



Cirilium Blend Portfolios

Monthly commentary review of January 2023



Our market summary

Markets were upbeat in January due to improving inflation data in the US and expectations that the US Federal Reserve (Fed) may shift towards lowering interest rates later in 2023. Positive sentiment surrounding China's re-opening, following the end of its zero-covid policy, helped lead emerging market equities higher, while sectors within Europe and the UK also benefitted. Interest-rate rises from central banks remain on the cards, but at a much slower rate than witnessed throughout 2022.

Marcus Brookes
Chief Investment Officer

Equity markets



January was a positive month for US stock markets with US equities rising by 4.1%. Improving investor sentiment continued from the last quarter of 2022, particularly regarding inflation, which continued to fall. This, paired with expectations of less aggressive interest-rate rises from the Fed, buoyed investor confidence, with growth sectors, such as technology, performing strongly during the month.



European stock markets continued their strong run with European (excluding UK) equities up by 6.9%. Europe was one of the top regional markets thanks to China's re-opening. Its luxury goods and consumer discretionary sectors (non-essential products and services that consumers tend to purchase when consumer confidence is positive) both added value. Meanwhile, inflation continued to fall, although further interest-rate rises are still expected.



The UK followed other regional stock markets higher, albeit to a lesser degree, with UK equities gaining 4.5% over the month. Better-than-expected economic data helped allay fears of a deeper recession, although growth remains muted relative to other developed economies. Domestically-focused companies were strong performers throughout January, while defensive sectors such as healthcare lagged the market.



China remained the big story for emerging markets, which continued to react positively to the former's re-opening. In January, Chinese equities rose by 9.2%, while emerging market equities gained 5.4%. Outside of China, the Czech Republic, Mexico, South Korea and Taiwan were among the top contributors to performance. Meanwhile, Brazil continued to drag on performance, due to political unrest and rising inflation.

Fixed income



Global bonds enjoyed a largely positive month in January due to improving inflation data coming out of the US and Europe, alongside expectations of less aggressive interest-rate rises from central banks. UK corporate bonds (issued by companies) rose by 4.1% and gilts (UK government bonds) climbed 2.8% during the month. Meanwhile, US Treasuries (US government bonds) gained 2.4%.





**Sacha
Chorley**
Portfolio Manager



**Ian Jensen-
Humphreys**
Portfolio Manager

Performance review

The Cirilium Blend Portfolios delivered positive returns over the month. The higher-risk portfolios fared best thanks to their greater exposure to equities, with returns ranging from 2.1% for the Cirilium Conservative Blend Portfolio to 4.8% for the Cirilium Adventurous Blend Portfolio.

Performance summary (%)

	Cumulative performance					Discrete annual performance		
	1 month	YTD	1 year	3 year	Since launch	31 Jan 22 - 31 Jan 23	31 Jan 21 - 31 Jan 22	31 Jan 20 - 31 Jan 21
Cirilium Conservative Blend	2.1	2.1	-3.2	0.7	3.0	-3.2	-1.1	5.2
IA Mixed 0-35% Shares	2.6	2.6	-5.4	-2.4	-0.5	-5.4	0.3	2.8
Cirilium Balanced Blend	2.8	2.8	0.0	7.0	9.8	0.0	2.1	4.8
IA Mixed 20-60% Shares	3.0	3.0	-3.9	2.4	4.6	-3.9	3.3	3.1
Cirilium Moderate Blend	3.6	3.6	2.3	13.4	16.3	2.3	4.7	5.9
IA Mixed 40-85% Shares	3.4	3.4	-2.5	9.3	11.6	-2.5	6.2	5.5
Cirilium Dynamic Blend	4.3	4.3	3.1	17.1	19.6	3.1	6.8	6.3
IA Flexible	3.5	3.5	-1.3	12.6	14.8	-1.3	6.2	7.4
Cirilium Adventurous Blend	4.8	4.8	3.0	17.6	19.9	3.0	7.3	6.4
IA Flexible	3.5	3.5	-1.3	12.6	14.8	-1.3	6.2	7.4

Source: Quilter Investors as at 31 January 2023. Total return, percentage growth, net of fees of the U1 Acc share class rounded to one decimal place. The Cirilium Blend Portfolios launched on 26 July 2019.



How our equity holdings performed

China re-opening drives returns

In a continuation of the theme that's dominated index returns since early November, China's economic re-opening underpinned robust returns from both our emerging market and European equity allocations. The biggest beneficiaries in the Blend Portfolios included the Fidelity China Consumer Fund, which gained 8.6%, and the Fidelity Asia Pacific Opportunities Fund, which added 7.7%.

Earnings and growth in focus

Growth strategies significantly outperformed value in January as hopes of easing interest rates helped to restore valuations while investors were also cheered by better-than-expected earnings from companies like Meta. Hence, while the iShares MSCI US Value Factor ETF delivered 4.5% in January, more growth-oriented exposures such as the Granahan US SMID (small and mid-cap) Fund jumped 12.3%.

Resurgence for UK domestic stocks

The rise in investor risk appetite helped smaller companies to outperform larger ones in January. This was especially notable in the UK where domestically-focused mid-cap (medium-sized) companies were the strongest performers. This helped drive the Premier Miton UK Value Opportunities Fund to deliver a 7% gain. Meanwhile, larger company funds trailed with the Liontrust UK Growth Fund delivering a more modest 1.2% return.



'Growth' stocks derive their value from the rate at which they're expected to grow their future earnings. 'Value' stocks have low share prices relative to their intrinsic value and tend to pay more generous dividends than growth stocks.



How our fixed-income holdings performed

Credit drives fixed-income returns

In aggregate, the fixed-income portfolios delivered positive contributions in January. Although prices improved for government bonds, our underweight position here meant some returns were foregone. However, all of our corporate bond holdings performed well. This played nicely into our overall positioning where we have an overweight to high-yield bonds.

During the month, the Premier Miton Financial Capital Securities and the Hermes Unconstrained Credit funds both delivered returns in excess of 3%, easily outstripping government bond markets.



Credit is a generic term that refers to corporate bonds (issued by companies). Because they're more risky than government bonds, they generally offer higher interest rates (or yields) to compensate for the additional risk.



How our alternative holdings performed

Fixed-income strategies shine through

Performance from the alternatives portfolio was relatively muted over the month. Our long/short equity managers delivered lacklustre returns with the Cooper Creek North America Long Short Fund declining -0.2% after a strong run. Meanwhile, the Sandbar Global Equity Market Neutral Fund managed to add just 0.2%.

Our fixed-income holdings fared better. For example, the Brevan Howard Absolute Return Government Bond Fund gained 0.7% while the Allianz Fixed Income Macro Fund was up 1%. The top performer was the UBS Commodity Carry ETF, which generated over 2% thanks to its favourable positioning within commodity markets.



A long/short equity fund is a strategy based on buying, or going 'long', on assets that are expected to rise in value and selling 'short' assets that are expected to fall in value. 'Market neutral' funds are not closely correlated to the movements of a given index benchmark and aim to generate consistent returns regardless of market direction.

Portfolio activity

We remain underweight to government bonds relative to our strategic asset allocation model (the strategic asset allocation is our long-term model asset allocation. It establishes how much of each portfolio should be invested in different asset classes such as equities, bonds, property, alternatives and cash). Although we reviewed this in January, our findings re-affirmed our conviction in this position. Elsewhere, we made a change to our alternatives positioning by reducing our exposure to the Sandbar Market Neutral Fund within the 'alpha' segment of the portfolio. After reviewing the fund following a period of patchy performance, we concluded our existing position introduced too much risk into the portfolios and we decided to trim the holding. The proceeds were re-allocated elsewhere within the existing 'alpha' segment of the alternatives portfolio.



'Alpha' relates to a fund manager's, or an investment strategy's, ability to beat the market. It is often described as the additional return generated above and beyond that generated by a relevant market index or benchmark.



Investment outlook

We ended 2022 with a view of cautious optimism. So far, we remain of that mind but are keenly awaiting some crucial datapoints to help us assess whether this position remains warranted. The likely paths of the labour market and inflation are key to understanding where we go from here.

As investors we also want to ensure company earnings growth continues to be delivered while interrogating the commentary from company management at such junctures can also be very helpful in gaining insight into the conditions on the ground in numerous industries.

1. Labour market remains robust

The labour market in the US remains remarkably robust with healthy wage growth supporting consumption. It's a similar picture in most major economies. However, too strong a labour market means that central banks will need to continue to raise interest rates, potentially more than the market is currently forecasting.

2. Inflation is falling, but how far will it go?

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 levels last seen prior to the Ukraine invasion. But 'stickier' (meaning more resilient) components of inflation such as housing and services costs are continuing to rise. This leads us to believe there's more 'upside risk' to interest rates from here ie interest rates may need to rise further than is currently forecast.

3. Are companies growing?

We closely monitor company earnings news and, so far, both company revenues and earnings have continued to surprise positively. Even so, earning levels have softened in aggregate versus previous quarters. Once the fourth quarter earnings season is complete we will come to some conclusions as to what's driving this and what impact it's likely to have on future returns.

Thank you for investing with us

Keep an eye out for your next Cirilium Blend Portfolios monthly commentary in March.

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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, or visit our website at www.quilter.com.



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