

Creation Portfolios

Monthly commentary – Review of October 2023



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).

Marcus Brookes
Chief Investment Officer

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 updates 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.





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Performance review

The Creation Portfolios lost ground as both equity and bond markets sold-off.

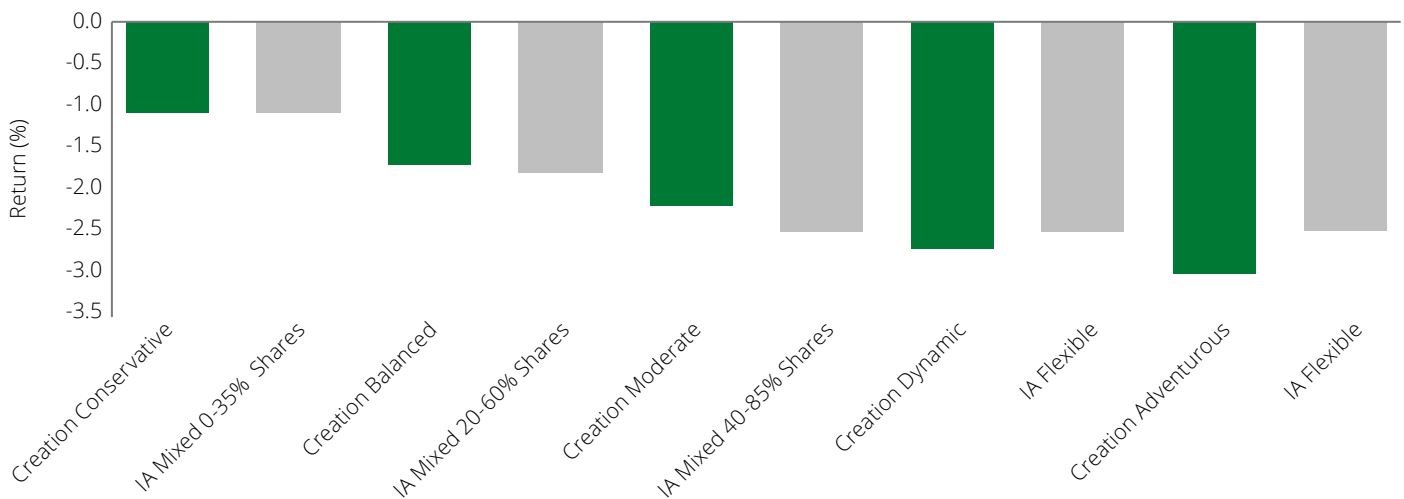
Our underweight to bonds, relative to our strategic asset allocation, was helpful in October as US Treasuries (US government bonds) fell.

The losses were more muted for the lower-risk portfolios where equity exposure is more limited. The Creation Conservative Portfolio declined 1.1% while the Creation Adventurous Portfolio fell by 3.0%.



Our strategic asset allocation (SAA) is the long-term weightings assigned to each asset class, such as equities, bonds, property, alternatives, and cash. These weights differ according to the risk level of each portfolio.

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
Creation Conservative	-1.1	-0.4	1.1	-3.4	0.3	16.7	1.1	-9.2	5.2	-1.2	5.2
IA Mixed 0-35% Shares	-1.1	-0.8	0.9	-4.2	1.9	24.3	0.9	-11.1	6.8	0.4	5.9
Creation Balanced	-1.7	0.4	3.0	4.5	9.6	29.5	3.0	-8.8	11.2	-1.7	6.7
IA Mixed 20-60% Shares	-1.8	-0.7	1.7	2.9	7.8	39.5	1.7	-10.7	13.3	-1.7	6.7
Creation Moderate	-2.2	1.3	4.5	11.4	17.8	44.1	4.5	-9.0	17.1	-2.2	8.1
IA Mixed 40-85% Shares	-2.5	-0.4	2.0	9.4	17.5	66.7	2.0	-10.6	20.0	-0.7	8.2
Creation Dynamic	-2.7	1.7	5.5	19.0	25.9	57.5	5.5	-9.0	23.9	-3.5	9.6
IA Flexible	-2.5	-0.6	1.9	10.9	20.2	69.4	1.9	-10.1	21.1	0.7	7.7
Creation Adventurous	-3.0	2.0	6.2	21.5	28.8	27.7	6.2	-9.1	25.8	-3.7	10.0
IA Flexible	-2.5	-0.6	1.9	10.9	20.2	21.8	1.9	-10.1	21.1	0.7	7.7

Source: Quilter Investors as at 31 October 2023. Total return, percentage growth, net of fees, rounded to one decimal place of the R (GBP) accumulation shares. The Creation Conservative Portfolio launched on 25 February 2013; the Creation Balanced Portfolio launched on 19 February 2013; the Creation Moderate Portfolio launched on 15 February 2013; the Creation Dynamic Portfolio launched on 18 February 2013; and the Creation Adventurous Portfolio launched on 3 July 2017.

Portfolio activity

We have been reducing our underweight position to bonds in the Creation Conservative, Balanced, and Moderate Portfolios after government bond yields moved materially higher (meaning their prices fell) since the summer. To implement this change, we added to the iShares Global Government Bond ETF.

Elsewhere, we increased the healthcare equity exposure in the portfolios through an addition to the iShares MSCI World Health Care Sector ETF. This allowed us to take advantage of the underperformance of the sector compared to global equities over the past six months or so. We had previously reduced our overweight position here after a period of healthcare sector outperformance.

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.

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Keep an eye out for your next Creation 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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