

Welcome to our Webinar on Inflation.

29 April 2022

Housekeeping

- **Questions** can be submitted during the Webinar by clicking on the Q&A Button and typing in your Question
- The Webinar will be **recorded** for anyone who would like to watch back after.
- The **slides** will also be made available after the Webinar

Disclaimer: None of the content in this Webinar constitutes financial advice

Our People



Jonathan Sheahan, Managing Director

Jonathan established Compass in early 2015 with a clear vision of providing bespoke & holistic financial planning and investment advice to high-net worth Families, Pension Funds and Charities. Jonathan has 15 years of experience in the Financial Services industry, having worked for Deloitte, Davy Private Clients and Smith & Williamson before establishing Compass. Away from work, he is a keen Golfer and Rugby enthusiast (both sports he is trying to push his 2 kids into!), enjoys playing the guitar, and can whip up a mean Frappuccino on short notice.

Lee D'Arcy, Financial Advisor

Lee joined Compass in early 2021 and has a particular expertise on Investment Markets and Asset Allocation, having previously worked for New Ireland Assurance & Investec Bank in Dublin. Lee manages day-to-day client relationships with a big focus on clarity and transparency. When not caring for clients, Lee enjoys travelling, Formula 1 racing (not personally of course), Improv and is an ardent Man United supporter (which has caused him difficulty of late)



Catherine Lee, Financial Advisor

Catherine is a Qualified Financial Advisor (QFA) who joined the Compass team in 2022. Prior to joining Compass, Catherine worked for Thompson Insurances for 28 years and brings a wealth of experience to the role, with a particular expertise in the areas of Pensions and Protection. Catherine's main role is in the oversight and administration of Client Accounts and Policies. For leisure, Catherine enjoys hitting the gym, socialising and churning out Michelin star level Ravioli!

Robert Smith, Portfolio Manager

Robert joined Compass in 2022 with over a decade of experience across a variety of roles in Pensions, Investments, marketing and strategic management with US, UK and Irish Firms. He is a Qualified Financial Advisor (QFA) and is currently completing a Graduate Diploma in Financial Planning with UCD. Robert enjoys spending time with his family, cycling the breadth of Dublin, many a dad joke and Asian cooking.



Joey Sheahan, Financial Consultant

Joey provides Financial Planning Consultancy to Compass Capital Solutions across a wide range of areas and services. Based in our Cork office, Joey has been working in financial services for 20 years and is very experienced at providing tangible, bespoke advice to individuals, couples and families nationwide. After not quite fulfilling his own dream at making it pro in rugby (it's a sore spot), he's now 'living the dream' though his eldest son's meteoric rise from underage rugby....

Agenda

Market Update.

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What Is Inflation.

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Monetary Policy.

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Asset Classes, Winners & Losers.

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Inflation & Financial Planning.

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Q&A.

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Market Update.

Asset Class Updates

Equities:

Equity markets enjoyed a strong recovery from March 2020 to early January 2022 in the post-Covid rally. However, Equity markets fell back from their highs in mid-January with European markets suffering most

Bond Yields (Government & Corporate)

With interest rates increasing, bond investors in the US market experienced their worst quarter since 1980, and the 3rd worst on record as interest rates begin to move higher

Property:

Residential property prices in Ireland continued to rally as a result of low supply and increased domestic savings. Commercial property performance has been very much sector & location dependent.

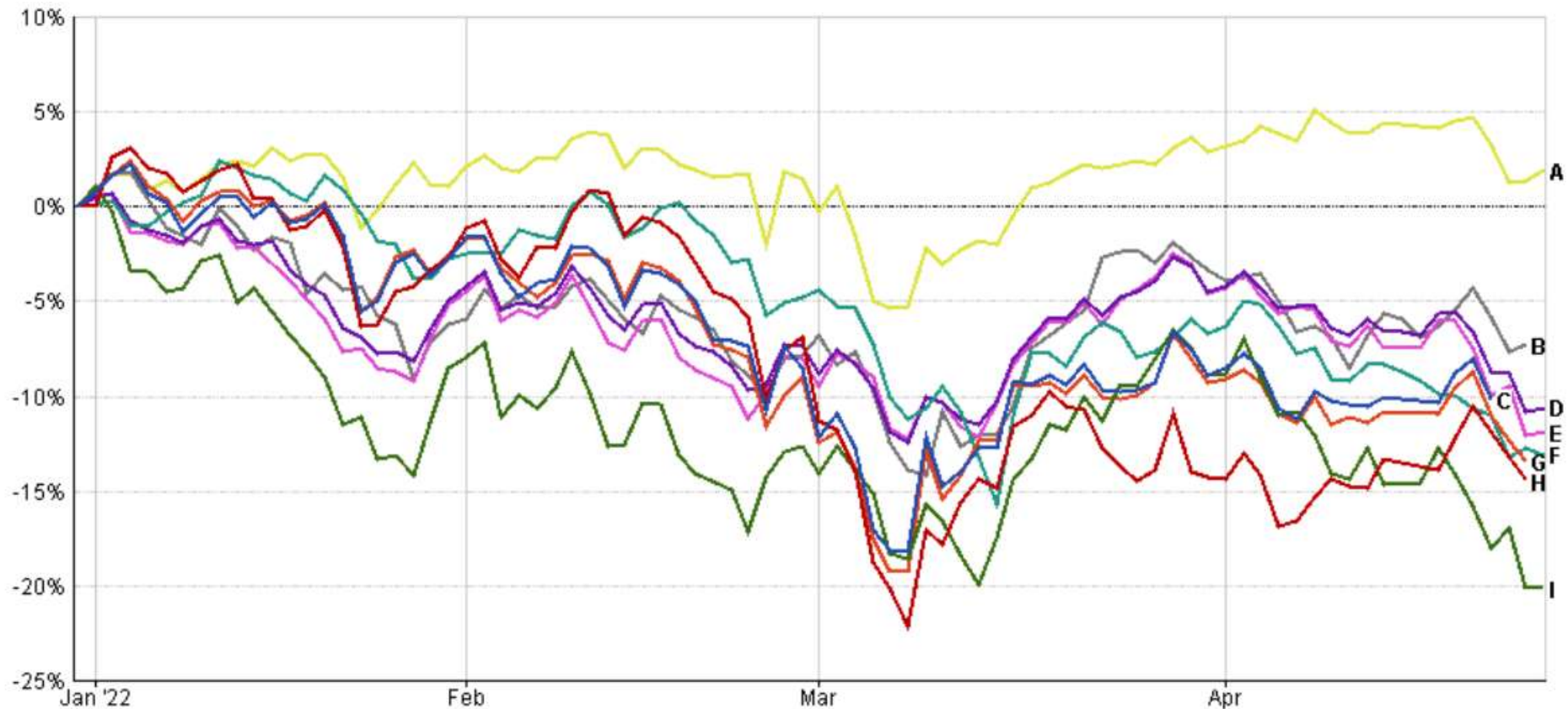
Cash & Savings

Deposit rates available from Irish Banks have remained at all time lows. Retail banks are now charging negative interest of more than -0.50% on certain deposits

Other Asset Classes

*The Dollar strengthened significantly against the Euro in recent times.
Huge price rises were witnessed in Commodities as a direct result of the Russian invasion.*

Market Indices Year To Date



- A - FTSE 100 TR in GB [1.93%]
- B - Nikkei 225 in JP [-7.26%]
- C - Euro STOXX 50 GTR in EU [-10.09%]
- D - MSCI World GTR [-10.65%]
- E - S&P 500 GTR in US [-11.83%]
- F - MSCI AC Asia ex Japan GTR [-13.06%]
- G - Deutsche Borse DAX 30 Performance GTR in EU [-13.40%]
- H - Euronext Dublin ISEQ All Share GTR in EU [-14.40%]
- I - Nasdaq 100 GTR in US [-20.15%]

What Is Inflation.

Inflation



Definition of Inflation

“Inflation measures how much more expensive a set of goods and services has become over a certain period, usually a year”

IMF

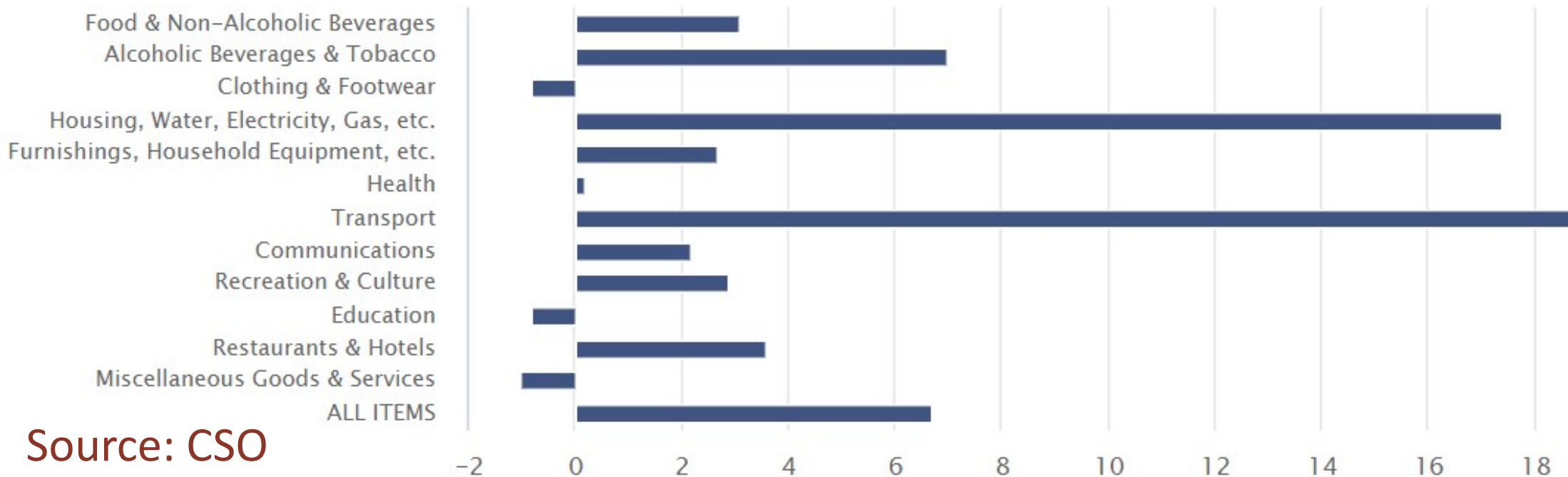
Other Relevant Terminology:

- **Disinflation:** Inflation growing, but at a reducing pace
- **Deflation:** Prices falling
- **Stagflation:** Prices rising at a higher rate than economic growth
- **Recession:** 2 consecutive quarters of negative GDP growth

Measuring Inflation

- **Consumer Price Index:** Monthly monitoring by the Central Statistics Office (CSO)
- **March 2022:** +6.7% over the last 12 months and +1.9% for the month. This is the higher Irish inflation figure in 22 years

See Chart below for 12-Month Irish CSO



Source: CSO

Inflation: Other periods in Ireland

Recent Inflation numbers.....:

March 2021 – March 2022

6.7%

March 2020 – March 2021:

0%

March 2008 – March 2021:

1.9%

Not so recent.....:

March 1973 – March 1975:

40.5%

March 1970 – March 1975:

85.8%

March 1970 – March 1980:

248.7%

Inflation in Ireland over 25 years



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Inflation in Ireland over 45 years



3 Causes of Current Inflation

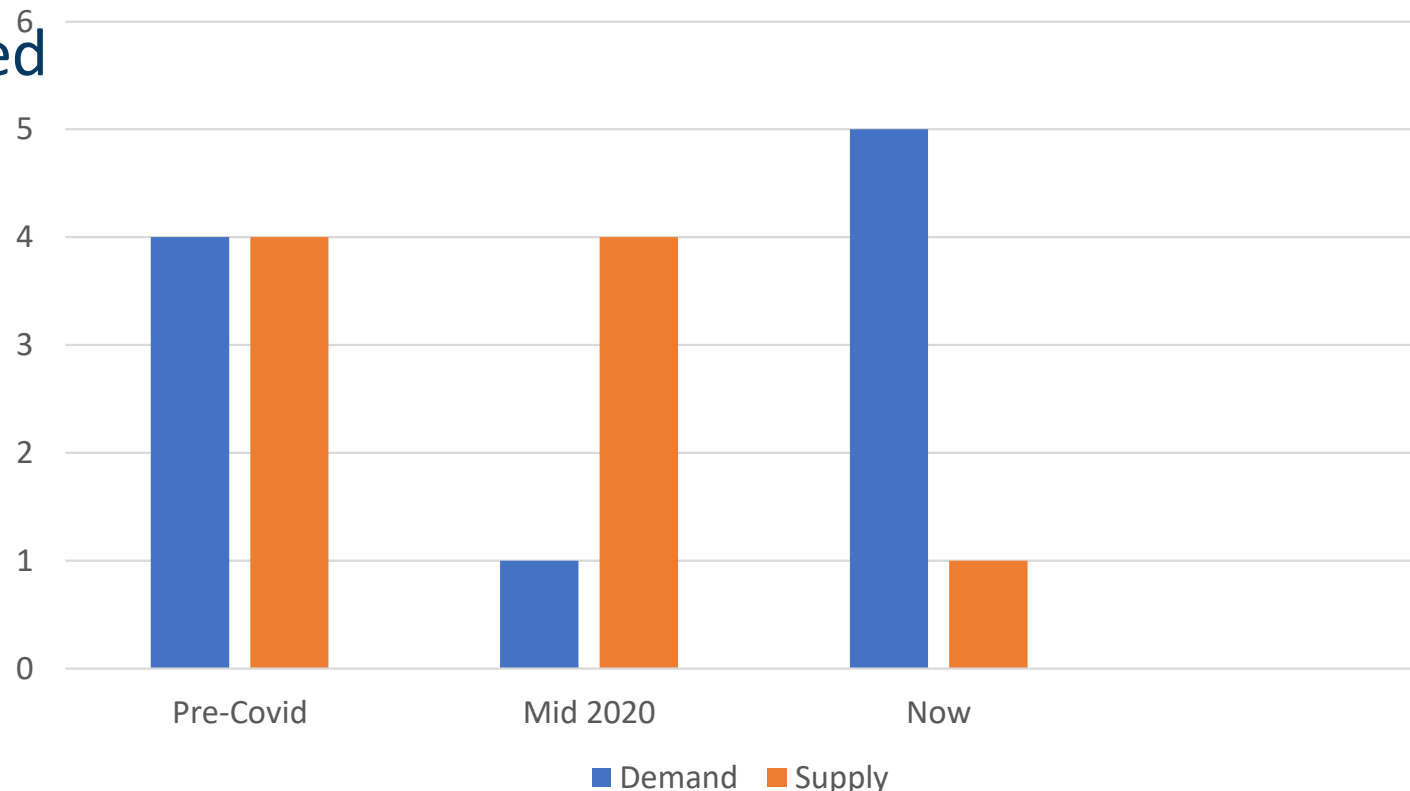
The Perfect Storm.....

1: 2009 – 2020: Historically low interest rates globally to recover from the Global Financial Crisis

Illustration of Shift between Supply & Demand Post Covid-19

2. Early 2020: Covid 19 caused a huge disparity between Supply & Demand

3. Russian invasion of Ukraine



Monetary Policy.

Central Banks & Monetary Policy

Role of Central Banks:

- Price Stability: The Goldilocks scenario: Not too hot, not too cold
- Deposit rates, borrowing rates & price increases (inflation) should all be roughly the same

How Central Banks (aim to) achieve Price Stability

- Increasing interest rates...
 - Makes borrowing (and therefore speculating) more expensive and
 - Rewards Savers
- Decreasing interest rates, conversely, is designed to stimulate an economy

Central Banks & Monetary Policy

US Federal Reserve

- Last week the Fed Chairman Jay Powell hinted at a 0.50% increase in the base rate in May
- The Fed rate will now most likely reach between 2.50% - 3.00% before the end of 2022, which is a huge hike in rates from the recent lows

ECB in Europe

- Current cost of ECB funding is at a rate of -0.50% since September 2019
- Up to recently, there had been no chance of a rate hike in 2022. However, this may now change
- Once European rate increases begin, they may then become quite aggressive if inflation needs to be kept in check

Why Inflation (or deflation) worsens

Inflation gets worse when

- Goods & Services increase in value.... in a low unemployment environment... therefore workers demand higher wages... which in turn feeds higher inflation
and / or
- Society anticipates prices rising.. Therefore they buy or invest now in anticipation.... Causing further price rises

Deflation gets worse when

- Society anticipates prices falling... therefore people defer spending or investing...
- Causing an economic slowdown or prolonged recession

Ireland and the EU

- For Ireland, being a member of the Single currency system **reduces the volatility and unpredictability** that we would have been subject to if we had our own currency
- However, sometimes the setting of **interest rate policy in the ECB may not be consistent with what is suitable for Ireland**
 - In 2005 & 2006, just before the Global Financial Crisis, ECB base rates were far too low for Irish people and encouraged speculation
 - In 2008, when Ireland needed a huge cut in interest rates, ECB rates were stubbornly high
- **Fiscal policies measures** can be put in place to reduce inflation e.g. VAT or Excise cuts

Asset Classes, Winners & Losers.

Asset Classes

Certain Asset Classes & Investment Types may perform better than others depending on the wider Inflationary, or deflationary, environment

Long-Dated
Conventional Bonds

Will lose value in a high-inflation environment

Equities

Very dependent on the type of Company / Sector and the type of inflation

Cash Savings

*Portfolio Stagflation assuming deposit rate < inflation
However, liquidity can be a powerful attribute of Cash*

Residential Property

Typically would be an inflation-hedge as rents will rise with inflation

Winners from Inflation

- Borrowers on rates linked to base Central Bank rates in a low inflationary environment e.g. Tracker mortgages over the last 12 / 13 years
- Borrowers on longer-term fixed rates that are locked in at lower rates, in a rising inflationary environment
- Investors with Equities portfolios that contain companies that perform well in an inflationary environment
- A Government with a high amount of (nominal) debt that can be 'eroded away' by inflation

Losers from Inflation

- Those over-allocated to Cash in a high-inflation, low-deposit rate environment (Portfolio Stagflation)
- Owners of residential property with rent caps (currently 2% in rent pressure zones) in an environment of high inflation
- Those who put too much of their capital at risk to try to 'catch' inflation, and are disproportionately negatively impacted in bear markets
- Those on fixed incomes (e.g. DB Pensions) that are not linked to Inflation

Inflation & Financial Planning.

Inflation for YOU

Published Inflation data is useful to track & be aware of, but everybody has their own inflation figures, that may be higher or lower than the generic data

Families, Charities & Business Owners *need to calculate their inflation number.*
Some of the variants are...

- **Healthcare:** Health Insurance, home healthcare, nursing homes etc.
- **Travel:** Linked to energy prices & tax
- **House-running** costs
- **Debt-servicing** costs
- **Other Fixed outgoings** that are linked to inflation

Key Rules when considering Inflation

- **Stick to your Financial Plan** / Asset Allocation strategy, regardless of:

- The underlying economic environment
- Inflation / deflation
- Risk-on / Risk-off environment



- A **diversified Portfolio** is designed to withstand these shocks to the economic environment
- Think **Long-Term** & avoid short-termism
- Ensure that you **understand your financial position** and exposure at all times on a **holistic basis** across all structures
- Always TRUST the financial advice you receive by removing conflicts of interest

Disclaimer

- The content of this presentation does not constitute Financial Advice.
- The views expressed in this Presentation are personal opinions of Jonathan Sheahan at a particular point in time
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Q&A.