Market Insights

JANUARY 2022

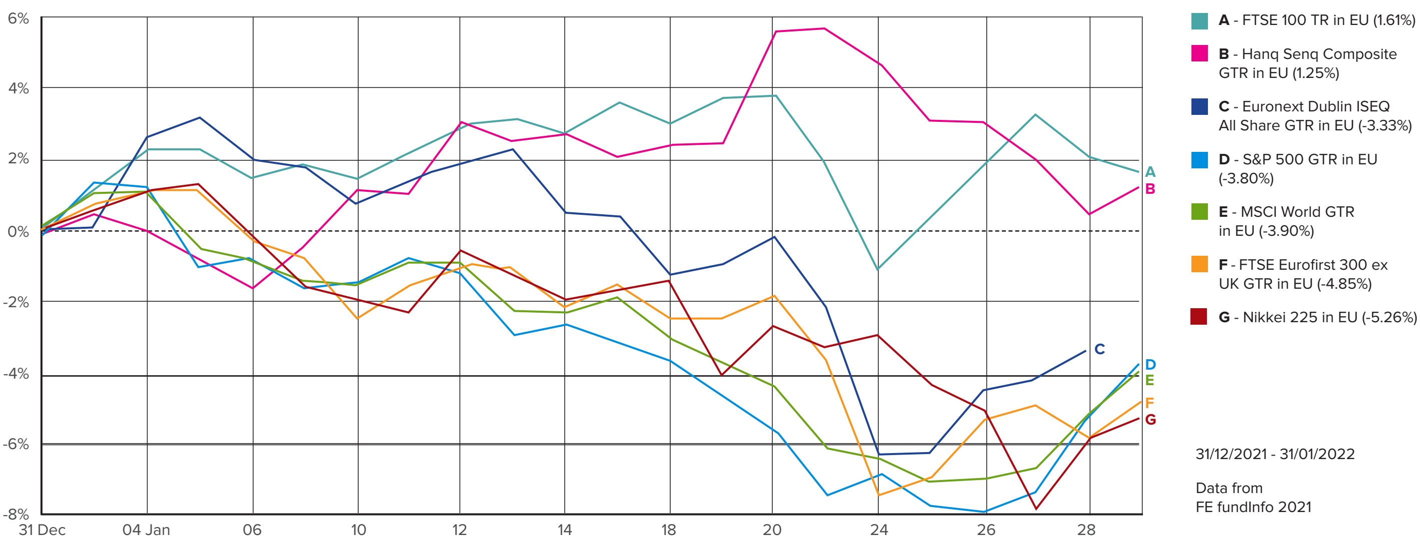
HARVEST
FINANCIAL SERVICES

Month in Review

The inflation story continues to evolve. The official description has moved from 'transitory' to 'sticky' and a growing number of commentators are expressing concerns about it becoming 'structural' or embedded as we move through 2022. These concerns had a clear effect on both equity and bond markets in January as can be clearly seen from the chart below. The US Federal Reserve has made clear its intention to start raising interest rates in March and the UK has begun the same process. Despite headline Eurozone inflation above 5% in January, the ECB has so far stuck to its line that rates will not rise this year. If trends continue however, 2023 will very likely see a reversal of this position.

As the covid issue gradually recedes (although it is still causing problems with supply chains from China), some geopolitical issues are coming under the spotlight, notably potential Russian aggression towards the Ukraine and possibly one or more of the Baltic states. As matters stand, an escalation of tensions in the region could be a negative trigger event for markets over the coming months. Big tech has not had a great year to date. Netflix, Meta (Facebook) and Spotify have all suffered sharp falls as questions have arisen about their medium-term growth outlooks. This could be the year when we see a general share price reset in relation to a number of the very highly valued names in this space.

Major Equity Markets Year to Date (in euro terms)



Equity Markets

Having fully expected that 2022 could be a bumpy ride for equities, the January drop experienced by most markets came as no surprise. The UK stock market rose against the grain, partly as a result of having lagged the 2021 recovery in markets generally around the world. China also rose but again it had a very weak 2021 and the small rise in January was a follow on from a poor year. There is little doubt that China is offering relative value at these levels but the market is likely to continue to be weighed down by the structural debt problems and the absence of a clear policy message in relation to the economy from central government.

Equity Market Performances (in euro terms)

Market	Performance January 2022*	Performance 1 year*	YTD*
Ireland	-3.4%	17.0%	-3.4%
UK	1.6%	27.8%	1.6%
Japan	-5.3%	-3.9%	-5.3%
Europe	-4.9%	21.4%	-4.9%
US	-3.8%	33.6%	-3.8%
China	1.3%	-12.2%	1.3%

Source: Financial Times, Financial Express

Bonds

During times of rising interest rates, bonds are very much in the firing line and over the past month and longer sovereign bond markets have responded very directly to changing interest rate expectations. However, the bond market is not a uniform entity and there are segments, particularly in the corporate bond, high yield and short duration spaces, which are not as sensitive to small changes in interest rates. So, while we have been advising clients to avoid sovereign bonds for quite some time, we continue to see value, particularly yield value, in some of these sub segments of the market.

Property

Property has long been seen as a haven during inflationary times as many leases and rental agreements are index-linked in some way so that rents will generally follow inflationary trends. While there are certainly question marks over the future of retail properties, particularly high street and shopping mall units, we continue to see real value opportunities in funds and trusts investing in logistics, retail warehouse, healthcare and even city centre office properties. Many trusts offer annual dividend yields of 4-6% with the likelihood that these yields will grow over time.

Alternatives

A number of alternative asset classes offer a degree of protection from market volatility driven by inflation concerns. Infrastructure is one of those as it incorporates areas such as utilities with index-linked pricing power, road tolls (again index-linked), public-private partnerships with inbuilt inflation protection measures etc. See Fund in Focus section below for a description of one such opportunity.

Investment Outlook

There is little doubt that the market volatility we've seen in the first month of the year will not be a recurring event during the year. For investors committed to the long term this prospect should not be a concern. However, it may be wise to build exposure to areas like property and infrastructure and long-term quality equity exposures.

Highly valued areas of the equity market such as Big Tech are probably best avoided during this phase in the markets. Investments producing a visible and predictable dividend income flow should also be attractive. Although we expect to see more than our share of market ups and downs this year, we remain confident in the long-term value of equity markets and their capacity to deliver long term value to investors.

Fund in Focus – First Sentier Global Listed Infrastructure

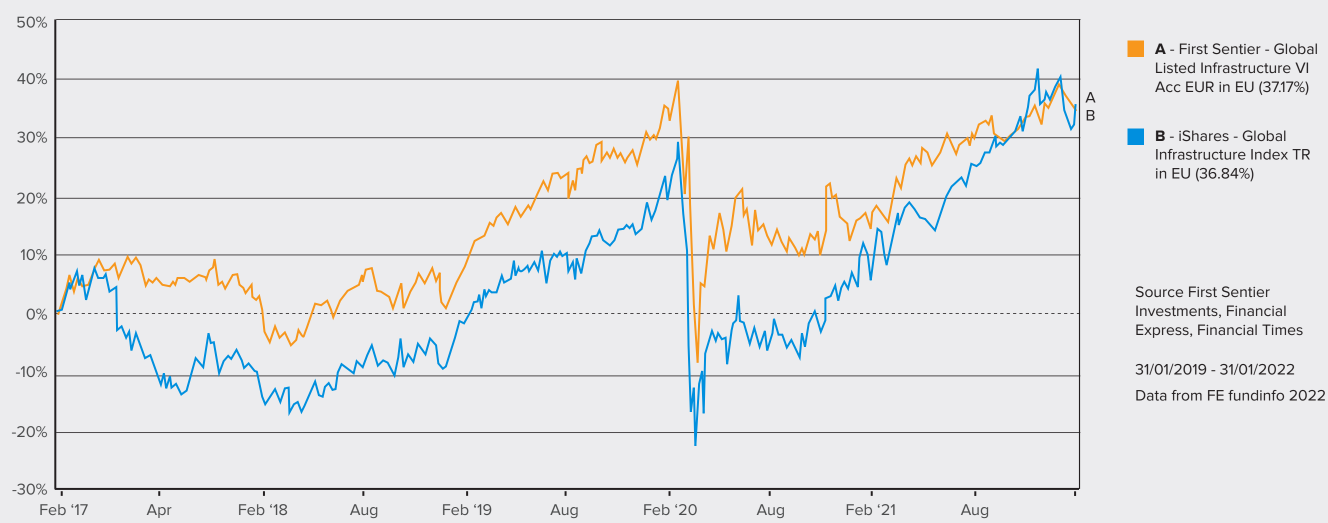
This month's fund in focus is the First Sentier Global Listed Infrastructure Fund. The Fund aims to achieve a total investment return through a mix of income and long-term capital growth. It invests primarily in a diversified portfolio of listed Infrastructure and Infrastructure-related equity securities on a global basis. Typically, around half of the fund is invested in the US. The infrastructure sector includes utilities (e.g. water and electricity), highways and railways, airports services, marine ports and services, oil and gas storage and transportation.

Attractive investment features of the investment include:

1. The Funds aim is to provide Income (distributed or accumulated) and to achieve Capital Growth.
2. Infrastructure is a good diversifier from the traditional asset classes (cash, equities & bonds) within a portfolio.
3. Many infrastructure investments have index-linked pricing power to adjust their revenues in response to increases in inflation.
4. Liquidity - You can buy and sell shares in the Fund on any business day.
5. The fund invests in a variety of different types of infrastructure assets globally giving a good geographic and sector spread.

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

First Sentier 5 Year Performance vs Index



Source First Sentier Investments, Financial Express, Financial Times

31/01/2019 - 31/01/2022

Data from FE fundinfo 2022

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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