Market Insights

APRIL 2022

HARVEST FINANCIAL SERVICES

Current Topics in markets

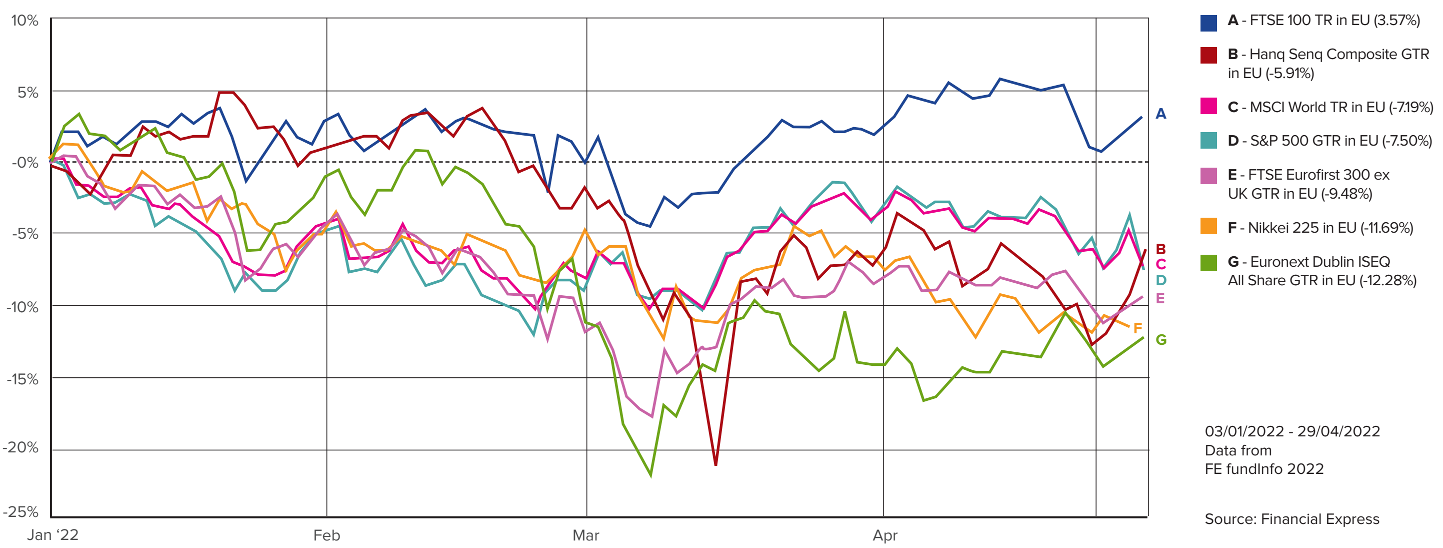
As a possible indicator of the nervous state of markets at the moment, a ‘fat finger’ error by a Citigroup trader in recent days caused €300 billion to be temporarily wiped off the value of European shares. The error was quickly corrected and the price fall was reversed within a very short time. However, it may just point to there being a significant number of investors out there who are prepared for a quick exit in the event of any material negative development. In fact a survey of US fund managers published this week shows that a majority are bearish on a six month view.

While asset prices have fallen pretty much across the board since the start of the year, the negativity has not been evenly spread. Profit taking on the back of high valuations has continued to hurt the tech sector and consumer discretionary stocks have pulled back on the expectation of less spending by consumers. The energy sector in contrast has predictably powered ahead.

Apart from inflation/recession and possible developments emanating from the Russia/Ukraine war, China continues to be a source of concern for global economies. The continued pursuit of zero covid involving very strict lockdown measures is clearly affecting economic activity, not just in China but in other parts of the globe as the supply of raw materials and finished goods gets repeatedly interrupted. In the US, while most indicators remain relatively positive, there are also signs that price rises and higher interest rates are beginning to bite. On top of that, the unwinding of QE will not be helpful for markets.

Challenging times for investors indeed. However, as stock market history has shown time and again over the decades, as long as your time horizon is sufficiently long, current events should not be a concern. In fact, times like this when the majority are fearful, are often the very best times to invest.

Major Equity Markets Year to Date (in euro terms)



Equity Markets

April was generally another poor month for the equity markets with many of the major markets falling (see table below). Year to date, world equity markets are down some 6% in euro terms and European markets have fallen by considerably more. For euro-based investors, however, currency movements provided something of a cushion. By way of example, the US was down by a massive 9% in local currency terms but a strengthening dollar meant that euro investors only suffered around half of that loss. As we have said previously, the volatility we have seen over the early months of the year are likely to be a repeated feature although possibly at a less accentuated level.

Equity Market Performances (in euro terms)

Market	Performance April 2022*	Performance 1 year*	YTD*
Ireland	2.4	-8.2	-12.3
UK	0.7	16.3	3.6
Japan	-4.5	-11.0	-11.7
Europe	-1.6	4.1	-9.5
US	-4.9	13.9	-7.5
China	0.2	-18.3	-5.9

Source: Financial Times, Financial Express

Bonds

Bond prices continued to soften throughout April, particularly in the US, as evidence mounted in relation to price rises and wage increases. US mortgage rates, which are tied to longer duration bond yields have now virtually doubled to around 5% over the past six months and house purchases would appear to be slowing in response. The 'Yield Curve' is a chart which shows yields on bonds of different durations from 3 month to 10 year maturities. Generally, this chart is upward sloping over the length of the curve with yields rising as maturities move out. However, previous recessionary periods have been heralded by this curve tending to invert some time in advance of a recession actually happening (the logic being that recession will necessitate lower interest rates in the future). The problem is that the curve has begun to show signs of inverting in recent months, thereby indicating an increased recessionary risk. For good reason, we remain cautious about bond investments right now.

Property

While values of pooled property funds also tended to settle back during April, we continue to hold a very positive view of this asset class over the next year and beyond. Funds with exposures to residential, logistics and healthcare properties are particularly attractive as the demand in these sub-sectors looks inexorable for quite some time to come. And of course, property offers a very decent hedge against inflation as well as providing an income flow.

Infrastructure

Investment in infrastructure has become a truly global theme over recent years. To a significant degree it was perceived as an effective tool to drive economic recovery post covid. However, infrastructure is very closely enmeshed with the whole energy transition story also because of the close links between utility companies, renewable energy and infrastructure in general.

We have been fans of infrastructure investment for quite some time and we consider theres a place in all portfolios for this asset class. Our Fund in Focus this month, the NextEnergy Solar Fund, plays on this theme and its strong performance year to date at a time when equity markets have been falling underlines our positive view.

Fund in Focus – NextEnergy Solar Fund

This month's fund in focus is the NextEnergy Solar Fund, the largest owner and operator of solar farms in the UK. Its investment objective is to provide ordinary shareholders with attractive risk-adjusted returns, principally in the form of regular dividends, by investing in a diversified portfolio of primarily UK-based solar energy infrastructure assets. NextEnergy Solar Fund (NESF) believes that solar energy has a pivotal role to play in responding to rapidly increasing energy demands while also addressing the global climate agenda.

Attractive investment features of this fund include:

- **A strong dividend** - The Board of NextEnergy Solar Fund has recently approved a target dividend of 7.52 pence per ordinary share, representing a 5.0% increase from the previous year and a yield on the current share price of 6.6%.
- **Diversification** – The Company is currently advancing a pipeline of UK investment opportunities, international investment opportunities and battery storage opportunities to complement the UK solar farm portfolio and diversify asset-specific and market risks.
- **Renewable Energy Sector** – Prices for wind and solar power in major global markets have climbed nearly 30 per cent in a year, as developers struggle with "chaotic" supply chains and surging costs. Contract prices for renewables jumped 28.5 per cent in North America and 27.5 per cent in Europe in the last year.

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

NextEnergy Solar - YTD Performance vs. MSCI World

Source: Source Financial Express, NextEnergy Solar Website

31/12/2021 - 03/05/2022

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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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.
Warning: The value of your investment may go down as well as up. You may get back less than you invest.
Warning: The income you get from this investment may go down as well as up.