Market Insights

DECEMBER 2021

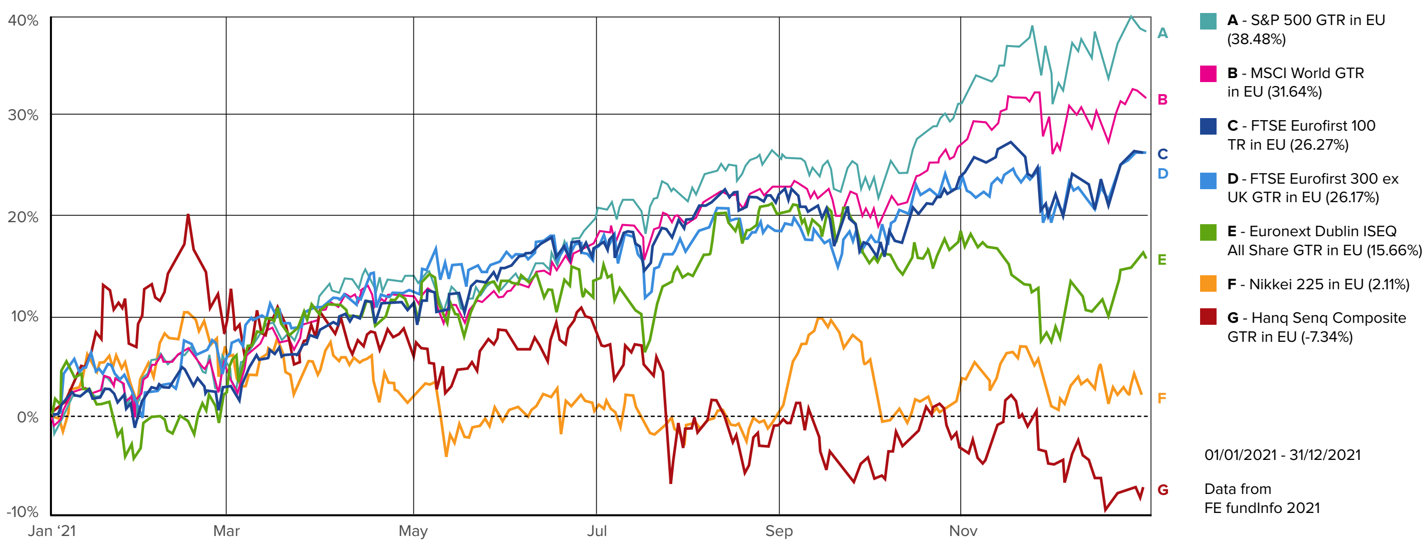
HARVEST
FINANCIAL SERVICES

Month in Review

Despite the rapidly spreading Omicron variant, markets finished the year on a positive note which has so far continued into 2022. Highish valuations failed to deter investors who continued to view equities as the most attractive (or maybe least unattractive) of the major asset classes. With China bucking the trend as it deals with its own challenges, equity markets across the world saw strong growth in December. Bond markets in contrast did see some weakness in the final weeks of the year as markets see the ongoing pressure on central banks to reduce QE supports and to raise rates in the face of rising inflation trends.

To date the indications around Omicron are very encouraging insofar as factors such as general sickness, hospitalisation rates, recovery speeds etc are concerned. The problem now is not so much the virus itself but the strict isolation rules which continue to be applied by most governments. As case numbers have skyrocketed, so have the close contact numbers forced to isolate and this has caused widespread staff shortages which have been keenly felt by the health services and by the hospitality and manufacturing sectors in particular. These factors will inevitably put a brake on the rate of economic recovery as we move into 2022.

Major Equity Markets Year to Date (in euro terms)



Equity Markets

Unless you had all of your portfolio invested in China, 2021 was a very good year to be in equities as can be clearly seen from the table below. The US, UK and Europe all produced extremely attractive returns and for euro-based investors the relative strength of both the Dollar and Sterling supplied an added bonus. Ongoing QE supports, investor optimism around recovery and perhaps the simple fact that money had nowhere else to go given the relative unattractiveness of other bonds and cash, all played a part in delivering these returns. Needless to say, we do not expect a repeat in 2022.

Equity Market Performances (in euro terms)

Market	Performance December 2021*	Performance 1 year*	YTD*
Ireland	6.2%	15.7%	15.7%
UK	4.6%	26.3%	26.3%
Japan	1.1%	2.1%	2.1%
Europe	3.4%	26.2%	26.2
US	5.4%	38.5%	38.5%
China	-2.4%	-7.3%	-7.3%

Source: Financial Times, Financial Express

Bonds

Predictably, bond markets have responded negatively to the inflation story and generally speaking, yields have risen (i.e. prices have fallen). However, the global bond market, while dominated by sovereign bonds which respond very directly to inflation expectations, is far from uniform in terms of its behaviour. There are still niches of the bond market, particularly in the high yield space, which have remained very stable throughout the past year and which continue to offer attractive income returns. We would expect many of these niches will be far less sensitive to future interest rate moves compared to the bond market overall.

Property

The final quarter of the year saw a recovery in the value of many property funds across the globe as investors become increasingly persuaded that property did have a future after all as an asset class. This was helped by the observation that, with the exception of retail, rents had held up very well over the past two years which in turn was reflected in dividend payments being maintained and, in some cases, enhanced by the distribution of special dividends. We continue to see property as an attractive source of returns for investors, particularly in the form of income.

Alternatives

Given that we may well be facing into a challenging year for the mainstream asset classes, we have continued to seek out alternative funds which will provide (i) some degree of protection against volatility events (e.g. Absolute Return and Multi Asset Funds) or (ii) attractive income-based returns (e.g. Renewable Energy and Asset Backed Income Funds). There is a place in all portfolios for such alternative options.

Investment Outlook

Given the multiplicity of factors likely to impact on markets in 2022, we continue to maintain a relatively cautious stance. However, as we are at the start of the year, we will stick our necks out and give a number of predictions for what the markets might do over 2022:

(i) Equity markets will experience plenty of volatility during the year but will finish the year ahead of where they started out.

(ii) The larger highly valued technology stocks will underperform the broader market.

(iii) Specialist themes such as Healthcare, Robotics and ESG will continue to do well.

(iv) Picking just one Emerging Country to do well in 2022, we are picking India, not least because (not necessarily for good reasons) it appears to be ahead of the Covid curve.

(v) There will be interest rate increases in both the US and UK, but they will be modest as central banks attempt to avoid the risk of choking off the recovery. There will be no change to official euro interest rates.

(vi) Sovereign bond yields will rise but again changes will be modest. Investment grade corporate bond yields will also rise but not markedly.

All of the above said, we continue to encourage our clients to take a long view of their investments, become comfortable with appropriate risk and to look through the shorter-term factors which may be behind temporary market swings.

Fund in Focus – First Trust Cybersecurity ETF

This month's fund in focus is First Trust Cybersecurity ETF. As more and more business is transacted online, both business to consumer and business to business, there is little doubt that cybersecurity will be a growing challenge. The added issue of personal data security brings governments and non-profit organisations into the mix also. The Nasdaq Cybersecurity Index, which this ETF seeks to mirror, includes companies engaged in the cybersecurity segment of the technology sector. These are companies primarily involved in the building, implementation and management of security protocols applied to private and public networks, computers and mobile devices in order to provide protection of data.

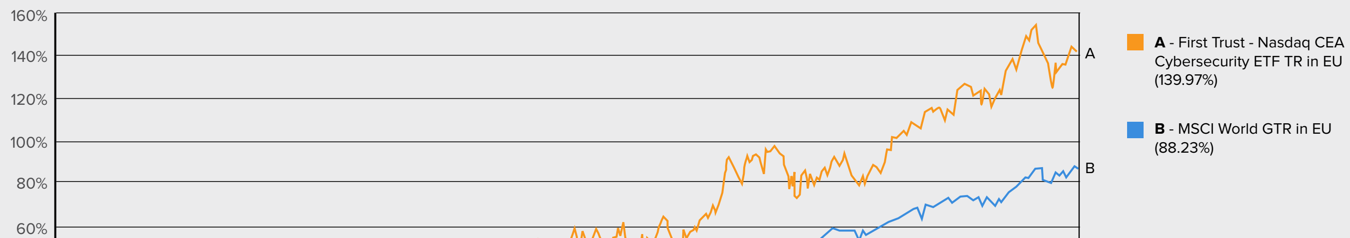
All securities included must be listed on an eligible global stock exchange and classified as a cybersecurity company. Each security also must have a worldwide market cap of $250 million.

Attractive investment features of the ETF include:

- Offers an exposure to an area that has the potential for significant growth in the foreseeable future.
- Passive approach removes risk of needing to pick winners in a fast changing industry.
- Individual company exposures regularly adjusted to ensure current makeup of index is accurately reflected.
- Very low fund charges.

If you would like to discuss this fund or look at other investment opportunities, please contact your Private Client Adviser.

First Trust Cybersecurity ETF performance since inception



Source First Trust Portfolios, Financial Express, Financial Times

03/01/2019 - 03/01/2022

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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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.