

Investment Market Update

14 July 2023

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- The Webinar will be **recorded** for anyone who would like to watch back after.
- The **slides** will also be made available after the Webinar

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Market Headlines

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

Inflation, Interest Rates & Bonds

Interest Rates & Inflation

- All indications are that interest rates are cooling off globally
- The consensus is that they are moving towards the Central Bank targets, which is c. 2% p.a.
- Central Banks have to 'cool' inflation by increasing interest rates
 - Increased interest rates rewards savers and penalises borrowers.
 - Central Banks want economies to run in a goldilocks scenario i.e. not too hot, not too cold
- Current base Interest Rates are:
 - US Federal Reserve: 5% - 5.25%
 - European Central Bank (ECB): 4%
 - Bank of England: 5%

Focus on Inflation (Ireland)

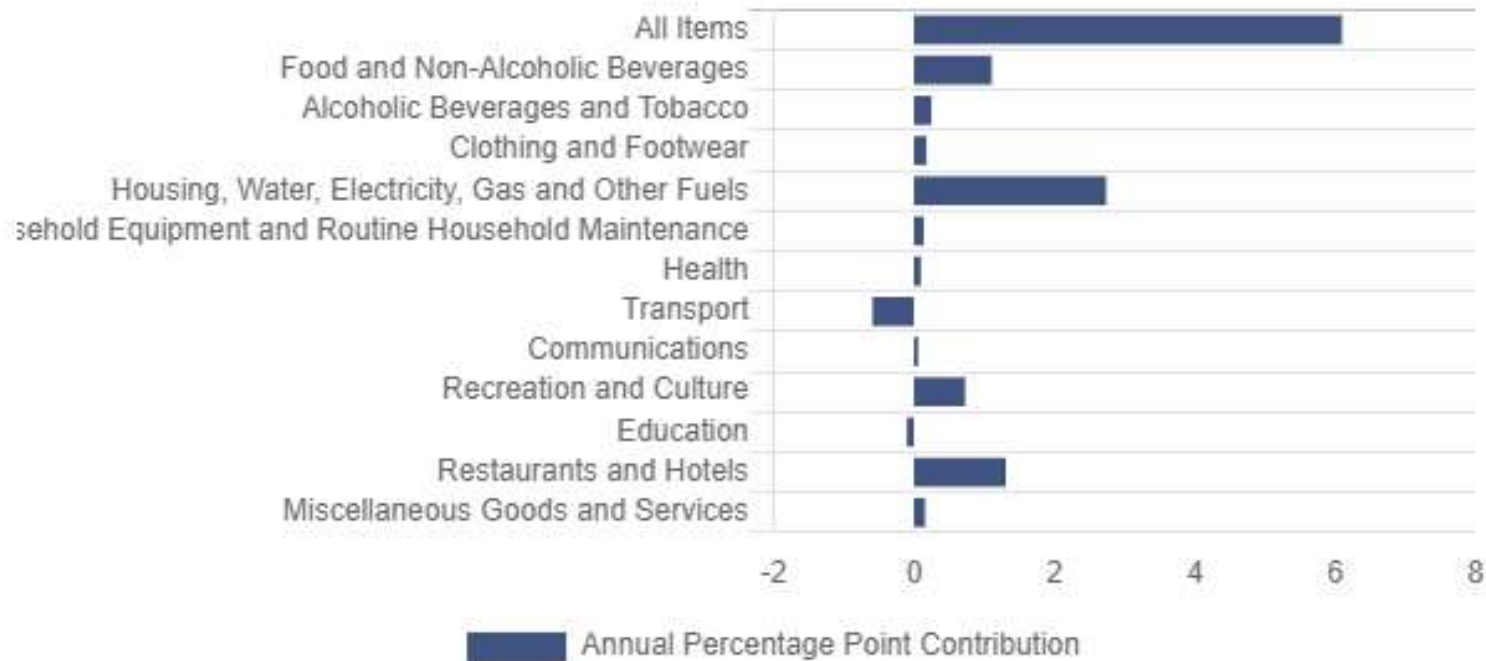
The Annual rate of inflation has been reducing dramatically, due mainly to energy costs decreasing. Irish CPI Inflation below



Irish Inflation numbers

- 21st straight month with annual CPI growth of > 5%

Figure 2: Contribution of CPI COICOP Divisions to the Overall CPI Annual Percentage Change - June 2023



10-Year US Bond Yield over last 3 years



10-Year German Bond Yield over last 3 years



Equities & Currencies

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



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

Euro v USD over 1 year



Euro v Sterling over 1 year



Asset Class Changes – Implications

Higher Interest Rates

- ⊗ Higher ECB rates should increase the deposit rates available to Irish savers
- ⊗ Bond yields have increased, meaning existing bond investors lose capital but more attractive yields are available to new investors

Currencies – Dollar movement

- ⊗ Over 60% of the MSCI World benchmark Index is denominated in US Dollars
- ⊗ Dollar denominated assets, for Irish investors, increase in value when the Dollars is strong, and decrease in value when the Dollar is weak, all else being equal
- ⊗ While the US Stock markets are currently at a 15-month high, the US Dollar is also at a 15-month low

Investment Strategies & Financial Planning

Asset Class Options: Risk v Return

In an efficient market, the level of Risk should be correlated with the level of Target Return



Investment Strategy: Role of Cash

CASH

is the default option for surplus cashflow & savings

Non-CASH

Any asset other than Cash is deemed “invested” & can be labelled as ‘Risk Assets’

PRIMARY FOCUS: Cash as a Building Block

- ❌ Cash is the first “layer” of any Portfolio. It forms 2 purposes:
 - A **Nest Egg / Emergency** Fund should you need funds at short notice
 - A natural **diversifier**, to enable you to take more risk with non-Cash funds
- ❌ The amount of Cash one should have is dependent on:

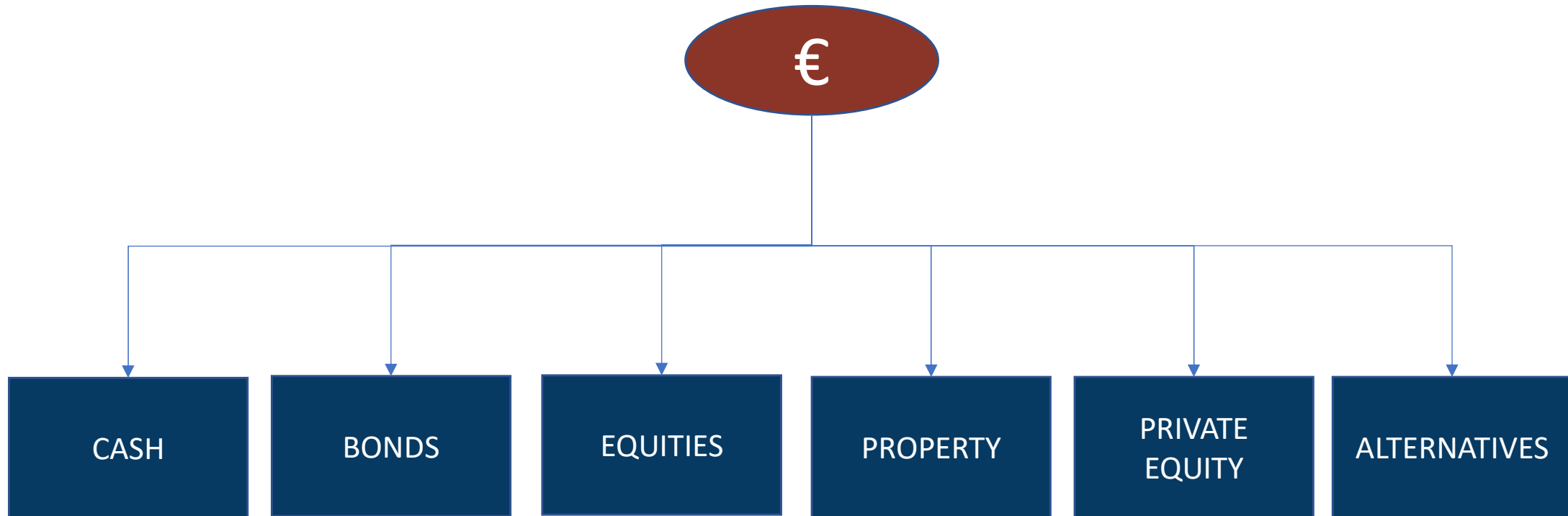
Security of
your
Income

Risk Profile
& Age

Cashflow
Surplus /
Deficit

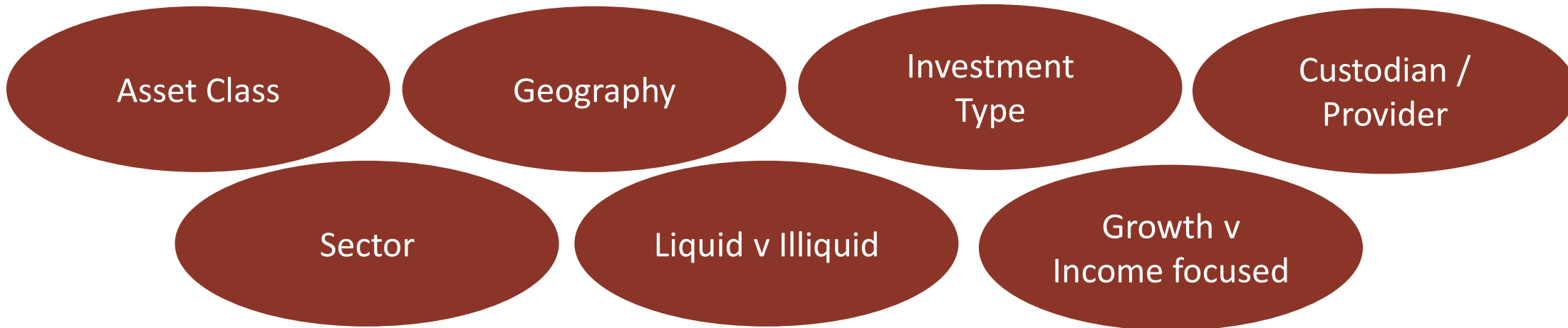
Other
Invested
Assets

Capital Options: 6 Asset Classes



Investment Strategy: Diversification

Investment Strategies can be split (diversified) in terms of:



Why Diversify your exposure?

Risk Reduction

More Smoothed out returns

Outlook

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.

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

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



Q&A

Investment Strategy: Key Principles

Diversification

Spread your Risk
Minimise your
downside

Transparency

Understand your
Investments

Holistic View

Consider all of your
assets, regardless
of the structure

Inertia

Do not fall into
the inertia trap.
Make changes
where necessary

Clear Mandate

Ensure that you and
any Advisors are clear
as to your Risk &
Objectives

Conflicts of
Interest

Trust your advisor
that they have
your best interests
at heart

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