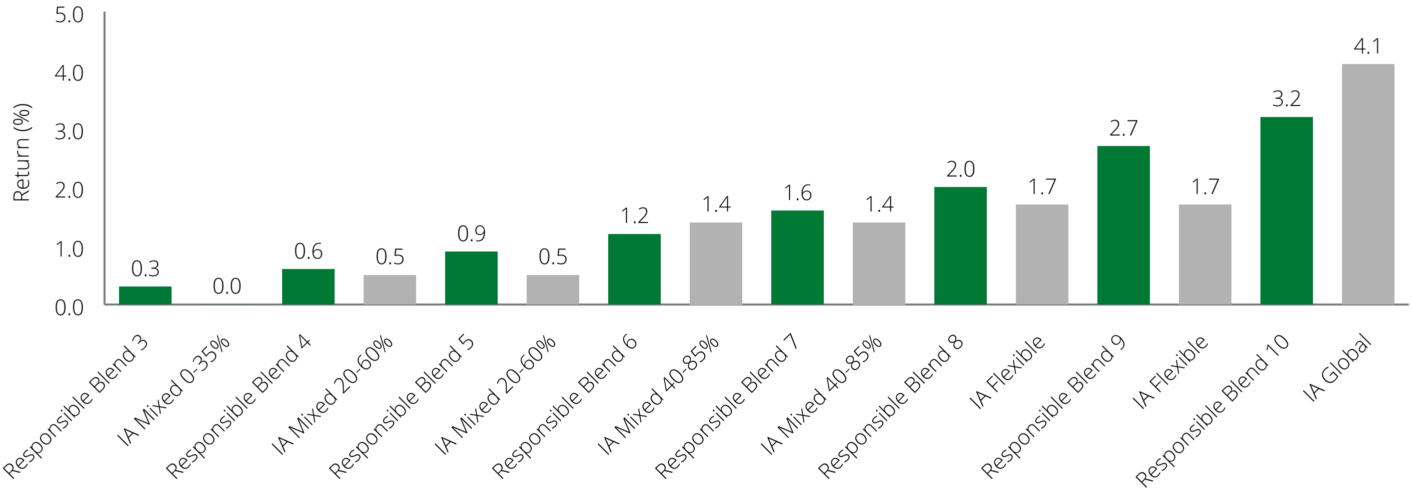
Against this backdrop, the WealthSelect Responsible Blend Portfolios all delivered positive returns, ranging from 0.3% at risk-level 3, to 3.2% at risk-level 10.

Stuart Clark
Portfolio Manager

Helen Bradshaw
Portfolio Manager

Bethan Dixon
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*
Responsible Blend 3	**0.3**	**0.0**	**4.7**	**-**	**-**	**3.3**	**4.7**	**-**	**-**	**-**	**-**
IA Mixed 0-35% Shares	0.0	-0.5	4.1	-	-	-1.1	4.1	-	-	-	-
Responsible Blend 4	**0.6**	**0.4**	**5.2**	**-**	**-**	**5.5**	**5.2**	**-**	**-**	**-**	**-**
IA Mixed 20-60% Shares	0.5	0.1	4.7	-	-	3.2	4.7	-	-	-	-
Responsible Blend 5	**0.9**	**0.8**	**5.7**	**-**	**-**	**7.6**	**5.7**	**-**	**-**	**-**	**-**
IA Mixed 20-60% Shares	0.5	0.1	4.7	-	-	3.2	4.7	-	-	-	-
Responsible Blend 6	**1.2**	**1.2**	**6.1**	**-**	**-**	**9.8**	**6.1**	**-**	**-**	**-**	**-**
IA Mixed 40-85% Shares	1.4	1.3	6.3	-	-	7.6	6.3	-	-	-	-
Responsible Blend 7	**1.6**	**1.7**	**6.9**	**-**	**-**	**12.5**	**6.9**	**-**	**-**	**-**	**-**
IA Mixed 40-85% Shares	1.4	1.3	6.3	-	-	7.6	6.3	-	-	-	-
Responsible Blend 8	**2.0**	**2.3**	**7.6**	**-**	**-**	**15.1**	**7.6**	**-**	**-**	**-**	**-**
IA Flexible	1.7	1.7	6.2	-	-	8.7	6.2	-	-	-	-
Responsible Blend 9	**2.7**	**3.2**	**9.5**	**-**	**-**	**17.8**	**9.5**	**-**	**-**	**-**	**-**
IA Flexible	1.7	1.7	6.2	-	-	8.7	6.2	-	-	-	-
Responsible Blend 10	**3.2**	**3.8**	**11.2**	**-**	**-**	**19.9**	**11.2**	**-**	**-**	**-**	**-**
IA Global	4.1	4.5	12.9	-	-	18.6	12.9	-	-	-	-

Source: Quilter Investors as at 29 February 2024. Total return, percentage growth, rounded to one decimal place over period 31 January 2024 to 29 February 2024. 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.

Investment outlook

Continued strength in the US economy and another robust US corporate earnings season has pushed US equity markets to record new highs. Meanwhile, the Japanese equity market broke through the record high it set in 1989, and there were some preliminary signs of improvement in Europe. However, we see a more balanced outlook between the prospect for a soft landing, the prospect for a recession and the prospect for a further acceleration in economic activity. This puts us at odds with equity markets, which are currently pricing-in a much higher probability of a soft landing than we are.

1. Real gains for consumers

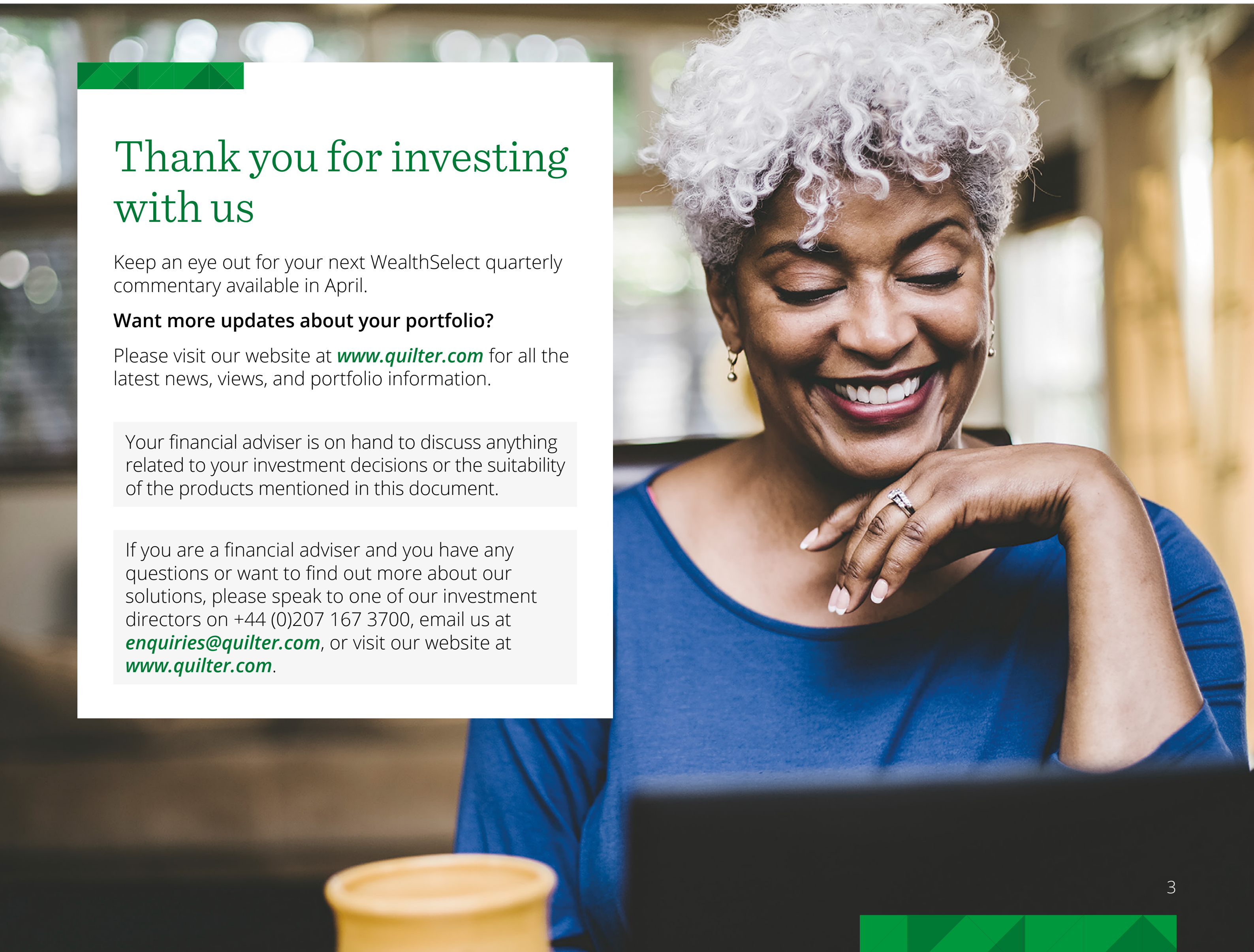
Much headway has been made in the fight against inflation over the past year in the US, Europe, and UK. This is leading to positive real (meaning post-inflation) wage growth for the first time in several years. Alongside strong labour markets, this has bolstered hard-hit consumers at a time when the excess savings built up during lockdown are being drained by high interest rates and the ongoing cost-of-living crisis.

2. Last mile is the toughest

It's too soon to celebrate a victory against inflation. The last mile, namely bringing inflation back to central bank target levels, tends to be a bumpy and protracted one. The tailwind from the unwinding of supply-chain shocks is fading, shifting the focus to labour markets and how they will impact the course of inflation from here. Ongoing tensions in the Middle East and the Red Sea also present rising geopolitical risks.

3. Central banks still walking the line

Life isn't getting any easier for central banks. Prematurely easing interest rates could stoke inflation, forcing them to raise rates again. Equally, much has been written about the trailing impact of interest-rate rises, while delaying interest-rate cuts for too long could see economic data deteriorate. Consequently, we retain a cautious stance while gently pivoting our exposure towards assets that represent better value.



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