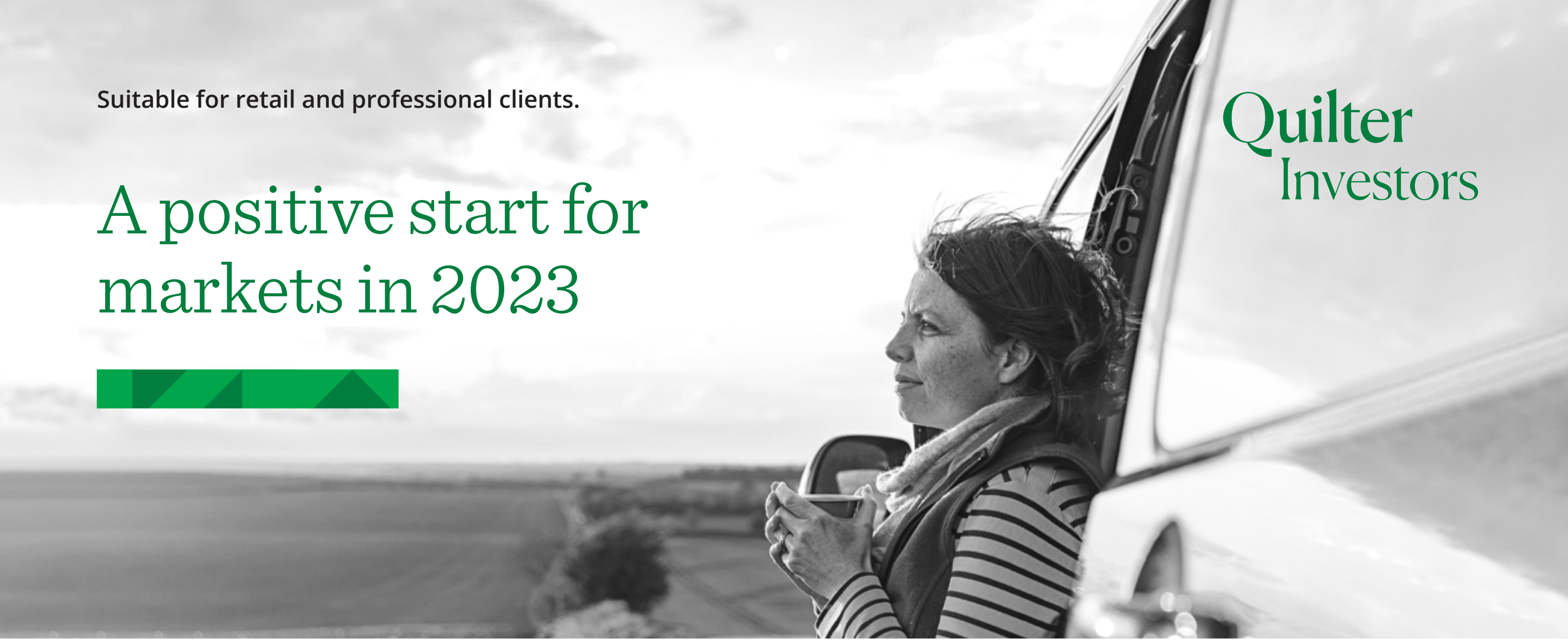
Suitable for retail and professional clients.



Quilter Investors

A positive start for markets in 2023

Following a positive start for markets in quarter one, our chief investment officer, Marcus Brookes shares why our cautious optimism has begun to deliver returns for investors this year.

1

Market review

Despite the sudden calamity in the banking sector, investors quickly recovered their poise in the first quarter with European equities and major technology stocks enjoying the biggest gains. Meanwhile, although central banks in the US, UK, Europe and Switzerland all continued to raise interest rates, expectations that the current interest-rate hiking cycle is coming to an end helped bond markets to also deliver solid returns.

We were cautiously optimistic coming into the year and our investors were rewarded for this. Returns from equity markets were in solid single digits with Europe delivering north of 9%. This was broadly in line with our expectations. What was more unexpected, but very welcome, was that bond markets also delivered low single-digit returns. This is because inflation has remained consistently higher than expected – not an environment in which bonds usually do well.

2

Reasons to be cautious

We think this economic cycle has reached the end of its growth phase and that a shallow recession lies in wait for later in 2023. Although we are tempering our enthusiasm for riskier assets slightly, and reducing risk in the portfolios here and there, our caution is also tempered.

Looking forward, we suspect that the coming economic recession will not be as severe as originally predicted, and while we'll all feel a little more worse off, it won't feel anything like the recessions of the past. Another reason for caution is that corporate profits are also close to their peak for this economic cycle. This usually means that equity allocations begin to struggle but that bond returns pick-up because they're a bit more defensive.

3

Reasons to be optimistic

Although inflation has proved stickier than expected, there may only be one or two interest-rate rises to come out of the US and the UK, however, it remains to be seen whether central banks have done enough to stem inflation. This is because central bankers are always playing catch up, namely enacting policy today in reaction to events that happened last year.

Our reading of the situation is that central banks have probably done the heavy lifting now and that financial markets remain intact. We're still optimistic that corporate profits will remain relatively high, supported by high levels of employment. Economic growth will probably slow, rather than grinding to a halt, while the promise of interest-rate cuts as we approach 2024 will likely see markets flourish once more.

...it was good to see both sides of our portfolios: equities, which provide the growth element, and bonds which provide the defensive element, doing well against a turbulent backdrop.

Marcus Brookes, Chief Investment Officer

Top three things to remember in today's investment landscape

Always speak to your financial adviser first if you're unsure about how best to approach investing at the moment. They'll be able to provide you with their expertise before you make a decision.

Market volatility is front of mind because of considerable news coverage. This can make the risks feel more significant. A diversified portfolio can manage some of these risks and provide real opportunities for growth.

Keep your personal financial plan and investing goals at the front of you mind. Now is a good time to focus on the long-term, and use your investments to help mitigate the effects of inflation.

Important information

QI 26225/28/3398

Published date: May 2023
Review date: May 2024