UK: Suitable for retail and professional clients.

Quilter Investors

Monthly Income Portfolios

Monthly commentary – Review of October 2023

Marcus Brookes
Chief Investment Officer

Our market summary

Global equities retreated by 2.3% due to concerns over the 'higher for longer' narrative for US interest rates. This was against a backdrop of ongoing hostilities in Ukraine and the outbreak of a bitter new Middle East conflict. Over the month, every major equity market gave up ground and bond markets also sold-off with a steep rise in US government bond yields (meaning their prices fell). UK government bonds fared better, but still declined as did corporate bonds (issued by companies).

Equity markets

Despite economic growth of 4.9% (annualised) in the third quarter, US equities fell by 1.7% in the face of the Federal Reserve (Fed) chair's indication that US interest rates might still need to rise further. Energy stocks were among the weakest performers as oil prices eased. Meanwhile, consumer discretionary stocks (companies that produce goods and services considered non-essential) also struggled with tech and consumer staples stocks (companies that supply goods and services that are always in demand) faring better, but still mostly in negative territory.

Although the European Central Bank (ECB) kept interest rates on pause at its October meeting and data showed annual inflation had fallen to 2.9%, European equities declined by 3.0%. While more defensive sectors such as utilities and consumer staples made some progress, healthcare was among the worst hit sectors after disappointing profit guidance in the sector.

UK equities lagged those elsewhere and declined 4.1%. UK inflation remained unchanged at 6.7%, which increased the prospect of a long inflation battle, even as house prices declined alongside consumer confidence and broader economic indicators. UK banks suffered as the mortgage market ground to a halt, while the declining outlook for UK consumer spending hit consumer discretionary sectors, with UK smaller companies especially hard hit.

Emerging market equities lost 3.3% in October, outperforming China, Japan, and the UK but underperforming the US. Chinese shares fell further due to the country's unresolved economic woes, rising tensions with the US, and the ongoing implosion of its real-estate sector. Elsewhere, Turkey suffered as its currency declined still further in the face of 60% inflation while Brazil, Thailand, and India all beat the broader emerging market index.

Fixed income

The 'higher for longer' narrative for US interest rates continued to drive the yields on US Treasuries (government bonds) higher, meaning their prices fell. The price of US Treasuries fell by 1.35% as the yield on 10-year issues returned to levels last seen prior to the global financial crash of 2008. Meanwhile, UK government bonds (gilts) fell 0.4% while UK corporate bonds (issued by companies) suffered a more modest 0.2% decline.

Source: Quilter Investors as at 31 October 2023. 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 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; emerging markets by the MSCI EM (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.

Helen Bradshaw
Portfolio Manager

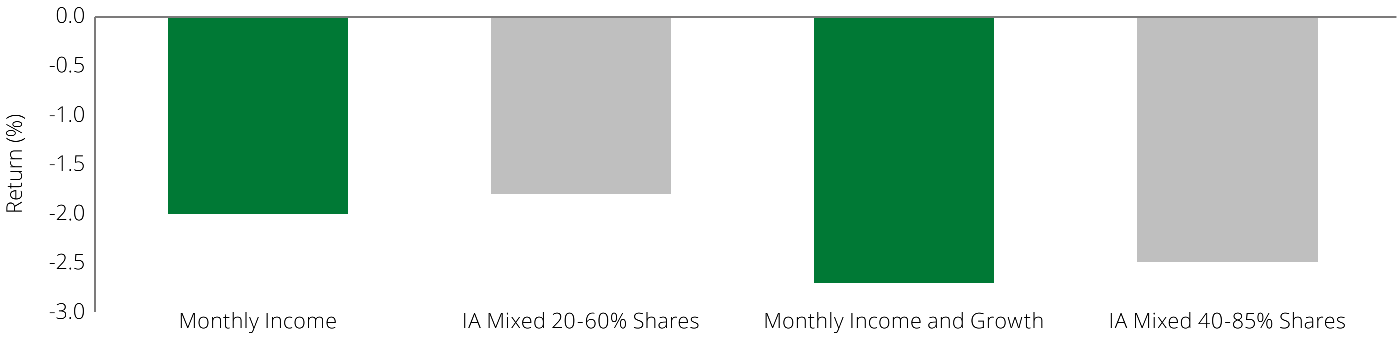
CJ Cowan
Portfolio Manager

Performance review

The Monthly Income Portfolios lost ground over the month as both equity and bond markets sold-off. The losses were more restrained for the Monthly Income Portfolio due to its lower exposure to equities. The Monthly Income Portfolio declined 2% while the Monthly Income and Growth Portfolio fell by 2.7%.

Our overweight to UK equities, was a drag on returns as the UK underperformed its global peers. However, the UK continues to offer attractive dividend yields and forms an important part of the income generation in the portfolios.

Monthly performance (%)



Performance summary (%)

	Cumulative performance						*Discrete annual performance to end of October*				
	1 month	*YTD*	*1 year*	*3 year*	*5 year*	*Since launch*	*2022 - 2023*	*2021 - 2022*	*2020 - 2021*	*2019 - 2020*	*2018 - 2019*
Monthly Income	**-2.0**	**-2.2**	**0.8**	**4.2**	**-**	**1.0**	**0.8**	**-9.7**	**14.5**	**-5.1**	**-**
IA Mixed 20-60% Shares	-1.8	-0.7	1.7	2.9	-	2.3	1.7	-10.7	13.3	-1.7	-
Monthly Income and Growth	**-2.7**	**-2.2**	**1.2**	**10.9**	**-**	**7.9**	**1.2**	**-8.1**	**19.3**	**-5.3**	**-**
IA Mixed 40-85% Shares	-2.5	-0.4	2.0	9.4	-	9.7	2.0	-10.6	20.0	-0.7	-

Source: Quilter Investors as at 31 October 2023. Total return, percentage growth, net of fees, rounded to one decimal place of the U1 (GBP) accumulation shares. The Monthly Income Portfolios launched on 26 June 2019.

Portfolio activity

The weakness of infrastructure investment trusts continued in October. We took the opportunity to top up holdings such as The Renewables Infrastructure Trust as we view these investments as very attractive from both a capital return and income perspective.

Other portfolio activity involved trimming our holdings in outperforming alternative fixed-income investment trusts, such as CVC Income and Growth, and Fair Oaks Income. Both have enjoyed a strong year, as the floating-rate nature of the underlying loans in these portfolios has helped them to weather the adjustment in interest rates.

Floating-rate securities offer variable income payments that are linked to current interest rates, unlike fixed-rate bonds whose coupon payments remain the same throughout their lifetime.

Investment outlook

Economic growth in the US has been surprisingly resilient, although it is slowing, while the data from Europe and the UK have been weaker for some time. Inflation remains above central bank targets but has moderated significantly and investors are growing in confidence that interest-rate hiking cycles are ending. Our central expectation is that the global economy experiences a 'soft-ish' landing from the post-pandemic boom, with low but positive economic growth and asset market returns.

A soft-landing is where economic growth and inflation both slow without a severe economic downturn taking place.

1. Too early to expect rate cuts

In this environment, it's natural to speculate on the timing of interest-rate cuts. However, if market pricing runs too far ahead of the current reality it risks loosening financial conditions so that growth and inflation picks up again. Central banks are attuned to this risk and don't want a re-run of the 1970s, where policy was eased prematurely allowing inflation to resurface. Consequently, we expect them to maintain their 'higher for longer' policy narrative for some months yet.

2. Tentative signs of economic weakening

While many leading indicators of economic growth have been weak for over a year, realised growth in the US has been comparatively strong. The same cannot be said for Europe where the economy has stagnated for over a year. Elevated government spending and resilient labour markets may continue to support corporate earnings and equity markets, but risks are increasing as we see tentative signs of weakening employment data and waning sentiment among investors.

3. Risks are rising but balance is the order of the day

In the latest US corporate earnings season, companies performing below expectations found their share prices were disproportionately punished compared to those who positively surprised, which could indicate a looming market correction. Meanwhile, the risk that other Middle East powers are dragged into the Gaza conflict has increased the risk of market falls. While caution is warranted, our allocation remains balanced, reflecting the range of possible outcomes.

A market correction is usually defined as a decline of 10% but less than 20% in the price of an index from its most recent peak. A market correction can last anywhere from days to months, or even longer.

Thank you for investing with us

Keep an eye out for your next Monthly Income Portfolios monthly commentary available in December.

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 3600, email us at ***enquiries@quilter.com***, or visit our website at ***www.quilter.com***.

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QI 26438/29/5140/November 2023/SK19958