Marketing material

Schroder Investment Solutions

Monthly update – February 2024

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

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 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

Active Model Portfolios
All portfolios in the Active Model Portfolio range had positive returns for February and achieved higher performance compared to other investments in similar categories as defined by their respective Investment Association (IA) 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 Royal London International Government Bond Fund was down 0.77%. In Corporate Bonds, the Jupiter Strategic Bond and EdenTree Responsible and Sustainable Short Dated Bond Funds had negative returns.

Sustainable Model Portfolios
All 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 Investment Association (IA) peer groups.

For the second consecutive month, the Ninety One Global Sustainable Equity and BNY Mellon Sustainable Global Equity Funds contributed positively to performance. Stock selection in the financial services and technology sector boosted returns for both funds. The Robeco Sustainable Water Fund also had positive returns over February with their holdings in the US achieving a return of 8.49% 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 alternatives asset class detracted from performance in February with the VT Gravis Clean Energy Income Fund down over the month. The Royal London International Government Bond Fund also had negative returns over February. The Global Corporate Bonds asset class was down 0.44% 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.

Strategic Index Model Portfolios
The Strategic Index Model Portfolio range had positive returns for February. All portfolios in the range achieved higher performance compared to other investments in similar categories as defined by their respective Investment Association (IA) peer groups.

Global, US and Emerging Market Equities contributed to performance over the month. In Global and US Equity, technology stocks continued to do well with NVIDIA, Meta, Amazon and Microsoft being the top performers. In Emerging Market Equities, overall performance of companies in China, Taiwan and South Korea was positive. The top stock was Taiwan Semiconductor Manufacturing Company with a return of 9.53% in February.

Global Government and Corporate Bonds detracted from performance in February, as did Global Property. Major global government bond yields increased across the board which meant that prices were down. In Corporate Bonds, European investment grade outperformed its US counterpart, and within both markets, the financial sector excelled. Investment grade bonds are the highest quality bonds as determined by a credit rating agency.

Blended Portfolios
The Schroder Blended Portfolio range had positive returns for February. All portfolios achieved higher performance compared to other investments in similar categories as defined by their respective Investment Association (IA) peer groups.

Global, US and Emerging Market Equities achieved positive returns for February. In the US and Global asset class this was led by our holdings in the HSBC America Index and the Fidelity Index World Funds. NVIDIA, Meta, Amazon and Microsoft continue to achieve positive returns. In Emerging Market Equities, overall performance of companies in China, Taiwan and South Korea was positive.

Global Government Bonds, Corporate Bonds and Property detracted from performance in February. Government bond yields rose, which meant prices fell, therefore the HSBC Global Government Bond ETF was down 0.76%. The iShares Environment and Low Carbon Tilt Real Estate Investment Trust was also down with companies in Japan, Germany and the UK seeing negative returns.

Global Multi-Asset Portfolios and Managed Defensive Fund

The Schroder Global Multi-Asset Portfolios (previously the Schroder Tactical Portfolios) had positive returns for February. All portfolios, except for the Cautious Portfolio, achieved higher performance compared to other investments in similar categories as defined by their respective Investment Association (IA) peer groups. The Schroder Managed Defensive Fund also had a positive return for February.

Global equity markets posted positive performance in February, with emerging markets outperforming developed markets. Government bond yields rose (meaning prices fell) as expectations for imminent interest rate cuts declined given the robust economic outlook and the resilience in labour market data.

Over the month, we upgraded our outlook on equities to positive as economic growth has continued to surprise on the upside. This position contributed to positive performance. This view has been expressed predominantly through the US larger companies. The US labour market remains strong, and inflation is moving in the right direction.

We also opened smaller overweight positions in Japanese and European equities. Many Japanese companies are reporting strong earnings, and there are signs that European manufacturing data is recovering from 2023 lows.

Turning to fixed income, the portfolios retain a neutral stance. Whilst valuations have become more attractive as markets reprice rate expectations, we prefer to tread cautiously as a 'hard landing', where the economy experiences a sharp slowdown or recession after a period of growth, remains a risk factor.

An overweight US inflation-linked bond position, first implemented in January, was maintained. This position should help protect the portfolios in an environment where inflation proved to be more persistent than expected.

Additionally, the portfolios maintain an allocation to gold, an asset which also tends to perform well should there be an uptick in inflation.

Within currencies, we have maintained an overweight position in the US dollar. This is held against the Singapore dollar which is more exposed to a global economic slowdown.

Income Portfolio

The Schroder Income Portfolio had a positive return for February and achieved higher performance compared to other investments in similar categories as defined by its respective Investment Association (IA) peer group (IA Mixed Investment 20-60% Shares).

Overall performance of the US and Global Equity asset class was positive over February. This was led by the Fidelity US Quality Income ETF, the Schroders US Equity Income Maximiser Fund and the Lazard Global Thematic Focus Fund. US technology companies were the primary driver of performance at a US and global level. NVIDIA, Meta, Amazon and Microsoft continue to achieve positive returns.

Global Government and Corporate Bonds detracted from performance in February, as did Global Property. The HSBC Global Government Bond ETF was down 0.76% over the month as bond yields increased across most major global markets which meant that prices were down. In Corporate Bonds, the Jupiter Strategic Bond and EdenTree Responsible and Sustainable Short Dated Bond Funds had negative returns.

Investment objectives

Schroder Blended Portfolios
The funds aim to provide capital growth and income by investing in a diversified range of assets and markets worldwide with a target average annual volatility (a measure of how much each fund's returns may vary over a year) over a rolling five year period. This target volatility is fund specific and varies between 30% to 100%* of that of global stock markets (represented by the MSCI All Country World index), depending on the investment objective of each fund.

The Funds are part of the SISCo Schroder Blended Portfolio range, which offers six funds with different expected combinations of investment risk and return.

* Please refer to the Prospectus for the individual risk profile volatility target.

Schroder Global Multi-Asset Portfolios
The Funds aim to provide capital growth and income by investing in a diversified range of assets and markets worldwide with a target average annual volatility (a measure of how much each Fund's returns may vary over a year) over a rolling five year period. This target volatility is fund specific and varies between 30% to 90%* of that of global stock markets (represented by the MSCI All Country World index), depending on the investment objective of each Fund.

* Please refer to the Prospectus for the individual risk profile volatility target.

Schroder Managed Defensive Fund
The Fund aims to provide capital growth and income in excess of the ICE BofA Sterling 3-Month Government Bill Index plus 2% per annum (after fees have been deducted) over a three to five year period, whilst also seeking to mitigate the risk of incurring a loss greater than 10% over any investment period, by investing in a diversified range of assets and markets worldwide. The Fund will seek to achieve a target average volatility (a measure of how much the Fund's returns may vary over a year) over a rolling five year period of 4% per annum. This cannot be guaranteed and your capital is at risk.

Schroder Income Portfolio
The Fund aims to provide an income of 3% to 5% per year and capital growth by investing in a diversified range of assets and markets worldwide with a target average annual volatility (a measure of how much the Fund's returns may vary over a year) over a rolling five year period of between 50% to 65% of that of global stock markets (represented by the MSCI All Country World index). This is not guaranteed and could change depending on market conditions.

What are the risks?

Capital risk: All capital invested is at risk. You may not get back some or all of your investment. **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. **Derivatives risk – efficient portfolio management and investment purposes:** Derivatives may be used to manage the portfolios efficiently. A derivative may not perform as expected, may create losses greater than the cost of the derivative and may result in losses to the portfolios. The portfolios may also materially invest in derivatives including using short selling and leverage techniques with the aim of making a return. When the value of an asset changes, the value of a derivative based on that asset may change to a much greater extent. This may result in greater losses than investing in the underlying asset. **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. **Interest rate risk:** The portfolios may lose value as a direct result of interest rate changes. **Investments in other collective investment schemes risk:** The portfolios will invest mainly in other collective investment schemes. **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. **Market risk:** The value of investments can go up and down and an investor may not get back the amount initially invested. **Money market & deposit 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. **Operational risk:** Operational processes, including those related to the safekeeping of assets, may fail. This may result in losses to the fund. **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.

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