Market Insights

JUNE 2023

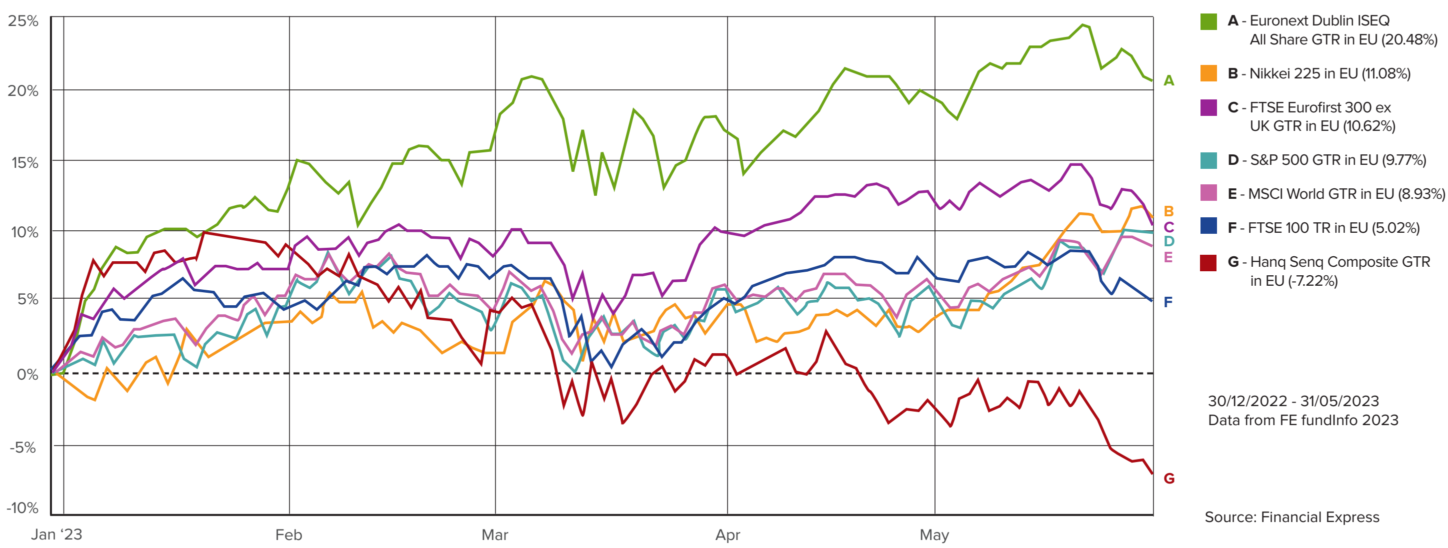
HARVEST FINANCIAL SERVICES

Current Topics in Markets

The biggest concern overhanging markets in recent weeks has been the threat of the debt ceiling being breached and the risk of a ‘default’ by US on its interest payments. As a result the news that Biden had reached a compromise deal with Kevin McCarthy, the Republican Speaker of the House, was taken with a positive sigh of relief by markets. As legislation to copperfasten this agreement gets rushed market’s have predictably taken the news well.

In the US attention has now switched back to interest rates and the long flagged possibility of a recession in the second half of the year. At this point, it does appear like there will be one more rate increase in the US after which the Federal Reserve are likely to pause. With the ECB somewhat behind in terms of responding to the inflation challenge, interest rates may have further to go in Europe before they peak.

Equity Markets Year to Date (Euro Terms)



Equity Markets

Once again with the exception of China, all of the major equity markets have continued their positive run year to date, albeit peppered with plenty of down days too. The reality of course is that, at this point, the US equity market looks overstretched in terms of valuation – it is on a forward P/E of 18.5x which ahead of pre-pandemic levels and high by historic standards. The market is now vulnerable to economic slowdown concerns and to corporate earnings disappointments. It is our view that the probability attached to a market correction over the Summer months has not reduced. While other equity markets in Europe and elsewhere are offering relatively good value it is a fact of life that a downturn in the US market will be reflected across all markets to a greater or lesser degree.

Overall, for these reasons we are retaining our cautious view on equities for the time being and we continue to favour good dividend paying 'value' companies over their more high growth counterparts.

Equity Market Performances (in euro terms)

Market	Performance May 2023*	Performance 1 year*	YTD*
Ireland	+0.53	+17.66	+20.48
UK	-2.91	+0.49	+5.02
Japan	+7.35	+4.76	+11.08
Europe	-1.93	+8.12	+10.62
US	+3.48	+3.42	+9.77
China	-5.30	-11.53	-7.22

*Source: Financial Times, Financial Express

Bonds

Having offered little in terms of value for investors for much of the past decade, the correction in bond markets in 2022 has created a scenario where bonds are now offering real value. Many low risk Investment Grade bonds are trading at material discounts to par and are offering yields well above deposit rates. Investors can currently achieve yields north of 5% while still avoiding material risk. Should the economic environment disimprove, we could be looking at a backdrop of falling interest rates and falling bond yields (higher bond prices). Meanwhile, investors buying those bonds today will have locked in yields of 5% or higher and will in addition benefit from some capital appreciation.

Property

Property funds, on a global basis, have fallen so far out of favour at this point that contrarian investors must be seriously wondering is it time to buy. There is little doubt that the recovery in offices will be slow and in the US there is the added challenge of a large number of commercial property related loans rolling over in the short to medium term and the risk that default levels could rise sharply. In general, the picture looks like one of continued volatility for some time yet. That said, there is clear value in many property funds on a highly selective basis with many specialist funds offering very attractive dividend returns currently.

Alternatives

With the highly uncertain environment for the mainstream asset classes, particularly equities, we continue to favour investment in alternative asset classes. Many of these alternative opportunities have not only held their values right through the Covid slowdown and again during the markets slump in 2022 but have also consistently delivered strong levels of income to investors. As a result, we are continuing to add these exposures to client portfolios.

Fund in Focus – Pictet Short-Term Money Market Fund

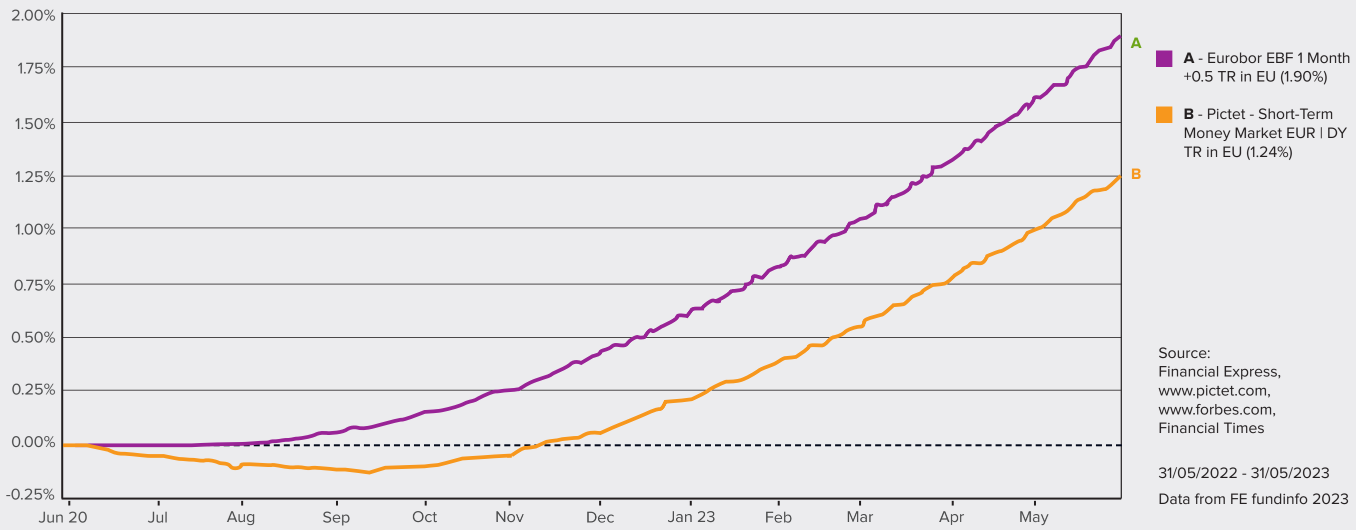
This month's fund in focus is the Pictet Short-Term Money Market Fund. The fund's objective is to preserve the value of your investment, while achieving a return in line with money market rates. The fund mainly invests in short-term money market instruments that are issued by highly rated issuers and are either denominated in Euro or systematically hedged to this currency. The fund can only invest in Government, Government guaranteed, Agency and Supranational issuers.

Points to note:

- Money Market Funds are often used as an alternative to bank deposits because they offer diversification of investments, are very liquid and they are among the lowest-volatility types of investments.
- This fund offers a highly diversified portfolio of money market instruments, managed by an experienced investment team with a strict focus on risk management and capital preservation.
- The fund is Article 8 and excludes sectors such as tobacco, oil and all issuers which breach the UN Global Compact Principles from its portfolio
- The fund's investment managers have more than 25 years of industry experience with the team benefiting from an optimised access to the market thanks a dedicated Fixed Income Trading desk.

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

Pictet Short-Term Money Market Fund – 1 Year Performance vs. Euribor EBF 1 Month



Source:
Financial Express,
www.pictet.com,
www.forbes.com,
Financial Times

31/05/2022 - 31/05/2023

Data from FE fundinfo 2023

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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