Market Insights

JUNE 2022

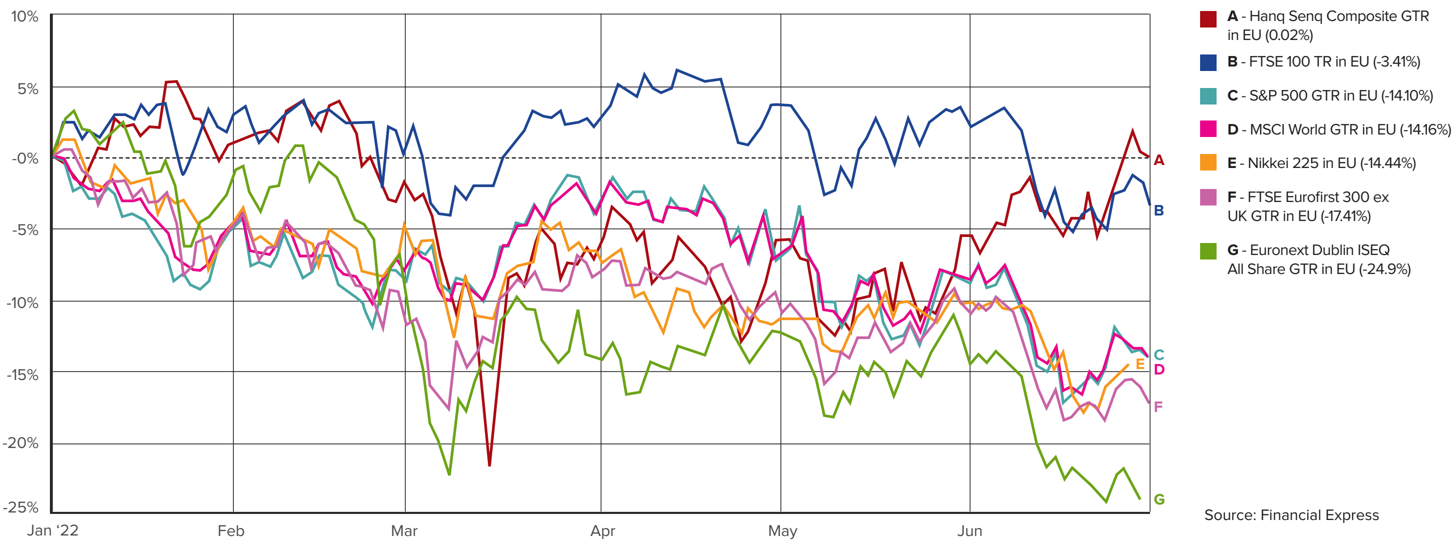
HARVEST FINANCIAL SERVICES

Current Topics in Markets

2022 year to date has certainly not been a positive experience for those holding risk assets. Both equity and bond markets have suffered in equal measure and safe havens have been hard to come by ('safer' investment opportunities do certainly exist – see Alternative Assets comment below). The villains of the piece are of course inflation and its even more evil twin recession, the possibility of which is getting increasingly frequent mentions by commentators. As usual, the world is looking to the US. The Federal Reserve appears to be hardening its tone by the week and is now delivering the message that it will do whatever it takes in terms of rate increases in order to choke off inflation. The risk with this of course is that a series of rapid rate increases will result in a hard landing for the economy in 2023.

Overall however, it is the uncertainty that markets hate and which leads to the current 'one step up and two steps back' experience which we are currently having in terms of the performance of investment markets. We see this uncertainty continuing for a few months yet leading to ongoing bouts of volatility. However, towards the end of the year we may well see a scenario emerging where there is much greater certainty around the inflation and interest rate picture. This, in turn, could lead to a recovery in equity markets despite a less than rosy economic outlook.

Equity Markets Year to Date (Euro Terms)



Source: Financial Express

Equity Markets

As mentioned above and as the table below shows, equity markets have taken a bit of a battering so far in 2022. Unless you were holding a large overweight position in Chinese equities on 1 January, your equity portfolio will have suffered. The US market is down some 20% year to date but thanks to a strengthening dollar, euro-based investors have seen this pared back to a loss of 14.4%.

The UK is down by far less than other major markets, but having underperformed over the past couple of years, it was seen to be coming off a lower base. While there is clear value beginning to emerge in some sectors of the equity market, that value may well be even more attractive in a couple of months time.

Equity Market Performances (in euro terms)

Market	Performance June 2022*	Performance 1 year*	YTD*
Ireland	-11.2	-21.4	-24.1
UK	-5.5	5.5	-3.4
Japan	-4.7	-13.7	-14.4
Europe	-7.1	-9.7	-17.4
US	-5.7	1.4	-14.1
China	5.9	-15.2	0.02

Source: Financial Times, Financial Express

Bonds

With the ongoing threat of a series of interest rate rises, possibly on both sides of the Atlantic, bond markets in 2022 have largely mimicked the negative performance of equity markets. For as long as the question marks around inflation persist, we will retain a cautious stance on bonds generally.

However, a small minority of unconstrained bond funds have successfully weathered the very challenging markets of recent years. One of these is the **HSBC Global Bond Fund** which we have recently added to our Recommended List.

Property

The traditional inflation-busting characteristics of property are well known, mainly emanating from the fact that rents tend to mirror the Retail Price Index in many markets. While we do have some concerns that Irish property, both commercial and residential, looks fully valued at the moment, we do see value in overseas markets, with many funds and REITs currently offering strong single digit yields.

Alternatives

While mainstream equity and bond markets have been falling through 2022, many alternative asset classes have been either stable or positive year to date. Examples of such asset classes include infrastructure, renewable energy, asset backed finance and some diversified hedge funds. Our fund in focus this month and which we have recently added to our Recommended List, the **Cohen & Steers Diversified Real Assets Fund** (described on the next page) is one such fund. Examples of other Recommended List funds and their performances year to date are shown in the table:

Fund	Sector	Perf. YTD
GCP Infra. Trust	Infrastructure	+6.3%
NextEnergy Solar	Renewables	+11.6%
BH Macro	Diversified	+17.4%
Honeycomb Trust	Asset-Backed Finance	+0.5%

Many of these also offer the added attraction of strong dividend yields and we would expect them to continue to outperform while market volatility continues.

Fund in Focus – Cohen & Steers Diversified Real Assets

The fund's overall objective is to achieve a positive total return over the long term and to maximize real returns during inflationary environments. It offers investors a core, diversified and liquid real asset (infrastructure, real estate, natural resources etc.) allocation solution that delivers the key attributes of a range of asset classes, including attractive total returns across a full market or economic cycle, diversification away from broad stock and bond markets and real returns during periods of inflation.

A few points to note:

- Despite the Fund being diversified, with approximately 265 holdings, it has just a 2% average portfolio overlap with the 10 largest active funds in the U.K.
- Real assets have a high positive inflation sensitivity to help protect against potentially damaging effects of accelerating inflation on a stock/bond portfolio
- The fund has consistently performed better than the benchmark over the last 3 years and has performed particularly strongly against a backdrop of falling markets in 2022.

Cohen & Steers Diversified Real Assets – Performance YTD vs. MSCI World

Source:
Financial Express,
Cohenandsteers.com,
Financial Times

31/12/2021 - 30/06/2022

Data from FE fundinfo 2022

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

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.