Brewin
Dolphin

MI Brewin Dolphin Voyager Fund Range

Quarterly report – Q1 2023

Introduction

Welcome to the RBC Brewin Dolphin Voyager fund range investment review. In this report, we cover information and events that influenced performance during the first quarter of 2023.

The first quarter of 2023 began with gains for equity markets. Technology shares performed particularly well, partly because sentiment towards the sector had become extremely depressed after a year of poor returns.

At the start of the new year, forecasts were very downbeat for growth around the world, and particularly in the UK. But as the quarter progressed, it became clear that economies are more resilient than most people thought.

A decline in energy prices helped to engender a sense of inflation having passed its peak. The oil price fell around 10% over the quarter, while European wholesale gas prices halved. Prices have not been definitively tamed though. In the US, core inflation, which strips out the effect of falling energy prices, accelerated during the first few months of the year.

The evidential improvement in the economy saw interest rate expectations begin to really pick up during February, with growing concerns that the labour market remained tight despite the extremely steep increases in interest rates suffered during 2022. However, the outlook for interest rates changed quite dramatically in March after the collapse of Silicon Valley Bank sparked concerns about the banking sector. Central banks in the US, UK and Europe pressed ahead with interest rate hikes in March, but there was widespread speculation that further hikes will be limited.

Central banks are still fighting an inflation problem, and so it is unlikely that interest rate cuts are immiment. It is also unlikely that banking sector volatility will bring on a recession faster than we previously anticipated. The headwinds from tighter credit conditions are being offset by lower bond yields. Most banks are well capitalised, and regulators have acted quickly and decisively to stem the fallout. It probably remains a reasonable base case to expect a mild US recession to begin at the end of this year.

The big picture in Q1 2023

- The first quarter of 2023 saw gains in equity markets, with technology shares experiencing a strong performance. Lower interest rate expectations positively influenced bonds, which had suffered due to the steep trajectory of interest rate increases during 2022.

- Resilient economies and increased consumer spending, supported by savings accumulated during Covid-19 lockdowns, contributed to a positive economic outlook. Falling oil prices played a role in reduced household and business expenses, lowering the cost of fuel for transport and goods production.

- However, inflation has not been completely tamed, and concerns remain around wage inflation and high job vacancies. The shift in the interest rate outlook in March had a significant impact on the banking sector, with Silicon Valley Bank entering receivership due to bond losses and deposit withdrawals, and Credit Suisse being sold to Swiss rival UBS. This situation has led to a reappraisal of the risks associated with the banking sector and limited the extent to which interest rates can now rise.

- Although recent events may echo the financial crisis of 2008, measures have been taken to safeguard depositors and ensure a resilient banking system. The decrease in interest rate expectations has led to reduced mortgage costs, contributing to a potential resurgence in residential property markets. Wage increases, a decline in mortgage rates, and a return to the workplace are all driving the demand for housing.

Market overview Q1 2023

- Asset classes gave a mixed performance in the first quarter of the year. Equities gained overall, driven by strong performance in technology shares and receding recession concerns.
- Developed Europe ex UK led the way with a +8.4% return, despite volatility in the banking sector. North America followed at +4.5%, and Japan and UK equities both reported returns above +3%. However, emerging market equities experienced a decline of -2.1% as US-China tensions escalated.
- Bonds were boosted by lower interest rate expectations, with global corporate bonds returning +2.7%, global inflation-linked bonds +3.3%, global sovereign bonds +2.8%, UK sovereign bonds +2.1%, and UK corporate bonds +2.5%. Cash reported a +1% return.
- Among alternatives, precious metals performed well with a +6.1% return, but other alternatives showed a slight decline at -0.2%. Property fell by -1.2%.

The value of investments can fall and you may get back less than you invested.

Voyager performance

VOYAGER PERFORMANCE						
	Q1	2023 YTD	1yr	2yr	2022	2021
MI Brewin Dolphin Max 40%	2.1	2.1	-4.7	-5.4	-10.4	4.2
MI Brewin Dolphin Max 60%	2.3	2.3	-3.8	-2.6	-9.5	7.3
MI Brewin Dolphin Max 70%	2.4	2.4	-3.2	-0.9	-8.9	9.4
MI Brewin Dolphin Max 80%	2.6	2.6	-2.8	0.2	-9.0	11.5
MI Brewin Dolphin Max 90%	2.7	2.7	-2.6	1.6	-9.2	14.4
MI Brewin Dolphin Max 100%	2.8	2.8	-2.5	N/A	-8.5	N/A

All figures shown above are calculated to 31 March 2023.

Performance Calculation: All income is reinvested. Performance is shown for the A share class and is inclusive of fund charges. Neither simulated nor actual past performance are reliable indicators of future performance.

Voyager performance highlights Q1 2023

Asset Allocation

What worked and why?

Underweight positions in bonds and property supported the portfolio over the quarter.

What didn't work and why?

The overweight position in absolute return and underweight to European equities detracted from performance over the quarter.

Fund Selection

What worked and why?

The two UK equity strategies, Lindsell Train and Redwheel UK Equity Income, had a strong quarter. Baillie Gifford American and Invesco Asian also contributed positively to performance.

What didn't work and why?

JPM US Equity Income and BNY Mellon US Equity Income were challenged by their exposure to financials.

Voyager portfolio changes Q1 2023

Asset Allocation

In January, the Asset Allocation Committee felt that recent weakness in bond prices was an opportunity to increase the allocation to UK gilts and global inflation-linked bonds by 0.5% each. While portfolios remain underweight bonds, they are neutral on global inflation-linked bonds and overweight UK gilts. The change was funded by a reduction in cash and absolute return.

In March, the Asset Allocation Committee felt that a small underweight to equities remained appropriate in the current environment. However, the committee recommended neutralising our regional tilts given the lack of clarity on how individual regions will perform through 2023.

Fund Selection

In January, the MI Select Managers Bond fund was increased in line with the Asset Allocation Committee's guidance to have greater exposure to bonds, while the MI Select Managers Alternatives fund and cash were reduced. Within equities, as a result of the change in strategic asset allocation, the MI Select Managers UK Equity and the MI Select Managers UK Equity Income were reduced in favour of an increased exposure to overseas equities.

The Winton Trend strategy was added to the MI Select Managers Alternatives fund in February following the recommendation from our analysts. It should act as a good diversifier within the broader portfolios.

MI Select Manager fund weights

MISM FUND WEIGHTS			
Date	**MISM Fund**	**Mandate**	**Weight (%)**
31/03/2023	MI Select Managers Bond Instl Inc	Robeco Global Credits	28
		PIMCO UK Corporate Bond	15
		Insight UK Government Bond	16
		Colchester Global Bond	23
		DWS US TIPS	13
		Other fixed income funds	5
31/03/2023	MI Select Managers NA Equity Instl Inc	JPM US Equity Income	32
		Baillie Gifford American	10
		BNY Mellon US Equity Income	27
		Artemis US Select	31
31/03/2023	MI Select Managers UK Eq Inc Instl Inc	Ninety One UK Equity Income	41
		Man GLG UK Equity Income	41
		CT UK Equity Income	18
31/03/2023	MI Select Managers UK Equity Instl Inc	JPM UK Equity Core	31
		Redwheel UK Equity Income	27
		Lindsell Train UK Equity	29
		Jupiter UK Mid & Large Cap Crossover	6
		Teviot UK Smaller Companies	7
31/03/2023	MI Select Managers Alternatives	Commodities and other alternatives	34
		Muzinich Global Tactical Credit	20
		Ninety One Global Macro Alternatives	13
		Schroder Global Cities	12
		NN Global Convertible Bond	11
		Absolute Return funds	10

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Asset Allocation Committee investment outlook

These views are implemented across our portfolios but there may be deviations where asset classes or suitable investments are unavailable or excluded.

Cash

We remain overweight cash, which is a relatively attractive asset class at a time when global growth momentum is slowing and there is scope for bond yields to keep rising. Moreover, with the UK yield curve inverted, cash now offers a more attractive return than longer-dated bonds.

Bonds

We retain a neutral position towards government bonds. Within this category, we favour gilts, given the UK's interest rate sensitivity and more challenging economic outlook. With central banks nearing the end of their tightening cycles, our bias is to look for attractive entry points to go overweight. Corporate bonds have rallied since October on the back of a decline in risk-free bond yields and credit spread compression. With yield curves deeply inverted and central banks unlikely to start cutting rates any time soon, we are not likely to see the risk-free component support corporate bond performance over the next couple of months. With regards to the credit component, spreads have tightened significantly since October. Credit spreads typically move inversely with economic momentum. Although there may be a temporary pick up in growth, it will likely be modest. Our base case is that a mild US recession begins at the end of this year, so we do not believe the economic outlook is one that justifies credit spreads tightening much further. Against this backdrop, we retain an underweight position in corporate bonds.

Global Equities

Global equities have rallied sharply since October. Chinese growth, global energy prices, US inflation and labour force participation have been moving in a clear 'soft landing friendly' direction. Nevertheless, we suspect the US will ultimately suffer a recession (albeit a mild one), with it stemming largely from monetary tightening. A US recession would pull corporate profits lower, and the global equity market along with it. Against that backdrop, we retain a mild global equity underweight.

Alternatives

The gold price has historically been inversely correlated with real (inflation-adjusted) bond yields. The recent rally in gold has been significantly stronger than one would have expected based on the much more modest recent drop in real yields. Dollar weakness has explained part of the divergence, as has the reportedly strong buying from foreign official sector purchasers (China, Russia) looking to diversify their reserve holdings. Against this backdrop, we retain a neutral position to gold, despite the fact that it looks expensive relative to real bond yields. We remain underweight property. Real bond yields should remain elevated (for now), and inflationary pressures are weakening. Finally, we are overweight absolute return. This is a relatively attractive asset class at a time when the risk/reward backdrop for equities and bonds is not great.

UK Equities

Rate hikes should have a more immediate detrimental impact on growth in the UK, partly because mortgage terms in the UK are much shorter. Higher mortgage rates are pushing UK house prices lower, and that historically has coincided with weaker consumer spending. Relatively weak UK economic growth tends to weigh on UK equity relative performance. The UK market is heavily weighted in value style-oriented stocks, which have mostly outperformed since late 2021. Looking ahead, the outlook for value versus growth stock relative performance is more balanced.

US Equities

We are close to a cyclical top in sovereign bond yields, in our view. Rising bond yields have been good for the relative performance of the global equity value style over the global growth style. If it is correct that bond yields aren't far from a peak, that removes a headwind for the relative performance of growth stocks. That would be supportive of US equity relative performance given that this market is heavily overweight the growth style. Nevertheless, with the US equity market relatively expensive, the dollar outlook uncertain over the next year and the interest rate backdrop likely to be higher for longer, we suspect US equities do not offer much in the way of relative performance upside.

Europe ex-UK Equities

Europe ex-UK equities have strongly rebounded versus the global equity benchmark (in common currency terms). Helping to drive the turnaround has been the strength in continental European FX, which has received a boost thanks to the decline in natural gas prices, increased hawkishness at the European Central Bank, and the shift to a more risk-on environment. Looking ahead, in order to believe the pro-cyclical euro will continue to appreciate, risk assets will likely need to continue to rally. We are sceptical. Without continued upside in European FX, it will be difficult for Europe ex UK to sustain its recent outperformance in common currency terms.

Japan Equities

In our view, the best way to assess the outlook for Japanese equities is to gauge Japan's relative economic growth prospects. Looking ahead, Japanese GDP is likely to outperform US GDP in common currency terms over the near term. First, there appears to be scope for the yen to continue to appreciate versus the dollar. Second, Japan's economy should expand at a reasonable pace at a time when we expect US GDP to be sluggish. Against that backdrop, there's probably a window for Japanese equities to outperform. That said, in the long term, with both the population and birth rate in freefall and given Japan's lack of enthusiasm for immigration, Japan's demographics should act as a roadblock to any sustained economic and equity outperformance.

Asia ex-Japan Equities

With the region heavily oversold, Asia ex Japan equities outperformed the global equity benchmark from the end of last October through mid-January this year. Announcements from the Chinese authorities, such as its 16-point plan to support the property sector and 20-point plan to optimise Covid restrictions (before outright dropping them), helped to catalyse the gains. In addition, like all regions outside the US, Asia ex Japan received a relative performance boost (in common currency terms) from the decline in the dollar. Since then, relative performance has flagged. Looking ahead, the outlook appears balanced. On the one hand, China should be the main global growth bright spot this year. On the other hand, at last month's annual National People's Congress meeting, a conservative GDP growth target of 5% for this year was announced. This does not send a strong signal that the authorities are set to be aggressive with regards to stimulus. Finally, geopolitics and the opaque political backdrop in China remain concerning.

Emerging markets ex-Asia Equities

Brazil, Saudi Arabia, South Africa, Mexico, and the UAE are the countries with the highest market cap weightings in the EM ex Asia equity index, making it very commodity exposed. There are crosscurrents confronting the region. On the one hand, EM ex Asia remains very cheaply valued. On the other hand, EM FX should depreciate versus the dollar as global economic growth slows. With the Chinese economy accelerating but most of the rest of the world slowing, the outlook for commodity prices appears to be neither hot nor cold.

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