

Investment Market Update 30 June 2023

Quarterly Investment Market Review

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Q2 2023 in Review:

The second 3 months of 2023 have been quite benign for Investment markets with Equity market volatility at very low levels. Inflation has continued to drop both domestically and internationally, and hopes are now firmly set on the peaking of interest rates.

The Russia Ukraine war is still ongoing and geopolitical economic divisions have only grown further over the last 3 months.

3 Key Economic Statistics

Euro Area Inflation (June 2023 exp.)	+5.5%
Irish House Prices over the last 12 months (Daft.ie)	-0.50%
Irish Unemployment Rate May 2023	3.8%

Markets in Focus

Equity Market Index	YTD 2023 Performance	Currencies	Price as at 30.06.23
EuroStoxx 50	+19.1%	Euro / USD	\$1.09
German DAX 30	+6.59%	Euro / GBP	£0.86
S&P 500	+14.34% (Euros)	Bond Yields	As at 30.06.23
FTSE 100 (UK)	+6.73% (Euros)	German 10-Year	2.43%
		US 10-Year	3.84%

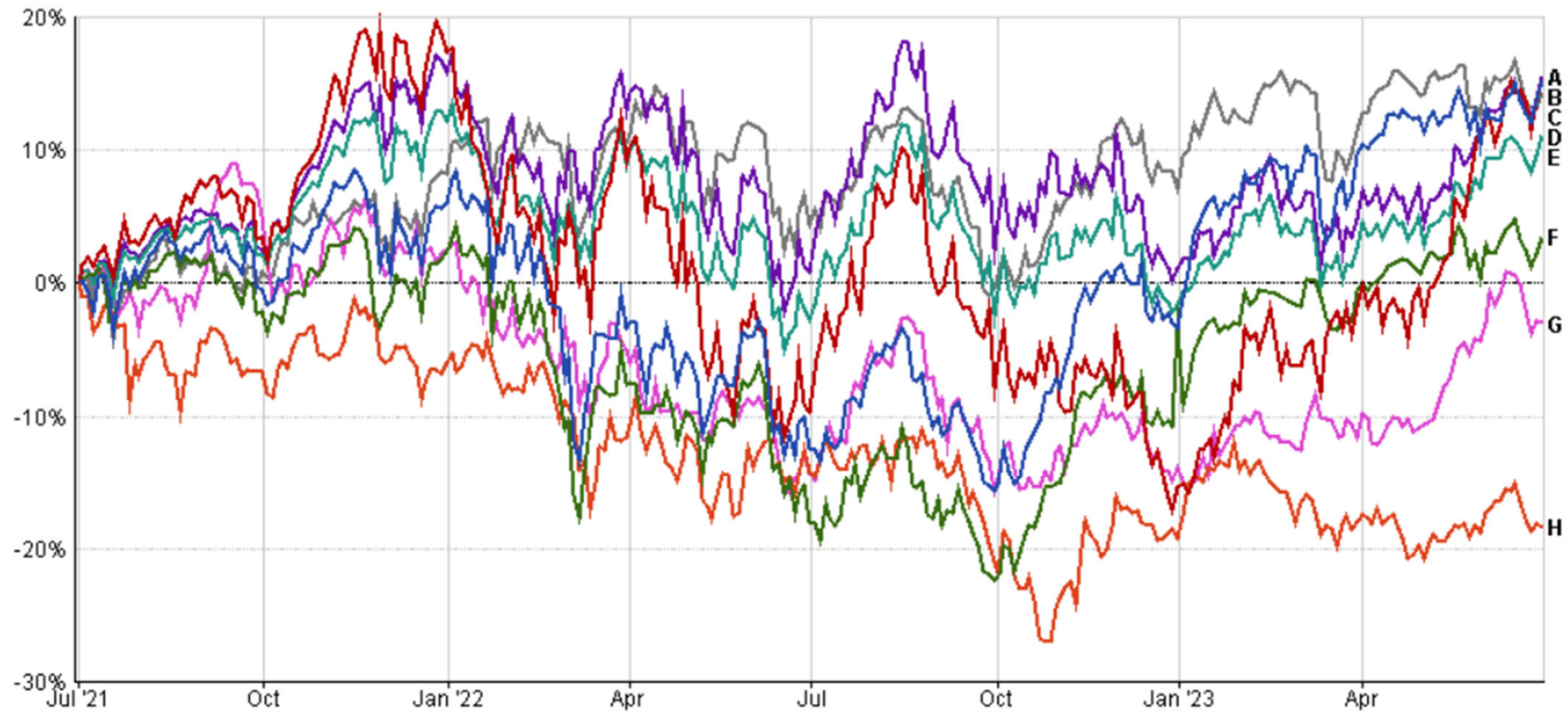
Things to Watch for the remainder of 2023:

1. Will the recent issues with the Banks subside or will we see more banking issues emerge
2. Will inflation continue to gradually fall towards Central Bank targets
3. Will China formalise its stance on the Russia Ukraine conflict

Headline Market Points for H1 2023

- The speed of **Interest Rate increases** by all Central Banks exceeded all market expectations throughout 2022. We now seem to be close to peak rates, although some (future) interest rate reduction expectations have dissipated somewhat based on Central Bank statements over the last few months
- By way of recap, 2022 was the first time the **S&P 500 & US 10 Year Treasury both fell >10%** in a calendar year since 1872. Markets have been more benign in the first 6 months of 2023, with volatility dampened and bond yields reverting closer to historic averages
- **Technology & growth stocks (mainly US listed)** were particularly badly impacted in 2022. However, this has dramatically reversed in the first 6 months of 2023 and large gains in the Nasdaq index and growth stocks generally
- The **Russian Ukraine conflict** has continued to dominate and unfortunately there seems to be no signs of this abating
- An Post rate and bank deposit Rates in Ireland continue to lag European Banks

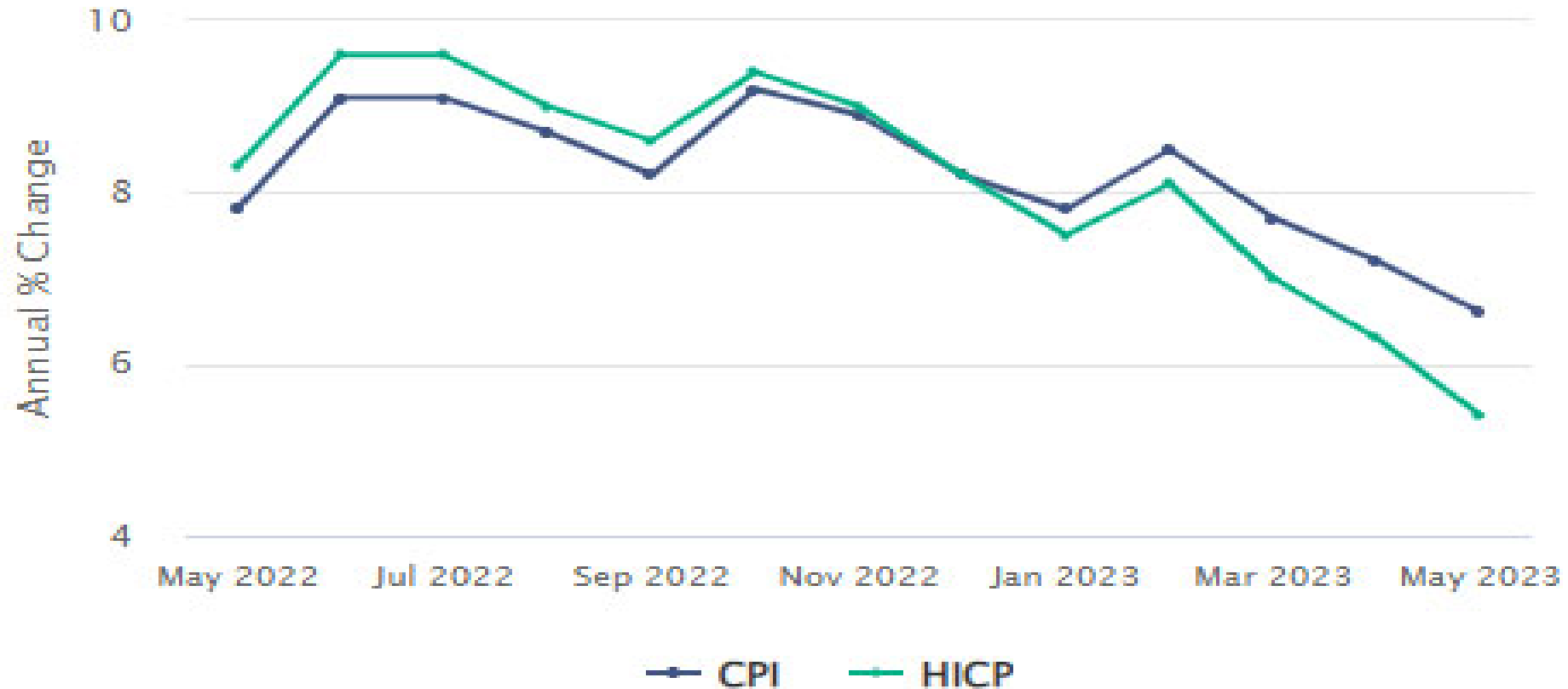
Equity Market Indices (2 years to 30/06/2023)



- | | |
|--|---|
| ■ A - S&P 500 GTR in EU [15.67%] | ■ E - MSCI World GTR in EU [11.12%] |
| ■ B - Nasdaq 100 GTR in EU [15.27%] | ■ F - Deutsche Borse DAX 30 Performance GTR in EU [3.49%] |
| ■ C - Euro STOXX 50 GTR in EU [15.21%] | ■ G - Nikkei 225 in EU [-2.95%] |
| ■ D - FTSE 100 TR in EU [14.41%] | ■ H - MSCI AC Asia ex Japan GTR in EU [-18.41%] |

Focus on Inflation (Ireland)

The Annual rate of inflation has been reducing dramatically, due mainly to energy costs decreasing. Irish CPI Inflation below



Market Outlook: Focus on 4 Asset Classes

Cash

The consensus is that Central Banks globally are close to completing their interest rate hiking strategy, although the ECB is adamant that rates will continue to increase, at least in the short-term. Irish Retail Banks have been slowly increasing deposit rates but are still significantly lagging the ECB base rate and European banks.

Bonds

Bonds sold off heavily in 2022 but this trend has started to reverse due to higher interest rates and more attractive yields. Bonds are now an investible asset class again with Sovereign and Corporate Bonds offering more traditional levels of return. There are some risks still there with bonds, but overall the outlook is far better

Equities

Having had a very negative 2022 & a more positive start to 2023, it is impossible to predict the short-term performance of Equities, given that there are so many unknowns out there. However, over the long-term the outlook is always positive for Equities if one has the Risk tolerance and a diversified Equity portfolio

Property

Investing fresh capital in bricks & mortar Irish Residential property looks hard to justify, given Rent Pressure Zones (RPZs), additional compliance requirements and values having levelled off. However, investing in property in a regulated collective vehicle with a geographical mix is still an important part of a diversified portfolio.

Financial Planning & Economics

- ⊗ **Diversify:** Spreading investment exposure across different assets classes, geographies, sectors and management styles will smooth out returns, reduce surprises and eliminate the chance of permanent loss of capital
- ⊗ **By mindful of Inflation:** Though we may be entering into a ‘disinflationary’ environment, inflation remains at elevated levels. Households, businesses & charities need to factor in these increases into their annual outgoings for the next couple of years at least
- ⊗ **Interest Rates:** As interest rates continue to increase, albeit at a lower rate, the choice of term & rate for deposit rates (for Assets) and borrowing rates (for Liabilities) will be very important for the remainder of 2023 and into 2024
- ⊗ **Long-Term View beats volatility concerns:** Our belief is that one should only allocate capital to Equity markets when there is a long-term holding strategy. In this way, short-term market weaknesses will be less impactful



Bull & Bear Case for H2 2023

Bull Case ↑

1. Interest Rates have peaked & begin to fall
2. A recession is shallow, or avoided entirely
3. Corporate Earnings remain robust

Bear Case ↓

1. An Interest Rate policy misstep leads to a deep recession
2. Russia & Ukraine situation escalates
3. Bank Solvency issues re-emerge

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