Market Insights

JUNE 2021

HARVEST
FINANCIAL SERVICES

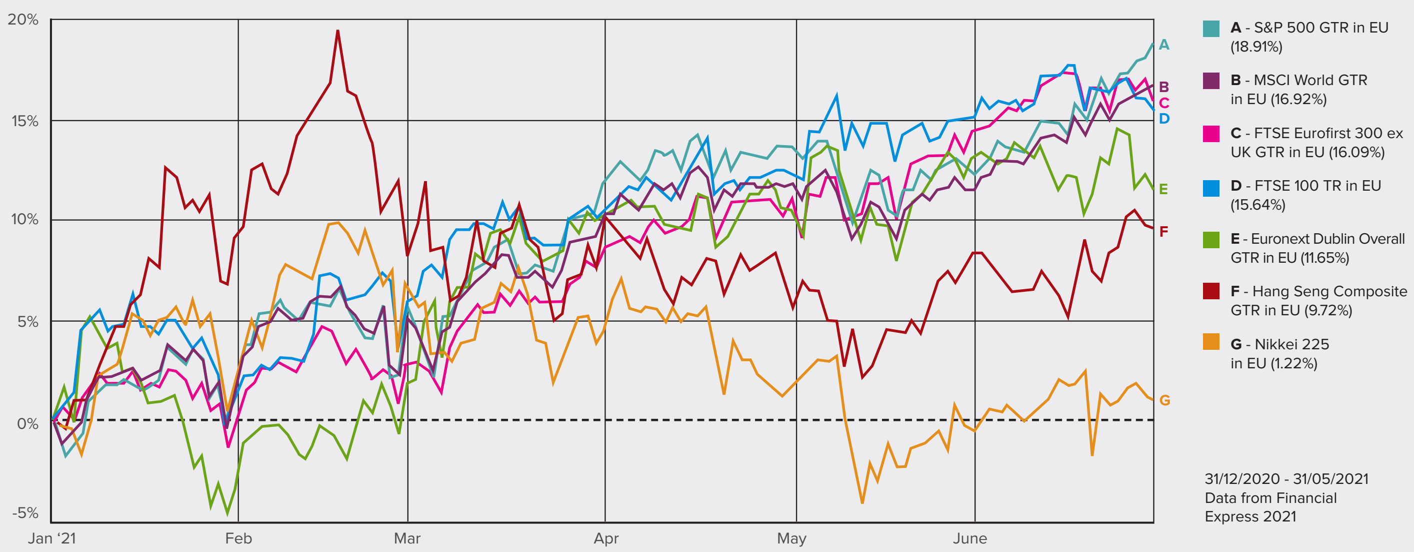
Month in Review

Inflation is simply the story that won't go away. Despite the official line emanating from Central Banks that the evidence of upward price and wage pressures which has recently come to light, particularly in the US, will be a transitory phenomenon, a growing number of market participants are not so sure. The doubters are still in minority and the prevailing view continues to mirror the official line from the Central Banks. However, there is an abundance of factors feeding the opposite view. Among them are the continuing rise in oil prices, the spike in US house prices in recent months, the acute shortage of shipping containers influencing sharp rises in transport costs, the long waits being experienced for new car purchases (due to parts shortages) and so on. Ironically, of course Governments are one of the primary beneficiaries of inflation as it reduces the value of their debt in real terms and with the growth of Government debt across the world in recent years, a small dose of inflation might be quietly welcomed.

For investors, the concern is if or when the weight of doubters reaches critical mass as this is likely to trigger a market correction. While the past month has been positive overall for both bond and equity markets, the Summer months (traditionally never seen as a positive period for markets at the best of times) could be quite bumpy because of the ebb and flow of inflation worries combined with scope for significant disappointments in relation to the relaxing of Covid restrictions.

Longer term we continue to see value in risk assets and in equity markets in particular.

Major Equity Markets Year to Date (in euro terms)



Equity Markets

The past month was a generally positive one for stock markets, with the US (ahead by almost 6% in euro terms) once again leading the charge. For the moment at least, the post covid recovery story is winning out over inflation worries or any potential setbacks arising from the spread of new variants. As far as the latter is concerned, there is growing acceptance that while the vaccines may not be completely effective against the new variants, they do seem to result in much milder symptoms and far fewer hospitalisations. As a result, they may delay but unlikely to reverse the reopening of economies. Economic growth is now projected to be strong in most of the major economies in 2021 and 2022 and equity markets should continue to reap benefits from the improving outlook.

Equity Market Performances (in euro terms)

Market	Performance June 2021*	Performance 1 Year*	YTD*
Ireland	-1.3%	38.5%	11.7%
UK	0.2%	24.9%	15.6%
Japan	1.7%	18.9%	1.2%
Europe	1.4%	29.4%	16.1%
US	5.7%	33.3%	18.9%
China	1.1%	22.9%	9.7%

Source: Financial Times, Financial Express

Bonds

The expectation that the Federal Reserve in the US would begin to raise interest rates sooner than had previously been signalled led to a spike in 10-year treasury yields. This has now been reversed and yields have fallen back. However, the event does point up the vulnerability of the bond market. The current consensus view on interest rate trends is a very benign one and bond prices are trading at all-time highs reflecting that view. As a result, it is hard to avoid the conclusion that, for longer term sovereign bonds as well as for high yield corporate bonds, there is material downside risk over the next year.

Cash

Holding large reserves of cash is becoming an expensive option these days as banks seek to apply negative rates to a wider range of accounts. For those not seeing a need for their cash over the next three years, there are certainly a number of lower risk alternatives which should be seriously examined. If you wish to look into these options in more detail, you should contact your Client Adviser in Harvest for further information in relation to your options.

Private Equity

While investing directly into unlisted companies can bring a significant degree of risk, accessing private equity via large liquid diversified funds can be a very attractive prospect for pension investors. The backdrop for the larger private equity funds is very positive at this point in the cycle. Debt costs are historically low, company growth prospects are improving post Covid while there are considerable investment opportunities in a number of out of favour sectors.

Investments Outlook

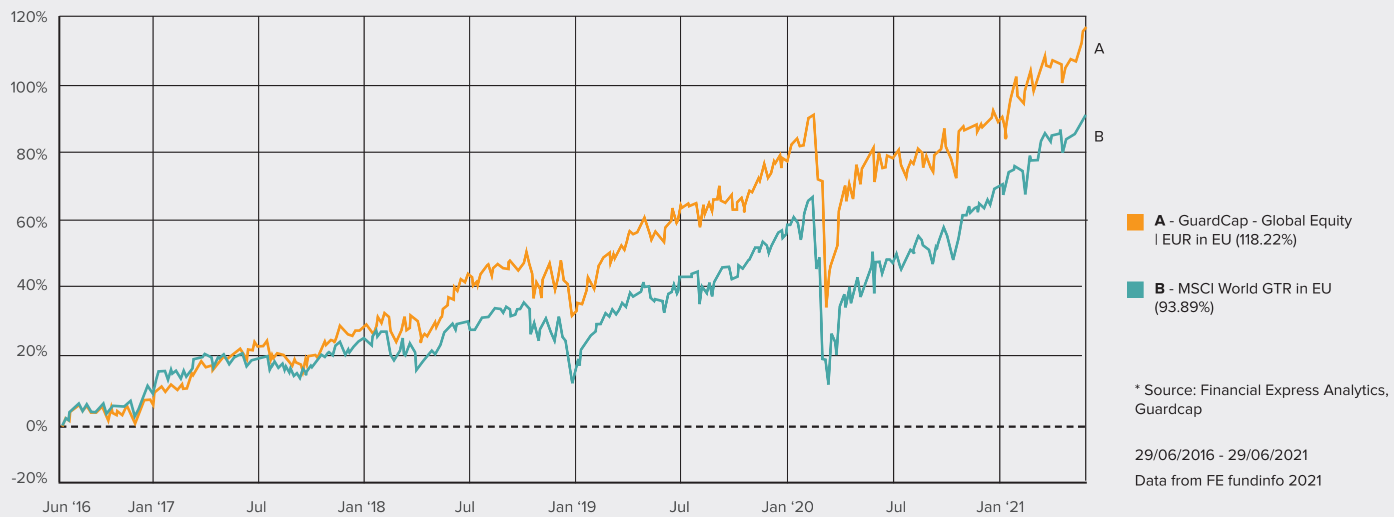
Covid and inflation related uncertainties will undoubtedly lead to bouts of volatility in equity markets over the coming months. On the other hand, the emergence of countries from restrictions provides plenty of opportunity for companies exposed directly or indirectly to consumer markets to enter a period of strong growth. This trend will have a strong underpinning effect on markets, and we would still expect markets generally to finish ahead of where they are now at the end of the year.

Fund in Focus – Guardcap Global Equity Fund

For our monthly Fund in Focus we are highlighting the Guardcap Global Equity Fund. This a high conviction equity fund which targets companies with strong positions in growing niche markets, while generally avoiding the big names The philosophy of the fund is that long term sustained growth drives returns.

- The fund includes a very select, thoroughly researched concentrated portfolio of quality companies (20-25) selected based on their track record and potential of delivering sustainable capital growth with great diversification across various sectors and regions.
- Each company having significantly better quality and growth characteristics than the market average, and each being undervalued in relation to its long-term future earnings and cash flows at the time of purchase.
- The fund managers follow a rigorous process where a large pool of stocks is reduced to those which best fulfil such criteria as sustainable competitive advantage over other similar companies, excellent management and a strong financial history and outlook.
- Income and capital gains from the Fund are reinvested.
- The fund provides a scale of opportunity for investors and would be considered a core global equity holding in a portfolio for both personal and pension investors.

5-year Fund Performance vs MSCI World



* Source: Financial Express Analytics, Guardcap

29/06/2016 - 29/06/2021
Data from FE fundinfo 2021

Personalised Investment Service

Whether you are new to investing or a sophisticated investor we have tailored investment services to suit you.

Dedicated Support

Working closely with your Client Advisor we can deliver bespoke investment solutions all built on a foundation of sound financial planning.

Holistic Investment Advice

Our Investment Advisory team are guided by leading-edge research, alongside our clear and consistent investment selection process. This insight ensures your portfolio remains in line with your objectives.

HARVEST FINANCIAL SERVICES

Harvest Financial Services Ltd,
Block 3, The Oval,
Shelbourne Road, Ballsbridge,
Dublin 4, D04 T8F2.

T: +353 1 237 5500
F: +353 1 237 5555
E: justask@harvestfinancial.ie
www.harvestfinancial.ie

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