Market Insights

OCTOBER 2021

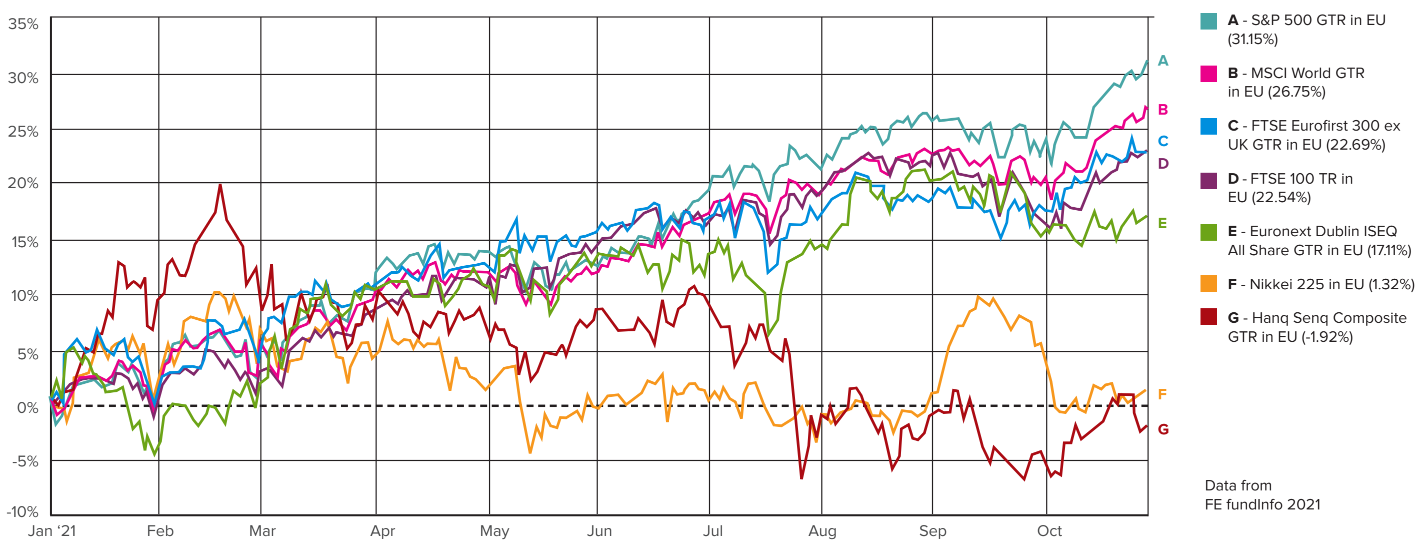
HARVEST FINANCIAL SERVICES

Month in Review

In line with numerous hints over recent months, it is widely expected that the Federal Reserve in the US will start to taper its QE programme over the coming weeks with an announcement expected this week. Such an announcement is unlikely to materially affect markets as it is so widely expected. Continued supply chain logjams and upward pressure on wages are feeding the inflation monster and there is a growing view that current inflationary pressures may not be as transitory as previously thought. We can expect interest rates to start rising in the US in the first quarter of next year. Interest rate increases also look to be on the cards in Canada and the UK. The ECB on the other hand has not altered its stance and while QE support for bond markets will ease over the coming months, recent statements by Christine Lagarde would suggest that European rates will not rise until 2023 at the earliest.

Elsewhere, political and trade tensions between the US and China (and within China itself) continue to be an issue as the US bans China Telecom from its market. This is reflected in the very poor relative performance of the Chinese Stock market year to date as shown in the chart below. In relation to specific company news, the ongoing forward march of Tesla seems unstoppable as the company's market valuation is now in excess of one trillion dollars and in fact its valuation is now equal to the combined value of all of the other motor manufacturers across the world. A valuation such as this is hard to defend on any objective measure and are a big reason why we continue to maintain a cautious stance on equities over the short term.

Major Equity Markets Year to Date (in euro terms)



Equity Markets

The earnings reporting season kicked off in the US during October and most of the larger companies produced positive surprises. This led to a strong performance by the US market over the month, but European markets did almost as well. Japan had a positive month in local currency terms but was driven into negative territory when converted to euros as a result of Yen weakness.

Year to date, the US , UK and Continental Europe are all ahead by more than 20% at this point. Following this very strong month, we would expect to see a return of some volatility between now and the end of the year. That said, support for equities remains very strong and minor corrections are likely to reverse quickly.

Equity Market Performances (in euro terms)

Market	Performance October 2021*	Performance 1 Year*	YTD*
Ireland	1.3%	34.5%	17.1%
UK	4.6%	43.6%	22.5%
Japan	-2.1%	16.0%	1.3%
Europe	5.4%	42.5%	22.7%
US	6.0%	43.9%	31.1%
China	2.5%	4.9%	-1.9%

Source: Financial Times, Financial Express

Bonds

Bond yields have bounced around quite a bit over the past month as the market comes to terms with the imminent ending of QE and the inflation story that simply won't go away. Central banks remain very focused, however, on avoiding precipitous moves which might unsettle markets and are determined to manage a smooth transition away from QE. We remain wary of mainstream bond markets, particularly sovereign bonds. We prefer to look away from the mainstream market when it comes to bonds and we believe there is still value to be found in niche areas of the bond world where yields continue to be attractive.

Property

The property sector worldwide was an early victim of Covid as markets wondered about the longer-term impact that remote working and online purchasing would have on demand for space. There is little doubt that the long-term demise of physical retail has been hastened by the arrival of Covid and the future of shopping centres must certainly be in question. With offices, on the other hand, the picture is less clear. Most larger companies would appear to have reached the conclusion that, for efficiency and productivity reasons, they are better off with their staff back in the office, at least three days per week. In our view, property will continue to be a source of strong, reliable income and represents a value opportunity at the moment because of the ongoing uncertainty.

Alternatives

With the COP 26 Summit ongoing at the moment, there is considerable focus on alternative energy sources and there is little doubt that there will be a huge level of investment in this area in the coming years. Renewable energy funds offer the attraction of providing strong (usually Government supported) and predictable levels of income to investors and there are a number of stock market listed entities available in the solar and wind space particularly.

Investments Outlook

Longer term we remain convinced of the deliverable value to be had from equities but investors committing funds to the market now should expect some volatility at least in the near term. Inflation has re-emerged, at least temporarily, after a very long absence and the direction of interest changes are likely to be upwards over the coming years. Having said that a small dose of inflation can be good news for equities as it allows companies to increase prices and expand margins. So, looking out over the next year, we remain cautiously positive on financial markets generally but we are encouraging clients to include a selection of alternatives in their investment portfolios.

Fund in Focus – International Biotechnology Trust

This month's fund in focus is the International Biotechnology Trust. The trust invests in companies who focus on the development and/or commercialisation of a pharmaceutical product, device or enabling technology. Investments may also be made in related sectors such as medical devices and healthcare services.

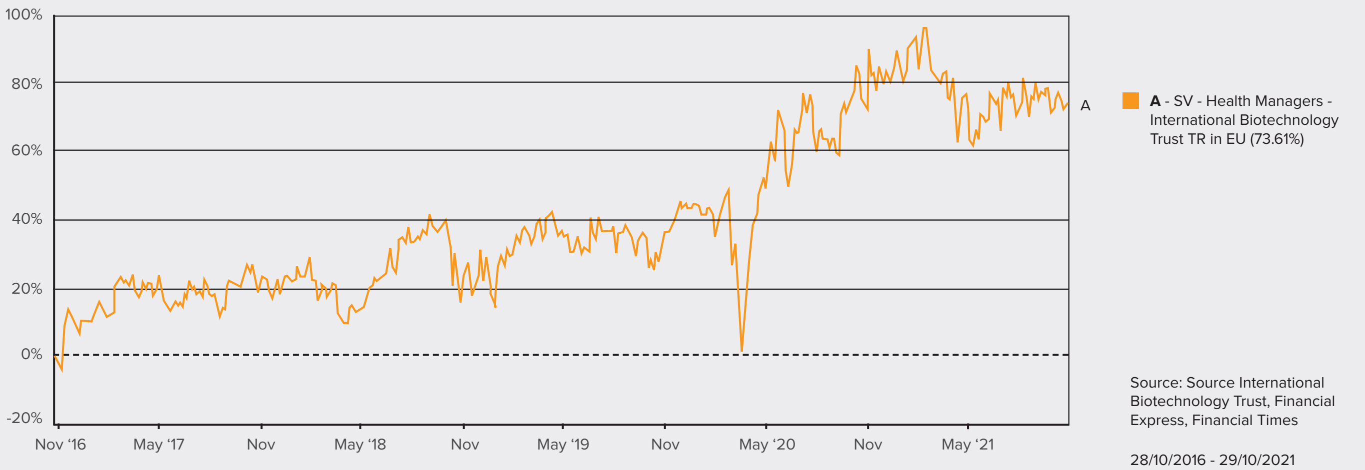
The chosen companies create a wide-ranging portfolio of global quoted biotechnology stocks. It also includes a small proposition of carefully selected unquoted investments which have the potential to deliver additional returns over the long term. The investment trust has a highly experienced management team who have been running the fund for a number of years. The trust is currently trading at a -6% discount to its NAV.

Key Features of the Trust:

- Strong potential for future growth in the biotechnology sector (principal source of new drugs).
- Biotechnology generally looks undervalued currently in comparison with the wider technology space.
- Income: 4% dividend per year.
- Good portfolio diversifier as the trust very different from traditional investment sectors.
- Exposure to unquoted as well as listed biotechnology companies
- Growing level of M&A in the sector which acts as a good source of added value.
- Most of portfolio (about 87% of total NAV) is invested in US and Canadian companies. This is the region where this sector is most advanced and developed.

A key attraction of this fund for investors is clearly its very strong dividend yield. The current yield is 4% and this is paid out to investors bi -annually. This may be of particular interest to ARF investors who are looking to generate income from their investment portfolio. If you would like to discuss this fund or look at other investment opportunities, please contact your Private Client Adviser.

International Biotechnology Trust 5-year performance



Source: Source International Biotechnology Trust, Financial Express, Financial Times

28/10/2016 - 29/10/2021

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.

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