Market Insights

MARCH 2023

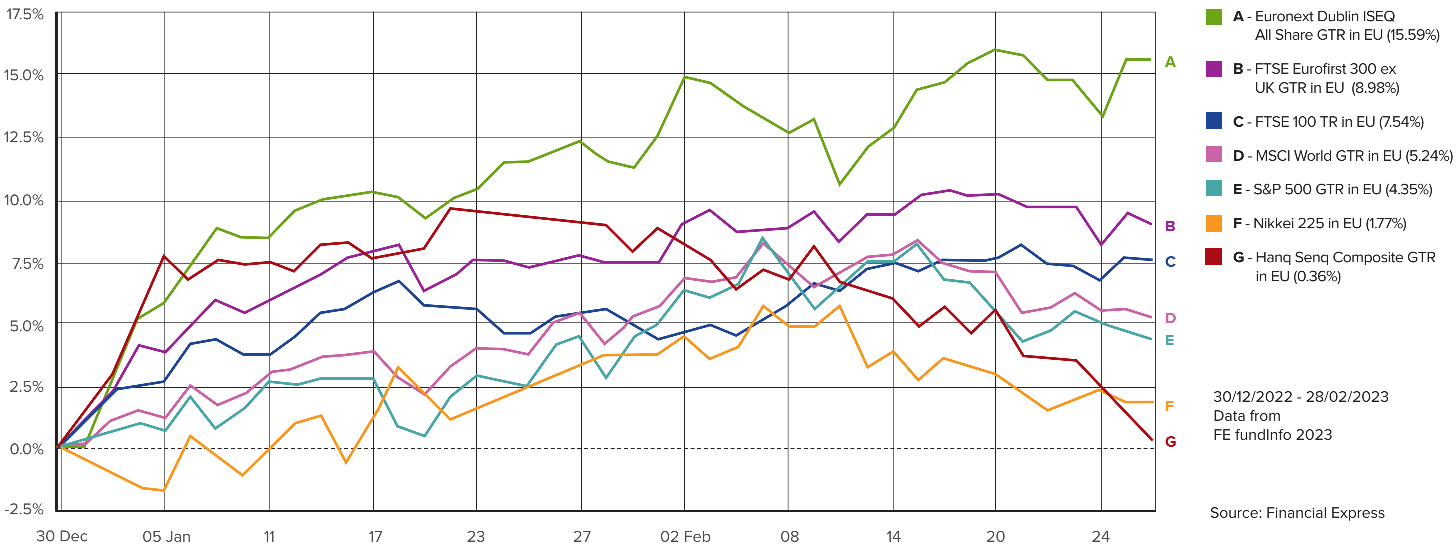
HARVEST FINANCIAL SERVICES

Current Topics in Markets

The sense of optimism which prevailed in financial markets during January pretty much evaporated in February. As we expected, the inflation dragon has not been defeated as data from both the US and Europe through the month clearly demonstrated. Markets had reached a point of high confidence in relation to just how high interest rates would rise and how soon they would start to reverse. Recent inflation data has shaken that confidence. While it would appear that goods prices have steadied considerably this is not the case with wages.

In the US, Walmart, seen as a bellwether for the US retail sector, increased its minimum wage to $14 per hour while in the UK and Germany, public sector unions have started agitating aggressively in relation to pay. These developments will inevitably lead to a certain level of inflation becoming embedded in economies which may also result in interest rates rising to higher level than previously thought. Central banks will certainly have their work cut out to stay ahead of all this without tipping economies into recession. For financial markets, the pattern for the coming months is likely to be one of volatility.

Equity Markets Year to Date (Euro Terms)



30/12/2022 - 28/02/2023
Data from
FE fundInfo 2023

Source: Financial Express

Equity Markets

Despite the growing uncertainty, European markets moved in a positive direction in February while the US ended up flat. This was driven by a perception (to a significant extent among US investors) that Europe represents good value on a relative basis. We would expect that valuation levels in Europe will continue to act as a support for that market over the short to medium term. In many ways the surprising market over the past month was China. Thanks to the post covid reopening, China's manufacturing sector expanded at the fastest pace in more than a decade in February. Despite this, the market fell by almost 8% in euro terms over the month. The value case for China is as strong as it has been in a very long time but unfortunately political considerations and debt overhangs will continue to cast a shadow for a while yet. Overall, we remain cautious on the outlook for equities over 2023 and continue to favour 'value' stocks over more highly valued growth stocks. We also favour Europe and Emerging Markets over the US.

Equity Market Performances (in euro terms)

Market	Performance Feb 2023*	Performance 1 year*	YTD*
Ireland	+2.68	+6.17	+15.59
UK	+3.07	+4.74	+7.54
Japan	-1.93	-7.35	+1.77
Europe	+1.39	+5.46	+8.98
US	-0.57	-2.23	+4.35
China	-7.77	-6.77	+0.36

Source: Financial Times, Financial Express

Bonds

Inevitably the back and forth on inflation brought volatility to bond markets too. The Harvest bond fund peer group suffered an average fall in value of 1.6% over the month, giving back most of the gains notched in January. That said, we remain firmly convinced that there is plenty of value in bond markets at current levels with many broadly spread bond funds offering running dividend yields of 5% and more with low levels of inherent risk. We like investment grade bonds and the BB bond class in the High Yield bond space with both of these groupings currently offering investors a very attractive risk/reward mix.

Property

We turned cautious on office property some time ago and we believe that demand will remain weak for quite some time, both in Ireland and overseas. Demand remains very strong for residential across the developed world although there are signs of weakening in the US as the interest rate increases take effect. The rate rise effect is still not really evident in Europe (apart from the UK) but could begin to take a toll over the coming months. However, the market uncertainty has driven many global REITs to trade at very sizeable discounts and as a result we see very good value in property sub-sectors away from retail and offices.

Alternatives

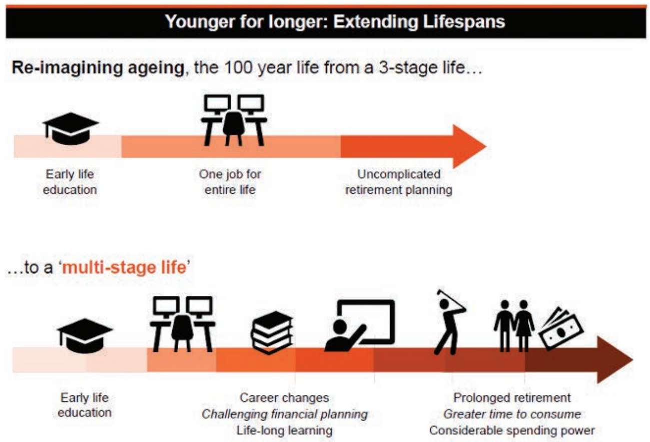
With volatility likely to remain a feature in mainstream asset markets, we remain very pro Alternatives as essential components of any portfolio. Sectors such as renewables, infrastructure and hedge funds can deliver relative stability and, in many cases, high yields and could act as a steady bulwark against volatility elsewhere.

Fund in Focus – Pacific Longevity and Social Change Fund

This month's fund in focus is the Pacific Longevity and Social Change. The fund aims to deliver long term capital growth through investing primarily in equities and equity related instruments issued by companies linked to the ageing of the population and increasing life expectancy worldwide. The fund believes that global populations are ageing as life expectancies rise and fertility rates fall – and this is all happening much faster than people think. Companies, governments and individuals must adapt to the evolving needs and preferences of this rapidly expanding pool of consumers. In our view, this theme overall is here to stay and it makes sense for investors to build an exposure to it.

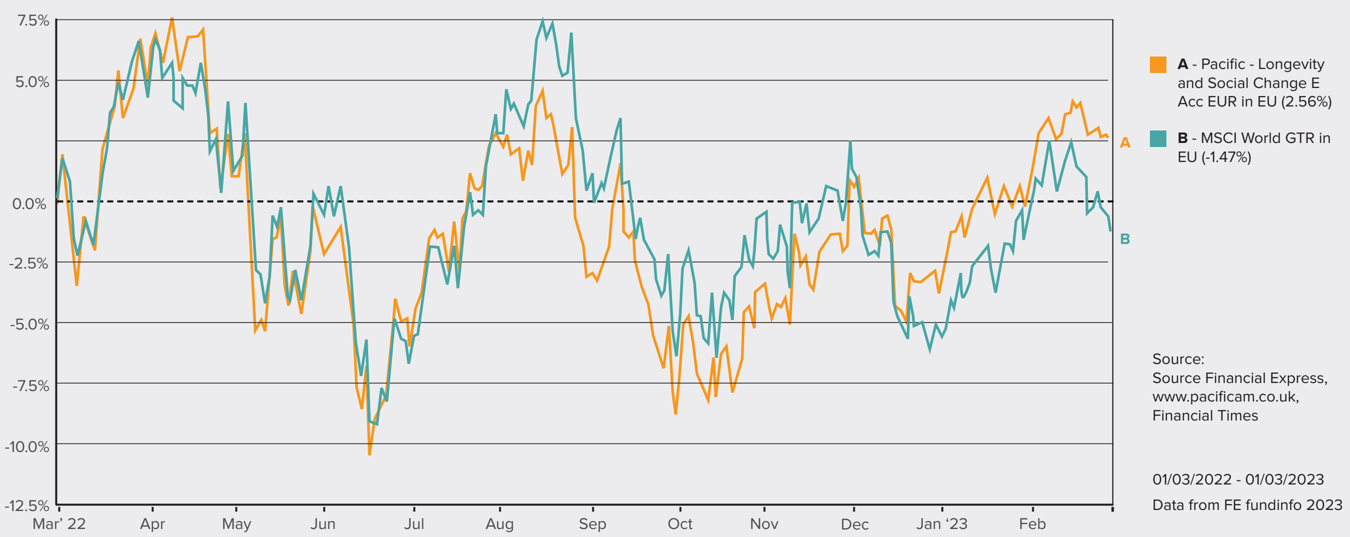
Points to Note:

- The fund is classified as an Article 8 Fund which is committed to full ESG integration. It does not invest in businesses involved in activities contrary to the development of a sustainable economy.
- The fund aims to improve the length of people's healthy life span by focusing on the whole of life wellbeing, investing in education and wellbeing, the longevity consumer, healthcare and later living.
- They believe that as the populations gets older it is vital to rethink the traditional model of the 3 stages of life with the tri-phase life gradually being replaced by a more multi-phase life pattern involving longer working lives – see graph below:



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

Pacific Longevity & Social Change Fund – 1 Year Performance vs. MSCI World



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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.