Marketing material

Schroder Investment Solutions (International)

Monthly update – February 2024

Welcome to our monthly update for the Schroder Investment Solutions range of international model portfolios. This document provides a market commentary for the core asset classes and a performance summary for our portfolios.

Market commentary

Need help with any of the term used in this update? Just visit our glossary here.

Overall, Global shares were up in February with emerging markets performing strongly as Chinese shares experienced a rebound. By contrast, in fixed income yields were generally higher, meaning prices fell, as investors pushed out the timeframe for central banks to cut interest rates.

US Equities gained strongly in February, supported by some well-received corporate earnings. These included good results from some of the so-called "Magnificent Seven" companies (Alphabet, Amazon, Apple, Meta Platforms, Microsoft, Nvidia, and Tesla). Gains were led by the consumer discretionary and industrials sectors, while defensive sectors underperformed. Presidential primaries were held in a few states during the month. Donald Trump won several Republican primaries, including in South Carolina and Michigan.

Eurozone Equities (stocks issued by companies that are based in countries that use the euro as their currency) also advanced but lagged the gains made by US markets. Top performing sectors included consumer discretionary, industrials and information technology. Real estate and utilities lagged; these are sectors that had rallied in late 2023 on hopes of imminent rate cuts. Data for February showed that eurozone inflation (as measured by the consumer price index) eased to 2.6% from 2.8% in January.

UK Equities were broadly unchanged over the month. Industrials, financials and consumer discretionary were the top contributors, while consumer staples, real estate and basic materials were the largest detractors. Official data showed that the UK economy had entered a technical recession in the second half of 2023. This occurred because the boost from increased spending after the pandemic came to an end the challenges of higher inflation and interest rates started to affect activities.

Emerging Markets

Emerging Market Equities (stocks issued by companies that are based in emerging market countries such as Brazil and India) gained in US dollar terms in February and outperformed developed equity markets. There was ongoing optimism about the Federal Reserve (Fed) potentially cutting interest rates in the middle of the year. Returns in EM Asia were particularly strong given a rebound in China, which was underpinned by better-than-expected activity data and a cut to one of its key mortgage policy rates.

Government Bonds (an "I owe you" issued by a government to borrow money from investors) saw bond yields rise in February, meaning prices fell. The market continued to expect interest rate cuts but not immediately due to strong labour markets and higher-than-expected inflation. Uncertainty about US inflation made the market less eager for immediate rate cuts. Early in the month, the Bank of England communicated that interest rates have probably peaked. However, they need more proof of inflation returning to target before cutting rates.

Commodities, represented by the S&P GSCI Index (a composite index of commodity sector returns, representing an investable benchmark for the commodity markets), were modestly higher in February, with price gains for livestock and energy offsetting falls in agriculture, industrial metals, and precious metals. Within energy, crude oil, Brent crude and unleaded gasoline all gained, while the price of natural gas fell sharply. Price falls for heating oil and gas oil were more modest.

Past performance is not a guide to future performance. The value of investments and the income received from them can fall as well as rise. Investors may not get back the amount invested. Exchange rate changes may cause the value of investments to fall as well as rise.

Portfolio update

International Active Model Portfolios (GBP share class)
All portfolios in the Active Model Portfolio GBP range had positive returns for February and achieved higher performance compared to other investments in similar categories as defined by their respective Asset Risk Consultants (ARC) Private Client Indices (PCI) peer groups.

US, Global and Emerging Market Equities achieved positive returns in February. The Artemis US Select Fund was yet again the largest contributor and achieved a higher return relative to the S&P 500 Index. Performance was driven by stock selection in the technology and industrials sectors. In Global Equity, the Lazard Global Thematic Focus and Fidelity Global Dividend Funds saw gains over the month.

Global Government and Corporate Bonds detracted from performance in February. Government bond yields rose, which meant prices fell, therefore the JP Morgan Government Bond Fund was down 0.81%. In Corporate Bonds, the Jupiter Dynamic Bond and Vontobel TwentyFour Strategic Income Funds had negative returns.

International Active Model Portfolios (USD share class)
All portfolios in the Active Model Portfolio USD range had positive returns for February and achieved higher performance compared to other investments in similar categories as defined by their respective Asset Risk Consultants (ARC) Private Client Indices (PCI) peer groups.

US, Global and Emerging Market Equities achieved positive returns in February. The Artemis US Select Fund was yet again the largest contributor and achieved a higher return relative to the S&P 500 Index. Performance was driven by stock selection in the technology and industrials sectors. In Global Equity, the Lazard Global Thematic Focus and Fidelity Global Dividend Funds saw gains over the month.

Global Government and Corporate Bonds detracted from performance in February. Government bond yields rose, which meant prices fell, therefore the JP Morgan Government Bond Fund was down 0.78% in dollar terms. In Corporate Bonds, the Jupiter Dynamic Bond and Vontobel TwentyFour Strategic Income Funds had negative returns.

Sustainable Model Portfolios (GBP share class)
All portfolios in the Sustainable Model Portfolio range had positive returns for February and achieved higher performance compared to other investments in similar categories as defined by their respective Asset Risk Consultants (ARC) Private Client Indices (PCI) peer groups.

For the second consecutive month, the Ninety One Global Sustainable Equity Fund contributed positively to performance with stock selection in the financial services and technology sector boosting returns. The Robeco Sustainable Water Fund also had positive returns over February with their holdings in the US achieving a return of 6.55% in Sterling terms. The US based global water technology provider Xylem Inc was a top contributor. The company provides products and services in water infrastructure, wastewater treatment and transport as well as residential and commercial building services.

The JP Morgan Global Government Bond Fund had negative returns over February. The Global Corporate Bonds asset class was also down 0.31% over the month. The Lombard Odier Global Climate Bond, EdenTree Responsible and Sustainable Short Dated Bond and the CT UK Social Bond funds were the primary detractors. The alternatives asset class also detracted from performance in February with the Atlas Global Infrastructure Fund down over the month.

What are the risks?

Counterparty risk: The portfolios may have contractual agreements with counterparties. If a counterparty is unable to fulfil their obligations, the sum that they owe to the portfolios may be lost in part or in whole. **Credit risk**: A decline in the financial health of an issuer could cause the value of the instruments it issues, such as equities or bonds, to fall or become worthless. **Currency risk**: The fund may lose value as a result of movements in foreign exchange rates, otherwise known as currency rates. **Derivatives risk**: Derivatives, which are financial instruments deriving their value from an underlying asset, may be used to manage the portfolio efficiently. The portfolio may also materially invest in derivatives including using short selling and leverage techniques with the aim of making a return. A derivative may not perform as expected, may create losses greater than the cost of the derivative and may result in losses to the fund. **Equity risk**: Equity prices fluctuate daily, based on many factors including general, economic, industry or company news. High yield bond risk: High yield bonds (normally lower rated or unrated) generally carry greater market, credit and liquidity risk meaning greater uncertainty of returns. **Interest rate risk**: The portfolios may lose value as a direct result of interest rate changes. **Leverage risk**: The portfolios use derivatives for leverage, which makes them more sensitive to certain market or interest rate movements and may cause above-average volatility and risk of loss**. Liquidity risk**: In difficult market conditions, the fund may not be able to sell a security for full value or at all. This could affect performance and could cause the fund to defer or suspend redemptions of its shares, meaning investors may not be able to have immediate access to their holdings. **Money market & deposits risk**: A failure of a deposit institution or an issuer of a money market instrument could have a negative impact on the performance of the portfolios. **Negative yields risk**: If interest rates are very low or negative, this may have a negative impact on the performance of the portfolios. **Performance risk**: Investment objectives express an intended result but there is no guarantee that such a result will be achieved. Depending on market conditions and the macro economic environment, investment objectives may become more difficult to achieve.