



Creation Portfolios

Monthly commentary review of January 2023



Marcus Brookes
Chief Investment Officer

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.

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%.





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Performance review

The Creation Portfolios delivered positive returns over the month. The higher-risk portfolios fared best thanks to their greater exposure to equities, with returns ranging from 1.8% for the Creation Conservative Portfolio to 4.3% for the Creation Adventurous Portfolio. At a global level, January saw a bounce back for growth stocks and growth-oriented strategies – whether due to stronger than expected earnings numbers or the boost provided by China’s economic re-opening.

Government bond prices also rose although improving investor risk appetite saw corporate bonds (issued by companies) outperform, which was especially beneficial for the performance of the Creation Portfolios in January.

Performance summary (%)

	Cumulative performance						Discrete annual performance				
	1 month	YTD	1 year	3 year	5 year	Since launch	31 Jan 22 - 31 Jan 23	31 Jan 21 - 31 Jan 22	31 Jan 20 - 31 Jan 21	31 Jan 19 - 31 Jan 20	31 Jan 18 - 31 Jan 19
Creation Conservative	1.7	1.7	-4.4	-4.2	-1.4	19.3	-4.4	-0.3	0.6	6.8	-3.7
IA Mixed 0-35% Shares	2.6	2.6	-5.4	-2.4	3.6	28.6	-5.4	0.3	2.8	7.6	-1.3
Creation Balanced	2.5	2.5	-1.7	2.6	6.7	32.2	-1.7	1.8	2.6	9.0	-4.6
IA Mixed 20-60% Shares	3.0	3.0	-3.9	2.4	9.0	44.7	-3.9	3.3	3.1	9.2	-2.5
Creation Moderate	3.1	3.1	-0.1	8.3	13.5	46.8	-0.1	3.7	4.5	10.9	-5.5
IA Mixed 40-85% Shares	3.4	3.4	-2.5	9.3	18.7	73.0	-2.5	6.2	5.5	11.9	-3.0
Creation Dynamic	3.9	3.9	1.6	13.8	20.8	60.9	1.6	6.1	5.6	13.5	-6.5
IA Flexible	3.5	3.5	-1.3	12.6	20.4	76.3	-1.3	6.2	7.4	11.3	-3.9
Creation Adventurous	4.3	4.3	2.4	15.7	22.6	30.6	2.4	7.1	5.4	14.3	-7.3
IA Flexible	3.5	3.5	-1.3	12.6	20.4	26.8	-1.3	6.2	7.4	11.3	-3.9

Source: Quilter Investors as at 31 January 2023. Total return, percentage growth, net of fees of the R Acc share class rounded to one decimal place. The Creation Conservative Portfolio launched on 25 February 2013; the Creation Balanced Portfolio launched on 19 February 2013; the Creation Moderate Portfolio launched on 15 February 2013; the Creation Dynamic Portfolio launched on 18 February 2013; and the Creation Adventurous Portfolio launched on 3 July 2017.





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 Creation Portfolios included the Fidelity Asia Pacific Opportunities Fund, which gained 7.7%, and the Quilter Investors Global Emerging Markets Growth Fund (run by JP Morgan), which added 6%.

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 BNY US Equity Income Fund delivered a modest 0.5% return, more growth-oriented exposures like the Quilter Investors US Equity Growth Fund, managed by JP Morgan, gained 4.2%.

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. Stocks like the retailer JD Sports and the airline Jet2Plc helped to drive the Quilter Investors UK Mid Cap Growth Fund, run by Jupiter, 8% higher while large company funds like the Liontrust UK Growth trailed with a 1.2% gain.



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, both the Premier Miton Financial Capital Securities Fund and the Quilter Investors Dynamic Bond Fund (run by TwentyFour Capital) 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

Infrastructure shines through

The performance of our alternatives holdings was mixed over the month. Our long/short equity funds, such as the JP Morgan Opportunistic Long Short Fund, struggled in spite of the more constructive market backdrop; it declined 2.8%. Our fixed-income holdings fared better with the Ardea Global Alpha Fund down just 0.3%.

It was our inflation-linked 'real asset' holdings that fared the best. Trusts such as HICL Infrastructure and International Public Partnerships were the standouts, generating 1% and 0.7% respectively.



'Real assets' are physical assets with intrinsic worth. They include things like real estate and infrastructure assets, land, natural resources, commodities and precious metals. They tend to be more stable, but less liquid, than financial assets such as stocks and bonds.

All returns in pounds sterling except where shown. Rounded to one decimal place.

Portfolio activity

We remain underweight to government bonds relative to our strategic asset allocation (SAA) model. 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 removing the Sandbar Market Neutral Fund from the Creation Conservative Portfolio. The strategy is one which is not offered by a Global Partner but after reviewing the fund following a period of patchy performance, we lost conviction in this 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. A segment of the alternatives allocation in the Creation Portfolios is dedicated to 'alpha' strategies where we can see that idiosyncratic ideas drive returns and deliver a low correlation to broader markets.

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 Creation 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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