

Creation Portfolios

Monthly commentary – Review of January 2024



Marcus Brookes
Chief Investment Officer

Our market summary

The recent pace of equity market gains slowed in January as markets took stock after a very strong fourth quarter of 2023. Global equities delivered a modest 0.7% return, with **developed markets** outperforming **emerging markets**. Despite a major earthquake, Japan was the top-performing regional equity market. It jumped 4.7% amid strong investment inflows. Meanwhile, China's ongoing market rout helped pull emerging market equities down 4.5% with similar losses across Asian markets. Global bond markets gave up ground following a spectacular end to 2023, with **UK gilts** among the biggest casualties of the month.

Equity markets



The **US Federal Reserve** (Fed) kept interest rates on hold when it met at the end of a month spent attempting to cool expectations of imminent interest-rate cuts. Although US equities gained a modest 1.7%, this was sufficient for major indices to hit all-time highs following a nine-week winning spree that started in late October. The **Magnificent Seven mega-cap** tech stocks notably outperformed once more in January, accounting for the lion's share of US index gains.



Hopes of an early interest-rate cut from the European Central Bank (ECB) dissipated when European inflation jumped to 2.9% in December (from 2.4% in November) with the ECB keeping interest rates unchanged at its January meeting. Meanwhile, Europe's equities squeezed out a 0.4% return against a backdrop of contraction in its manufacturing sector. Tech and communication stocks led the field, while sectors such as utilities and real estate retreated.



The UK was the worst performing developed market in January. It declined 1.3%. A small uptick in UK inflation to 4% in December helped to cool the UK equity market, as did the Bank of England's messaging to dispel expectations of early interest-rate cuts. Tech, consumer, and healthcare stocks generally outperformed energy, materials, and financials. UK **large cap** stocks outperformed, despite a flurry of overseas bids for UK smaller companies.



China was unable to stem the losses arising from the collapse of its property sector and ongoing deflation. Global investors continued to sell-off Chinese equities with the local market down 10.5%. This dragged on **emerging market** equities which fell 4.5%. Elsewhere, Chile was the worst performer due to problems in the mining sector and a weak Chilean peso. The likes of Poland, Peru, Mexico, and Taiwan all outperformed the index, but still delivered losses.

Fixed income



Global bond markets gave back a little of the gains they delivered at the end of 2023, as investors re-calibrated the timing, but not the likely magnitude, of expected interest-rate cuts from central banks. Although **US Treasuries** held up relatively well with a modest decline of 0.2%, **UK gilts** lost 2.4% reflecting the less attractive economic backdrop in the UK, while UK **corporate bonds** also fell 1.1%.

Source: Quilter Investors as at 31 January 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 UK corporate bonds by the ICE BofA Sterling Corporate Index.



Performance review

Returns from the Creation Portfolios ranged from a modest loss of 0.4% for the Creation Conservative Portfolio to a small gain of 0.2% for the Creation Adventurous Portfolio. Within the equity market, larger companies outperformed smaller companies, while **high-growth companies** fared better than cheaper **value** companies. Japan was the best-performing region followed by the US, while **emerging markets**, particularly China, struggled.



Ian Jensen-Humphreys
Portfolio Manager

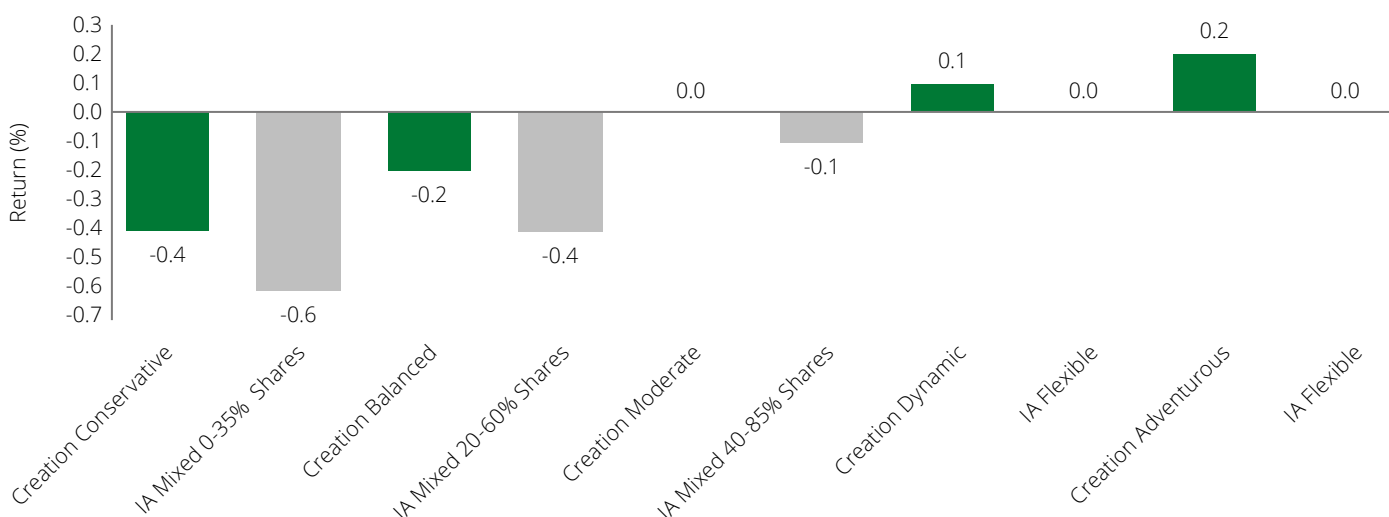


Sacha Chorley
Portfolio Manager



CJ Cowan
Portfolio Manager

Monthly performance (%)



Performance summary (%)

	Cumulative performance						Discrete annual performance to end of January				
	1 month	YTD	1 year	3 year	5 year	Since launch	2023 -2024	2022 -2023	2021 -2022	2020 -2021	2019 -2020
Creation Conservative	-0.4	-0.4	2.6	-1.9	5.5	16.6	2.6	-4.3	-0.2	0.7	6.9
IA Mixed 0-35% Shares	-0.6	-0.6	2.8	-2.5	7.9	25.7	2.8	-5.4	0.3	2.8	7.6
Creation Balanced	-0.2	-0.2	3.7	4.0	16.5	32.0	3.7	-1.5	1.9	2.7	9.1
IA Mixed 20-60% Shares	-0.4	-0.4	3.3	2.6	15.5	40.8	3.3	-3.9	3.3	3.1	9.2
Creation Moderate	0.0	0.0	5.0	9.1	26.7	46.9	5.0	0.1	3.9	4.6	11.0
IA Mixed 40-85% Shares	-0.1	-0.1	4.4	8.2	27.7	65.7	4.4	-2.5	6.2	5.5	11.9
Creation Dynamic	0.1	0.1	5.9	14.5	37.5	59.8	5.9	1.8	6.2	5.8	13.6
IA Flexible	0.0	0.0	3.7	8.7	29.9	67.6	3.7	-1.3	6.2	7.4	11.3
Creation Adventurous	0.2	0.2	6.4	16.7	40.7	38.9	6.4	2.4	7.1	5.4	14.3
IA Flexible	0.0	0.0	3.7	8.7	29.9	31.6	3.7	-1.3	6.2	7.4	11.3

Source: Quilter Investors as at 31 January 2024. Total return, percentage growth, net of fees, rounded to one decimal place of the U1 (GBP) accumulation shares. The Creation Conservative Portfolio launched on 6 June 2014, the Creation Balanced Portfolio launched on 28 April 2014, the Creation Moderate Portfolio launched on 16 May 2014, the Creation Dynamic Portfolio launched on 5 June 2014, and the Creation Adventurous Portfolio launched on 3 July 2017.

Portfolio activity

There were no changes to asset allocation in January. We commenced building a position in the Schroders Alternative Secured Income Fund, chosen for its ability to generate strong, stable income in all types of interest-rate environments. This holding was added to all Creation risk profiles, with the exception of the Creation Adventurous Portfolio, and was funded from cash, with no positions being sold. Elsewhere, we introduced a new holding in the Schroder GAIA Asian Equity **Long/Short Hedge Fund** to the alternatives portfolios.

Investment outlook

We believe the global economy is still on course to experience a **soft landing** as inflation trends back down towards more manageable levels, for both central bankers and consumers, and employment levels and wage growth remain, if anything, more robust than anticipated. The ongoing divergence between a US economy that's motoring ahead, while Europe and, most notably, China, sputter due to underwhelming growth, is broadly priced into equity markets. This makes US equities look expensive in comparison to cheap, but unpopular, European, and Chinese shares.

1. What if we're too optimistic?

If the current benign outlook declines as the delayed effects of last year's interest-rate rises begin to bite, for both consumers and companies, this would result in lower corporate earnings. This could ultimately lead to fast, and deep, central bank rate cuts to stave off recessions. This would be good for **government bonds** but challenging for equities and other risky assets.

2. What if we're not optimistic enough?

Earnings announcements showed signs of earnings growth in January. This, along with continued wage growth, supports another year of reasonable economic growth. If this scenario results in central banks keeping interest rates higher than expected, for longer than expected, it will undermine **government bonds**, but equities should still push further ahead supported by their strong earnings.

3. Higher inflation would be the greatest surprise

Currently, the most troubling scenario for the portfolios would be a surprise escalation in inflation, perhaps due to supply-chain disruptions, higher energy prices, or heightened demand from consumers enjoying real (meaning post-inflation) wage growth. This would mean 'higher for longer' interest rates, which would hurt bond markets and possibly undermine equities, if corporate costs start to rise steeply.



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Keep an eye out for your next Creation Portfolios monthly commentary available 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.

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