Market Insights

NOVEMBER 2022

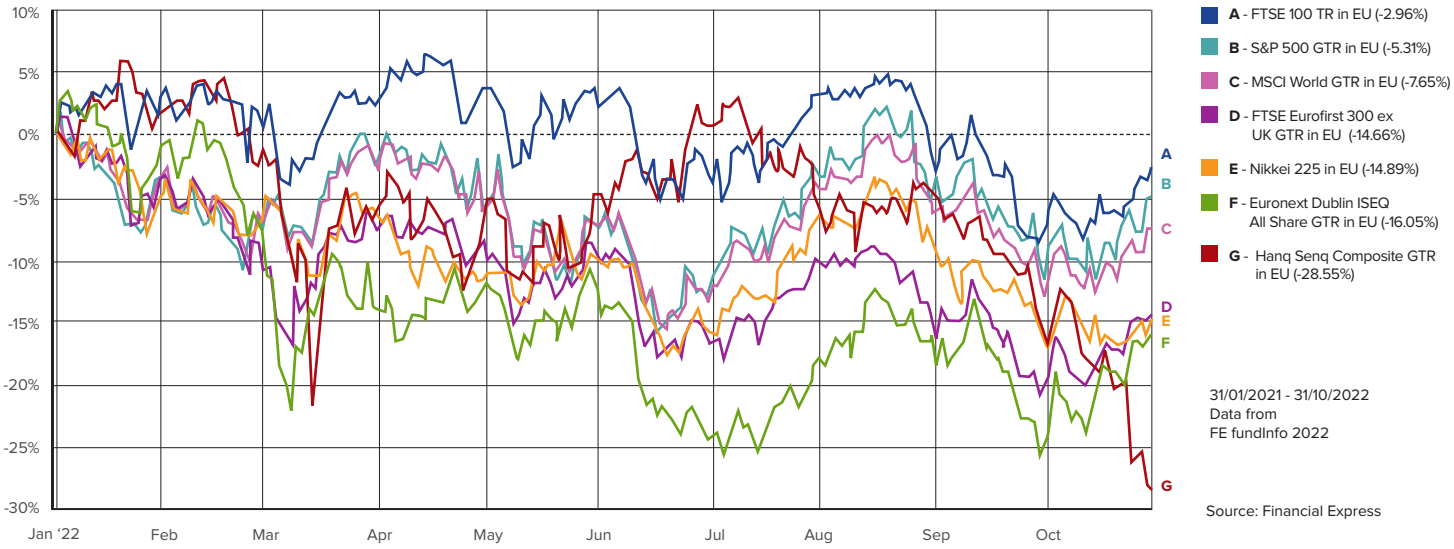
HARVEST
FINANCIAL SERVICES

Current Topics in Markets

While there was certainly plenty of volatility about, October on the whole was a good month in financial markets with most asset classes and sectors rising over the course of the month. The standout exception to this trend was once again Chinese equities which, along with other issues, continued to pay a big price for the relentless pursuit of a zero covid policy. It is interesting to note that a euro-based investor holding shares in the largest economy in the world (the US) as against the second largest economy (China) would have benefited from a 22% net swing in value in October, with the US up 7% and China down more than 15% over the last month.

Inflation and interest rate trends continue to dominate markets. The US Federal Reserve raised rates by a further 0.75% in recent days, bringing the base rate to 4% from approximately zero just nine months ago. The Bank of England similarly raised rates bringing the UK base rate to 3%. The ECB is expected to follow although less aggressively. For financial markets its the uncertainty around where interest rates are likely to peak and how soon will inflation be brought under control. We expect it will be months before sufficient confidence returns around answering those questions and until then, volatility will be the order of the day.

Equity Markets Year to Date (Euro Terms)



Equity Markets

Euro based investors have been protected from the worst of the global equity setbacks this year as a result of dollar strength against the euro. It is our expectation that due to the more aggressive interest rate moves as well as the relative economic strength in the US, the dollar will remain strong throughout 2023 and into the following year. As mentioned, we also expect that markets will continue to be volatile for a little while yet and there is a reasonable probability of another leg down in equities before the current difficult phase is brought to an end. That said, if previous periods of rising inflation are anything to go by, there is every likelihood of a bounce in equities in the first half of 2023. So for long term investors, the message is to hold and to apply phasing in the case of new funds being committed.

Equity Market Performances (in euro terms)

Market	Performance Oct 2022*	Performance 1 year*	YTD*
Ireland	+10.6	-17.1	-16.1
UK	+5.3	0.0	-3.0
Japan	+2.7	-14.2	-14.9
Europe	+6.5	-12.2	-14.7
US	+7.1	-0.02	-5.3
China	-15.1	-32.5	-28.6

Source: Financial Times, Financial Express

Bonds

Global bond markets have been impacted by an extraordinary combination of circumstances in 2022 (i) ending of quantitative easing (ii) a very rapid rise in inflation (iii) aggressive response of central banks in terms of rate increases. Predictably bond prices have fallen sharply this year. While further rate rises are certainly on the way, there is a case to be made that these are now largely priced in and that there is now good value in bonds, particularly in longer duration and in high yield. With some recovery in prospect in 2023 and with very attractive levels of income available, bond markets now offer something for longer term investors seeking a combination of relative stability and income.

Property

Property, normally a relatively safe haven when inflation is rising, has certainly not escaped what has been happening in other asset classes this year. REITs across the world have fallen sharply in value and have behaved more like equities and less like property funds. While question marks remain about certain property sub-sectors, notably retail and to a lesser extent offices, it is difficult to argue against there being real value in property funds at this point. Many REITs are trading at historically high discounts to the value of their assets and are paying very attractive levels of income. Those aspects combined with the anti-inflationary characteristics of property make a very compelling case for value at current levels.

Alternatives

Many alternative assets have fared very well this year and we continue to favour a reasonable exposure to the right alternative assets (infrastructure, renewable energy, selected hedge funds) in client portfolios. Many of these funds also pay an income well above the average.

Fund in Focus – JP Morgan Income & Growth Trust

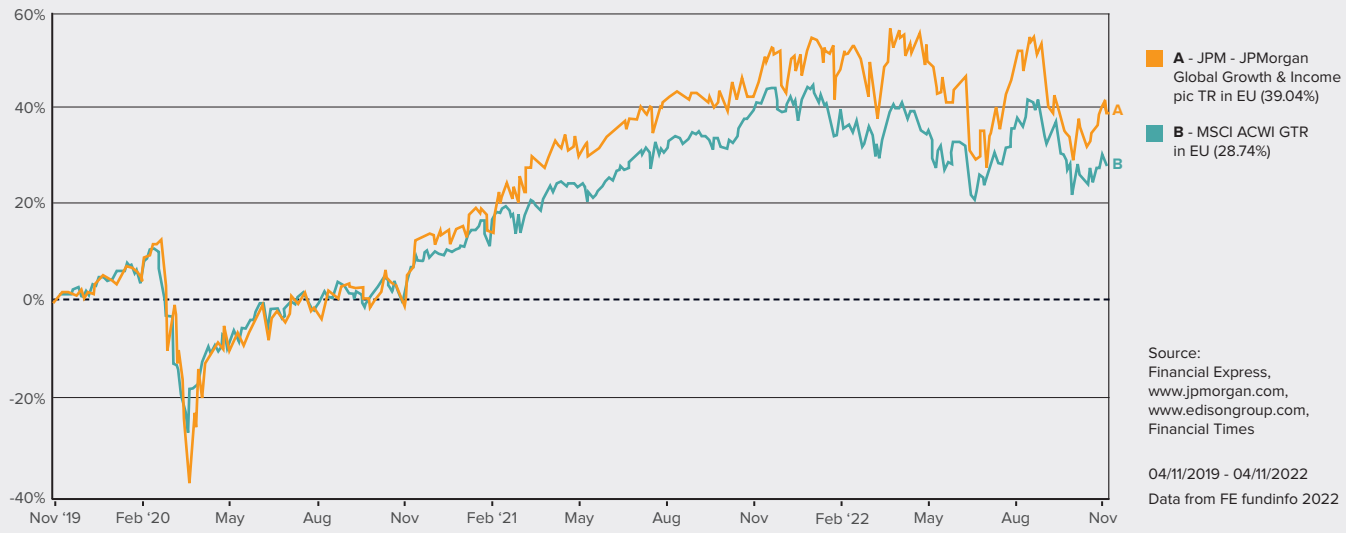
For our monthly Fund in Focus we are featuring the JP Morgan Income & Growth Trust. The aim of the fund is to provide superior total returns and outperform the MSCI All Country World Index over the long-term by investing on a global basis. The Company pays quarterly dividends, these are set at the beginning of each financial year.

Points to Note:

- This fund has a relatively high MSCI ESG Rating of AA.
- The current dividend yield at c.4% compares very favourably with its peers.
- The trust has a value investing focus and would be expected to do relatively well in a higher inflation environment.
- The fund recently announced that it has signed heads of terms with the board of JPMorgan Elect in respect of a proposed merger. This merger between two funds will allow shareholders to benefit from greater economies of scale arising from an enlarged asset base, including greater liquidity in shares, and cost efficiencies.
- In comparison to its peers, the trust's strong performance over both the short and long term has ensured that on a NAV total return basis it now ranks third over one year, and first over three, five and 10 years.

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

JP Morgan Income & Growth – Performance YTD vs. MSCI ACWI



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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