Quilter

# WealthSelect Responsible Blend Portfolios

## Monthly commentary – Review of November 2023

*Marcus Brookes*
Chief Investment Officer

## Our market summary

Global equities bounced back to deliver a gain of 4.9% as slowing inflation in the US, Europe, and the UK triggered renewed hopes that interest rates have now peaked and that cuts might soon be on their way. This galvanised markets into a 'risk-on' rally which lifted all major regional equity markets, except China, and delivered gains to all segments of the bond market. Growth stocks, whose valuations are based on expectations of their future earnings growth, substantially outperformed value stocks, which tend to have lower valuations, while smaller company stocks marginally outperformed their larger peers.

### *Equity markets*

In November, US inflation data came in at 3.2% in the year to the end of October, down from 3.7% a month earlier. In combination with slightly softer data from the US labour market, this spurred renewed expectations that US interest rates had peaked. US equities surged 4.9% in November led by technology, real-estate, and consumer discretionary stocks (companies that produce goods and services considered non-essential), which tend to be the most sensitive to changes in interest rates. Energy stocks generally lagged as global oil prices moderated slightly and natural gas prices were flat.

It was a similar picture in Europe. European equities outperformed other regional markets with a return of 6.3% in November when eurozone annual inflation dropped from 2.9% in October, to 2.4% in November. Once again, it was real-estate and technology stocks that made the best progress along with European industrial stocks. As in the US, energy stocks underperformed, as did more defensive areas such as healthcare. Even so, the latest survey data showed European business activity continuing to contract.

UK equities lagged their US and European peers with a return of 3%. However, smaller companies strongly outperformed the larger companies index to deliver 7.2%. They benefitted most from expectations that UK interest rates had peaked while the strength of the pound helped to undermine the going for the UK's largest companies, which generate most of their revenues overseas. As elsewhere, technology and real-estate stocks led the field while energy stocks lagged alongside defensive sectors such as healthcare and consumer staples (companies that supply goods and services that are always in demand).

Despite Chinese equities declining 1.7%, emerging markets equities gained 3.5% in November. Egypt outperformed other index constituents with Korea and Taiwan both benefitting from the rally in tech stocks. Mexico and Brazil also performed well thanks to currency gains in the former and falling inflation and interest-rate cuts in the latter. India and South Africa both lagged the broad emerging market index, as did Middle East markets thanks to softening energy prices.

### *Fixed income*

November was a positive month for all parts of the bond market. Both government and corporate bonds (issued by companies) delivered gains against a backdrop of heightened expectations that interest rates had peaked with inflation falling and both the US Federal Reserve and the Bank of England electing to keep rates on hold in November. Both US Treasuries and UK government bonds (gilts) delivered modest gains while higher-risk UK corporate bonds and high-yield bonds outperformed.

Bonds issued by governments, companies or institutions are rated according to their creditworthiness. Bonds with the highest credit ratings are called 'investment grade'; bonds with lower credit ratings are called 'high yield'.

*Source: Quilter Investors as at 30 November 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; UK smaller companies by the MSCI United Kingdom Small Cap Index; emerging markets by the MSCI EM (Emerging Markets) Index.*

## Performance review

In a more positive environment for investment markets, the WealthSelect Managed Active Portfolios delivered gains across all risk levels in November. These ranged from 2.5% at risk-level 3, up to 4.2% at risk-level 10. All funds within the portfolios, bar one, made progress, indicating the breadth of the rally that was enjoyed by both equity and bond markets.

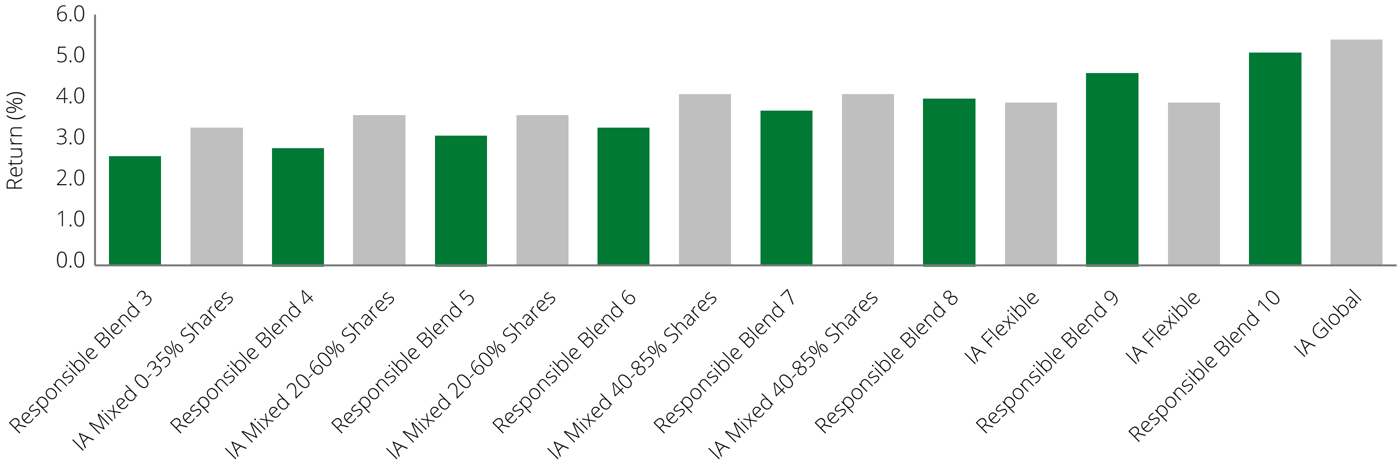
With bond yields falling (meaning their prices rose), the more growth-oriented managers in Europe and the US posted the biggest gains in the portfolio. Within alternatives, both the Trium ESG Emissions Impact Fund and the JPM Global Macro Sustainable Fund delivered modest losses. Offsetting this was our holding in the PIMCO Dynamic Multi Asset Fund, which was the best individual performer relative to its benchmark.

Stuart Clark
Portfolio Manager

Helen Bradshaw
Portfolio Manager

Bethan Dixon
Portfolio Manager

### *Monthly performance (%)*




### *Performance summary (%)*

| | *Cumulative performance* | | | | | | *Discrete annual performance to end of November* | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | *1 month* | *YTD* | *1 year* | *3 year* | *5 year* | *Since launch* | *2022 - 2023* | *2021 - 2022* | *2020 - 2021* | *2019 - 2020* | *2018 - 2019* |
| **Responsible Blend 3** | **2.6** | **3.2** | **2.1** | **-** | **-** | **0.4** | **2.1** | **-** | **-** | **-** | **-** |
| IA Mixed 0-35% Shares | 3.3 | 2.4 | 1.4 | - | - | -4.0 | 1.4 | - | - | - | - |
| **Responsible Blend 4** | **2.8** | **3.5** | **2.3** | **-** | **-** | **1.9** | **2.3** | **-** | **-** | **-** | **-** |
| IA Mixed 20-60% Shares | 3.6 | 2.9 | 1.9 | - | - | -0.7 | 1.9 | - | - | - | - |
| **Responsible Blend 5** | **3.1** | **3.7** | **2.5** | **-** | **-** | **3.3** | **2.5** | **-** | **-** | **-** | **-** |
| IA Mixed 20-60% Shares | 3.6 | 2.9 | 1.9 | - | - | -0.7 | 1.9 | - | - | - | - |
| **Responsible Blend 6** | **3.3** | **3.9** | **2.5** | **-** | **-** | **4.8** | **2.5** | **-** | **-** | **-** | **-** |
| IA Mixed 40-85% Shares | 4.1 | 3.7 | 2.3 | - | - | 1.9 | 2.3 | - | - | - | - |
| **Responsible Blend 7** | **3.7** | **4.3** | **2.8** | **-** | **-** | **6.5** | **2.8** | **-** | **-** | **-** | **-** |
| IA Mixed 40-85% Shares | 4.1 | 3.7 | 2.3 | - | - | 1.9 | 2.3 | - | - | - | - |
| **Responsible Blend 8** | **4.0** | **4.6** | **3.1** | **-** | **-** | **8.1** | **3.1** | **-** | **-** | **-** | **-** |
| IA Flexible | 3.9 | 3.2 | 2.0 | - | - | 2.8 | 2.0 | - | - | - | - |
| **Responsible Blend 9** | **4.6** | **5.6** | **3.9** | **-** | **-** | **9.3** | **3.9** | **-** | **-** | **-** | **-** |
| IA Flexible | 3.9 | 3.2 | 2.0 | - | - | 2.8 | 2.0 | - | - | - | - |
| **Responsible Blend 10** | **5.1** | **6.5** | **4.6** | **-** | **-** | **10.3** | **4.6** | **-** | **-** | **-** | **-** |
| IA Global | 5.4 | 7.1 | 3.9 | - | - | 8.0 | 3.9 | - | - | - | - |

*Source: Quilter Investors as at 30 November 2023. Total return, percentage growth, rounded to one decimal place. All performance figures are shown after the deduction of the charges of the underlying funds, but before the deduction of the Managed Portfolio Service charge. Deduction of this charge will impact on the performance shown. The WealthSelect Responsible Blend Portfolios launched on 8 March 2022.*

## Investment outlook

In recent weeks, the 'no landing' narrative – an environment where growth remains resilient, core inflation remains sticky, and interest rates stay 'higher for longer' – seems to have been nudged aside in favour of a soft-landing outlook (interest rates are raised just enough to fight inflation without causing a recession). Asset prices and expectations for early interest-rate easing have been boosted as a result.

### *1. Can't see the wood for the trees*

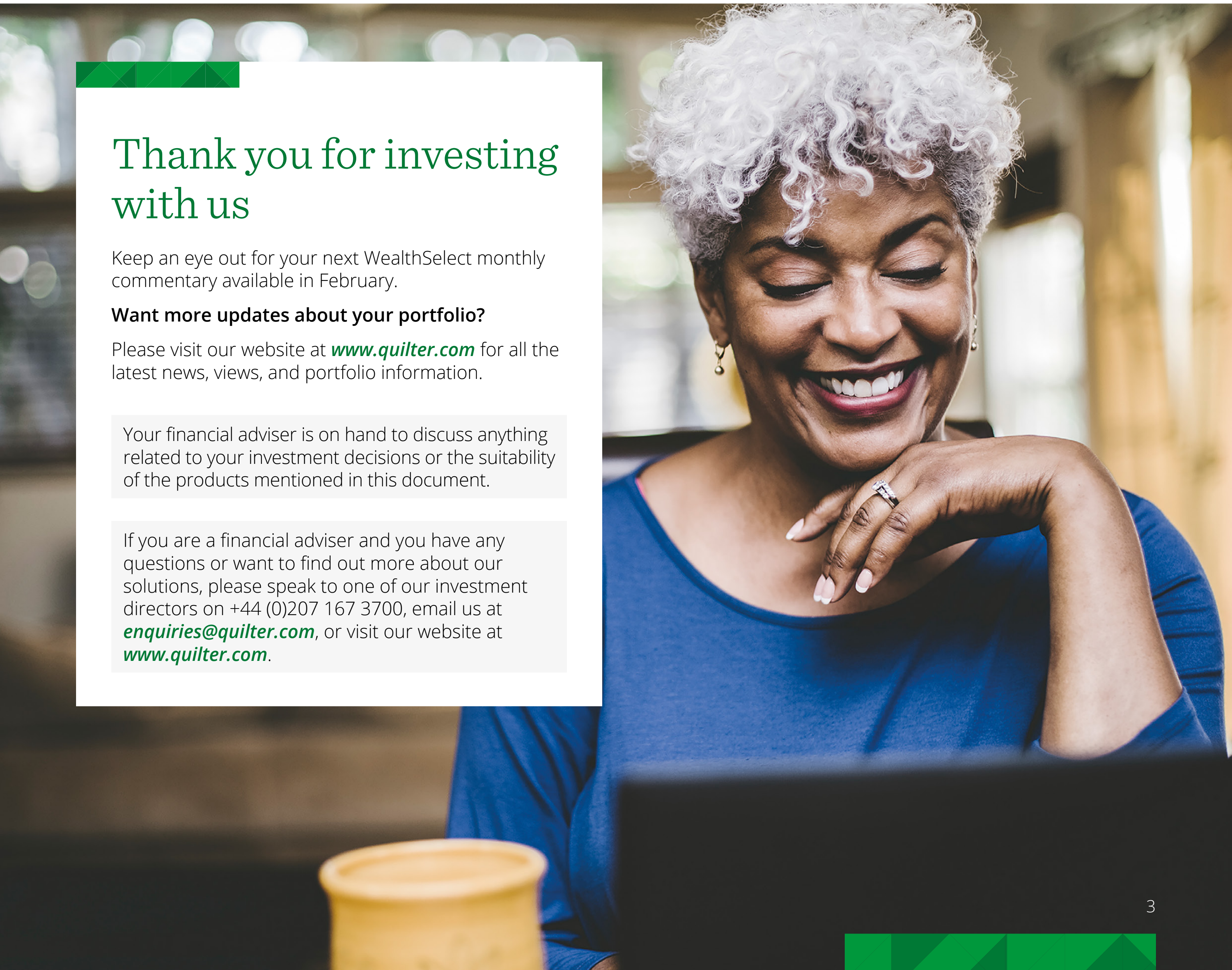
Unlike some, we're hesitant to celebrate being 'out of the woods' just yet. Indeed, we see risks mounting from here. The peak effect of restrictive monetary policy (namely much higher interest rates) is still ahead, and unemployment is slowly rising. This will weigh on both consumer sentiment and company balance sheets. As such, we retain our cautious stance towards 'risk assets' such as equities and bonds.

### *2. Will they, won't they?*

With inflation showing signs of softening, expectations have grown for central bank easing (namely interest-rate cuts) in the first half of 2024. We believe there's a risk of disappointment in the near term, as while we expect some further moderation in economic data in the coming months, central banks will be very reluctant to ease interest rates prematurely as this might allow inflation to get a foot in the door once again.

### *3. Government bonds offer good value*

Even if it's too early for interest-rate cuts, the likely end to interest-rate hikes, alongside the yields on offer, mean that developed market government bonds look more attractive than they have for some time and once again offer the potential to act as a traditional diversifier should an economic downturn materialise. As such, we've continued to build our exposure.



## Thank you for investing with us

Keep an eye out for your next WealthSelect monthly commentary available in February.

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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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