Market Insights

MAY 2022

HARVEST
FINANCIAL SERVICES

Current Topics in Markets

While the closing days of May generally had a more positive tone to them, and both equity and bond markets benefited, the month overall was unsettled thereby continuing the pattern seen in financial markets year to date. There is no change in the major factors impacting on markets – inflation, interest rates, economic growth and recession risk.

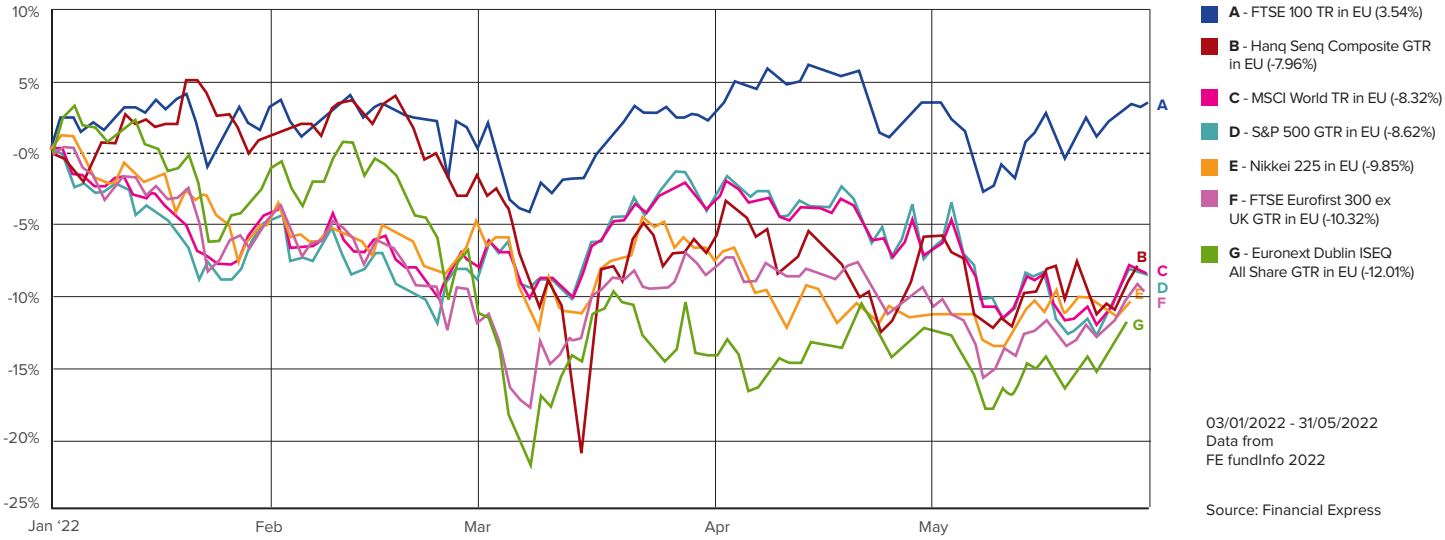
In simple terms the key uncertainty affecting markets at present and the question being asked is whether the US Federal Reserve can successfully manage the very difficult challenge of bringing inflation down while keeping the economic growth rate above zero. If they get it wrong by raising rates too quickly, they risk pushing the economy into recession. If they get it wrong by not raising rates quickly enough, the risk is that inflation gets out of control for a lengthy period.

Added to this scenario, the ongoing war in the Ukraine is leading to tight commodity markets, both hard commodities (energy and metals) and soft commodities (food). And on top of that again, China's zero covid policy is continuing to affect global supply chains across a very wide range of products.

This picture leads us to believe that we are in for a volatile Summer. The inflation/interest rate story is likely to ebb and flow for a few months yet and financial markets will struggle to find a direction against this backdrop.

On a more positive note, there is no question that value opportunities have emerged over the course of this year and that committing funds to the market now is likely to pay off handsomely over the coming years.

Major Equity Markets Year to Date (in euro terms)



Equity Markets

Of the major developed world equity markets, the UK is the sole market in positive territory year to date. Relatively speaking, the UK has been coming off a low base following the post Brexit economic uncertainty which the market is still to a degree recovering from.

Both the high growth tech and ESG sectors, bore the brunt of the market correction over the past nine months or so.

While we remain wary of the larger tech stocks, there is certainly value now among some of the technology themes. We also see good value on offer in ESG where valuations had almost certainly got ahead of themselves prior to the correction. Our fund pick this month, the Schroder Global Sustainable Growth Fund, is our primary choice in that space.

Equity Market Performances (in euro terms)

Market	Performance May 2022*	Performance 1 year*	YTD*
Ireland	0.3	-9.5	-12.0
UK	-0.03	13.6	3.5
Japan	1.7	-7.9	-9.9
Europe	0.7	0.3	-10.3
US	-2.1	13.3	-8.6
China	-2.2	-20.3	-7.9

Source: Financial Times, Financial Express

Bonds

Bonds are at the vanguard when interest rate changes are taking place and it is hardly surprising that bonds have been generally weak in 2022 to date. Sovereign bonds and investment grade bonds tend to be most responsive in this kind of environment. However, many higher yielding areas of the bond market have been less sensitive in comparison.

Because of their capacity of provide good income compensation at a time when interest rates are still low and inflation is rising, we continue to see some of the higher yielding niche areas as offering something for investors.

Property

While Irish residential prices show no sign of peaking, Irish commercial property looks reasonably fully valued in our view. Internationally, however, there are still very good value opportunities available in property, with many funds continuing to trade at sizeable discounts while also offering very decent levels of income. If we accept that property is also a good inflation hedge, then there are certainly very strong arguments for a property exposure in most portfolios.

Other

Over the past couple of years, Harvest has been steadily increasing the range of alternative funds on our Recommended Buy List. These include funds involved in renewable energy, infrastructure, asset-backed finance, private equity etc. since the beginning of the year, many of these selections have materially outperformed equity markets and we believe that this contrarian performance pattern will continue for a while yet. Many of these opportunities also offer very attractive yields as well as having some inflation hedging characteristics.

Fund in Focus – Schroder Global Sustainable Growth

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:

- Sustainable equity funds have fallen by more than the average during the recent market setbacks
- These funds now offering a good value entry point
- Schroders have a long track record in this area and this fund has consistently been in the top quartile of its peer group while also delivering a level of volatility considerably below the average.

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

Schroders Sustainable Growth – 5 Yr Performance vs. MSCI World

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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