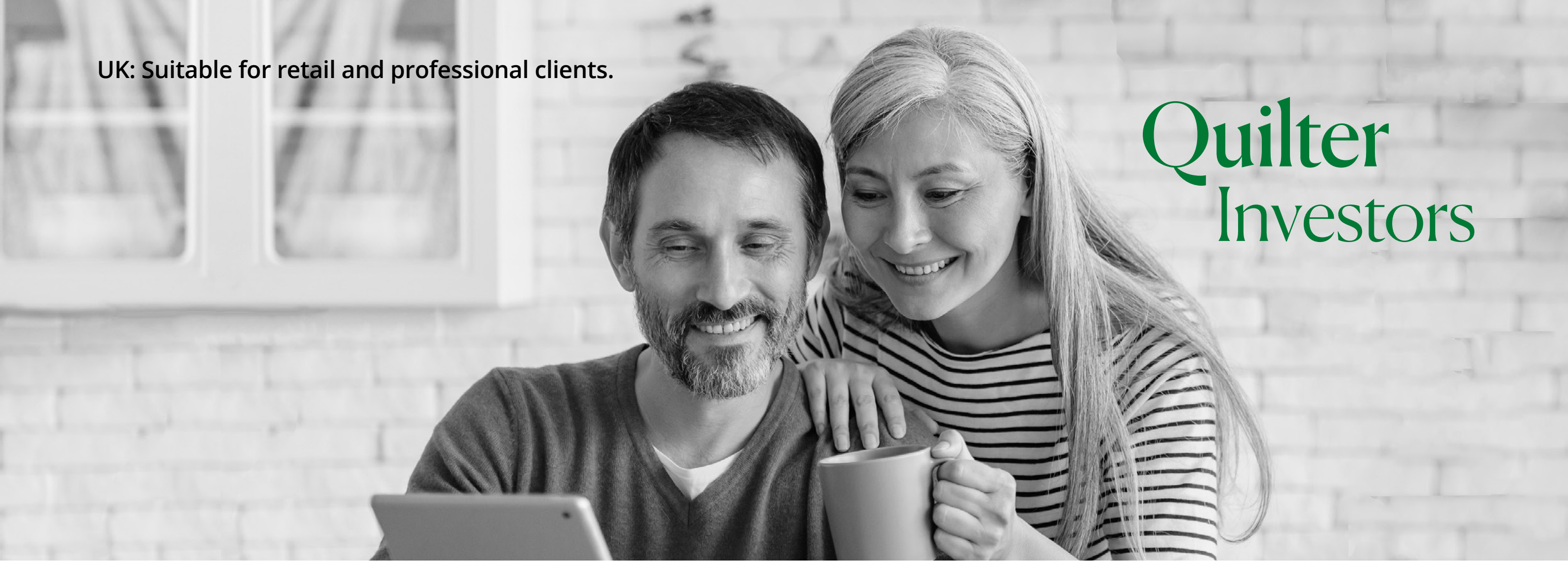
UK: Suitable for retail and professional clients.




# Cirilium Passive Portfolios

## Monthly commentary – Review of November 2022

*Marcus Brookes*
Chief Investment Officer

## Our market summary

Global equity markets continued to rise in November, clawing back some of the losses incurred earlier in the year. The MSCI World Index rose 3.5% during the month with Asian and emerging markets racing ahead of their developed market peers. The view that inflation has peaked in the US, and that, consequently, the pace of US interest-rate rises would slow, paired with China's modest relaxation of its 'zero-covid' policy, provided a significant boost to investor sentiment in the month.

### *Equity markets*

US equity markets rose in November with materials and industrials stocks enjoying a particularly strong month. Data suggesting US inflation had retreated injected some much-needed optimism into markets, with investors anticipating that the US Federal Reserve (Fed) would slow the pace of its interest-rate rises. Comments from Fed chair, Jerome Powell, late in the month supported this, helping the MSCI USA Index to rise by 1.9% while weakening the US dollar.

European equity markets enjoyed their second consecutive month of gains, with the MSCI Europe ex UK Index up 7.9%. The positive news on US inflation helped bolster investor sentiment, while eurozone inflation figures were down from October. Similarly, China's decision to soften its 'zero-covid' policy provided a boost to European equities, especially luxury goods stocks that had suffered due to bottlenecks in the global supply chain.

UK equity markets rose in November, as data suggested the UK economy had proven more resilient than originally forecast. The new Chancellor, Jeremy Hunt, used his Autumn Statement to offer near-term support measures amid a likely recession, while reassuring markets with promises of tighter spending and borrowing going forward. The FTSE All-Share Index gained 7.1% during the month, with healthcare and financials stocks leading the charge.

Emerging market equities made robust gains thanks to the prospect of softening US monetary policy, the promise it brings of a weaker US dollar and the huge bounce in Chinese equities brought about by the relaxation of China's 'zero-covid' policy. The meeting between US President Biden and Chinese President Xi also helped to soothe short-term geopolitical tensions with the MSCI Emerging Markets Index rising 11% in November.

### *Fixed income*

Having endured a difficult year thus far, global bond markets were more settled in November as investors reacted to the prospect of inflation peaking in the US. In the UK, the ICE BofA UK Gilt Index rose by 3%, with markets reacting positively to the new government's more fiscally cautious approach, while in the US, the ICE BofA US Treasury (sterling hedged) Index was up 2.6%.

# Performance review

All the Cirilium Passive Portfolios delivered positive returns, although the Adventurous Passive Portfolio was held back slightly by its more significant US dollar exposure.

## *Performance summary (%)*

| | *Cumulative performance* | | | | | | *Discrete calendar year performance* | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | *1 month* | *YTD* | *1 year* | *3 year* | *5 year* | *Since launch* | *2021* | *2020* | *2019* | *2018* | *2017* |
| Cirilium Conservative Passive | 2.7 | -9.0 | -8.7 | -1.9 | 5.2 | 35.4 | 2.5 | 4.8 | 9.1 | -1.8 | 4.1 |
| Cirilium Balanced Passive | 3.5 | -9.1 | -8.3 | 2.7 | 12.6 | 63.4 | 6.7 | 5.0 | 13.3 | -3.2 | 6.8 |
| Cirilium Moderate Passive | 4.1 | -7.1 | -5.7 | 10.3 | 23.1 | 88.2 | 11.4 | 5.2 | 16.8 | -4.3 | 9.2 |
| Cirilium Dynamic Passive | 4.6 | -5.3 | -3.3 | 17.1 | 32.7 | 111.4 | 15.7 | 4.8 | 20.1 | -5.4 | 11.2 |
| Cirilium Adventurous Passive | 2.9 | -6.7 | -5.1 | 28.9 | 51.7 | 59.9 | 19.9 | 13.6 | 22.8 | -4.1 | |

*Source: Quilter Investors as at 30 November 2022. Total return, percentage growth, net of fees of the R Acc share class rounded to one decimal place. The Cirilium Conservative Passive, Balanced Passive, Moderate Passive, and Dynamic Passive Portfolios launched on 8 February 2013; and the Cirilium Adventurous Passive Portfolio launched on 1 June 2017.*

## *How our equity holdings performed*

### UK holdings contribute most to returns

The UK was the top regional contributor to returns in the four lower-risk portfolios over the month. Financial stocks performed well in November and this provided a particular boost for the UK market which has a high weighting to such companies. Meanwhile, the Cirilium Adventurous Passive Portfolio has no UK equity weighting.

### Europe and Asia bounce back strongly

European equities were the second-largest positive contributor due to the strong performance of the market and the portfolios' significant weighting. Asia Pacific was the top performing regional market in absolute terms, but owning to its relatively small weight in the portfolios it delivered a relatively modest contribution to overall portfolio returns.

### US dollar drags on US equity returns

Despite the MSCI USA Index gaining 5.4% in US dollar terms, the sharp fall in the value of the dollar, driven by expectations of a slowing in the pace of US rate hikes, reduced this to just 1.9% for sterling-based investors. This was especially costly for the Cirilium Adventurous Passive Portfolio, which holds a much larger weighting to the US in lieu of any UK equity exposure. However, this positioning has been extremely rewarding over 2022 as a whole.

Currency exchange rates impact investments in other countries. If the currency of the investment rises compared to sterling, this adds to returns; if it falls, this reduces returns.

## *How our fixed-income holdings performed*

### Bonds are back

With the exception of the Cirilium Adventurous Passive Portfolio, which holds no fixed income, our bond exposure was a positive contributor to returns in the four lower-risk portfolios. This was mostly driven by signs of softening US inflation and hopes of a deceleration in the pace of US interest-rate hikes.

Amid a general rally in bond markets, corporate bonds (issued by companies) outperformed government bonds.

# Portfolio activity

Over the course of the month, new investments were used to steer the portfolios back towards their target allocations. In November, this typically involved buying US equities and global bonds while selling down UK, European, and Asian equities.

## Investment outlook

Global economic activity has continued to slow as rapid interest-rate increases and high energy costs risk tipping economies, especially those in Europe, into recession. Although some economic indicators are proving more resilient than expected, the picture is very mixed with interest-rate sensitive sectors, such as housing, struggling. While the worst of the bond market sell-off is most likely now behind us, we must be aware of the risk that inflation may not fall sufficiently far or quickly enough to prevent central banks having to raise interest rates past the levels currently expected by markets.

### *1. Stocks look cheaper*

While the volatility in bond markets should subside as the Fed slows its programme of interest-rate hikes, equity market volatility may pick up again as economic growth slows. However, the share price declines so far this year have made equities more attractive to long-term investors who have the ability to look past the 'bumps in the road' that may lie ahead.

### *2. Fixed-income assets are now more attractive*

We expect a prolonged period of elevated interest rates as central banks fight to tame inflation. However, the yields on high-quality bonds already look relatively attractive. Once central banks' primary concern shifts from combating inflation to addressing weaker economic growth, longer-maturity (more time until the principal investment is repaid) government bonds should perform well.

### *3. Inflation may be peaking, but what next?*

The magnitude of the interest-rate hikes now on the horizon should see rates of inflation relent from here. Even so, it would not be surprising for inflation to drop but to remain uncomfortably above central bank targets for several years. However, over a short to medium-term timeframe, the combination of slowing inflation and signs of an impending pause in interest-rate hikes should help support markets once more.

## Thank you for investing with us

Keep an eye out for your Cirilium Passive Portfolios Q4 2022 quarterly report available early next year.

**Want more updates about your portfolio?**

Please visit our website at *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 3700, email us at *enquiries@quilter.com*, or visit our website at *www.quilter.com*.

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