Market Insights

NOVEMBER 2021

HARVEST
FINANCIAL SERVICES

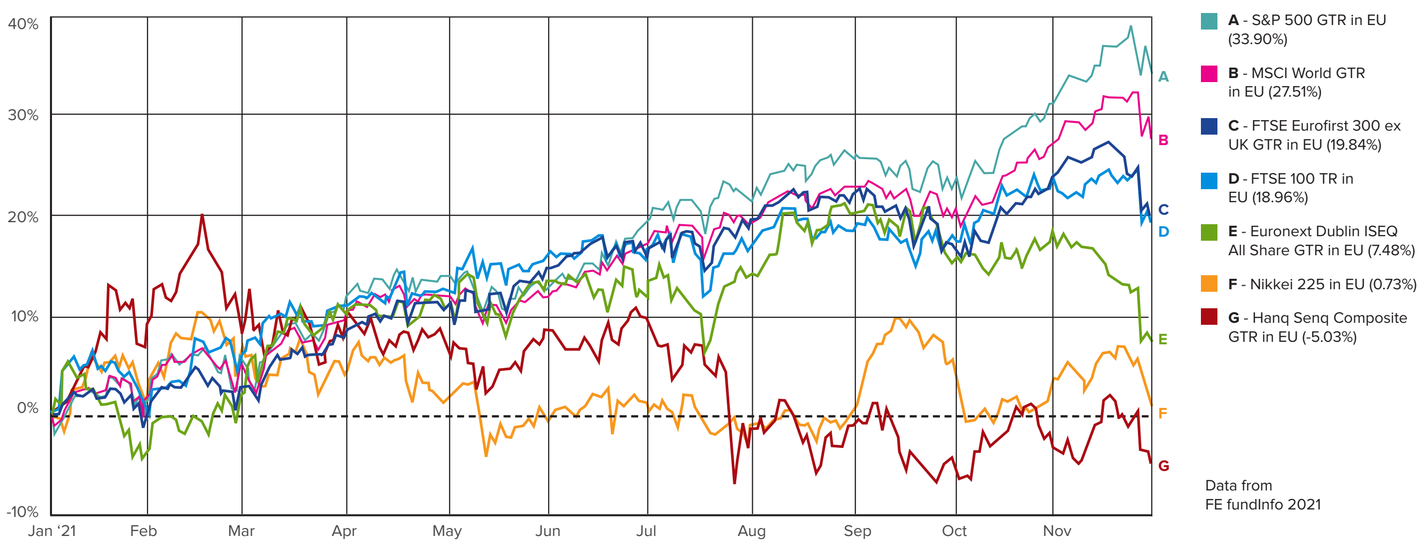
Month in Review

The past month saw the return of volatility in markets, driven firstly by inflation concerns and then towards the end of the month we received the devastating news about the Omicron variant. As a result of these uncertainties, both equity and bond markets turned downwards. While the UK was expected to be the first of the major central banks to raise rates with a move expected by the end of the year the arrival of the new Covid variant has lowered the probability of this happening now, although it may still happen. Statements in recent days from members of the Federal Reserve in the US have reinforced the view that the removal of QE supports will continue and that there will be an interest rate rise in the US in the first quarter of 2022. The concern in the US is that the inflation trend (inflation is currently at around 6% in the US) may not be as 'transitory' as originally thought.

And while inflation is currently running at around 4% in Europe, interest increases by the ECB are still seen as being some way off yet.

However, there are good reasons to expect that any rate increases over the coming years to be relatively muted. The biggest of these is global debt levels. There has been a huge rise in global debt levels since the Global Financial Crisis of 2008 and most of this has been government debt. The simple truth is that quite a number of governments – the UK and Italy for example – could not afford a material rise in bond yields because of the additional debt servicing costs. As a result, we do not expect an interest rate driven crisis in markets over the next couple of years.

Major Equity Markets Year to Date (in euro terms)



Equity Markets

The positive trend in equity markets over the year to date was brought to a halt in November with the appearance of the Omicron variant. The US equity market finished marginally down while all other major equity indices closed off the month materially in negative territory. Because of the various push and pull factors weighing on markets, we would expect that the recent bout of volatility to be repeated over the course of the coming year. Ironically, while equity market valuations in the US and Europe are towards the upper end of the range, they are quite a bit below historical highs when expected profit growth over the next two years is factored in. So there is still a positive case to be made for investing in equities. That said, we do expect volatility will be a major feature of markets in 2022.

Equity Market Performances (in euro terms)

Market	Performance November 2021*	Performance 1 year*	YTD*
Ireland	-8.9%	10.4%	7.5%
UK	-2.9%	23.0%	19.0%
Japan	-6.2%	2.7%	0.7%
Europe	-3.1%	22.3%	19.8%
US	-0.9%	35.9%	33.9%
China	-4.6%	-3.7%	-5.0%

Source: Financial Times, Financial Express

Bonds

For obvious reasons, bonds are the most responsive asset class when it comes to the prospect of interest rate changes. As a result, we would expect that any volatility in equity markets will be mirrored to at least some degree in bond markets. However, given that our central case is for a very muted upward cycle in rates over the coming years, we do not see the risk of a major sell off in bond markets. In addition, we continue to believe there are pockets of the markets where there is attractive value to be found, particularly in the form of income-generating opportunities.

Property

Our base case for the property sector throughout Covid has been that the sell-off in property funds has been overdone, that commercial offices have a long term future and that the sector will continue to be a dependable source of income. We are sticking to this position and, added to this now is the further argument that property as an asset class is an excellent inflation hedge as has been shown repeatedly in the past. In our view there are very good opportunities in the market at the moment to purchase property funds at a material discount to their underlying value.

Alternatives

If we are facing into a volatile year for investments generally, it may be a good time to consider higher yielding sources of reliable income. We have added a number of funds to our Recommended List in recent times which offer yields in middle to high single digits and which be protected to a degree from volatile events in markets.

Investments Outlook

So while 2022 could be a little bumpy, we are not advising clients to make any adjustments to their portfolios unless they are very heavily weighted in equities. In fact, volatility may well give rise to investment opportunities where portfolios are being topped up. In addition, in cases where significant new money is being committed to the markets then a phased approach is to be advised. But longer term we remain convinced that equities offer value and certainly should not be avoided.

Fund in Focus – Honeycomb Investment Trust

This month's fund in focus is the Honeycomb Investment Trust. The Investment Trust is dedicated to investing in credit assets originated by non-bank lending platforms and other originators of specialist lending assets, primarily in the UK. The funding provided is asset-backed and the level of defaults experienced throughout Covid has been negligible.

Attractive returns are delivered through a focus on high-quality underwriting of borrowers in markets that are underserved by mainstream finance providers. It is a good investment option for diversification as the investment strategy is not linked to bond or equity markets.

Key Features of the Trust:

- Investments secured on loan portfolios of non-bank lenders.
- Over 40 different investments – a diverse and granular, no single asset or single sector risk.
- Income: current dividend yield is 8.2%.
- Good portfolio diversifier as the trust very different from traditional investment sectors.

A key attraction of this fund for investors is clearly its very strong dividend yield. The current yield is 8.2% and this is paid out to investors quarterly. 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.

Honeycomb Investment Trust 5-year performance

Source: Honeycomb Investment Trust, Financial Express, Financial Times

29/11/2016 - 29/11/2021

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

Warning: The return may increase or decrease as a result of currency fluctuations.
Warning: The figures refer to the past. Past performance is not a reliable indicator of future results.