Market Insights

MAY 2023

HARVEST FINANCIAL SERVICES

Current Topics in Markets

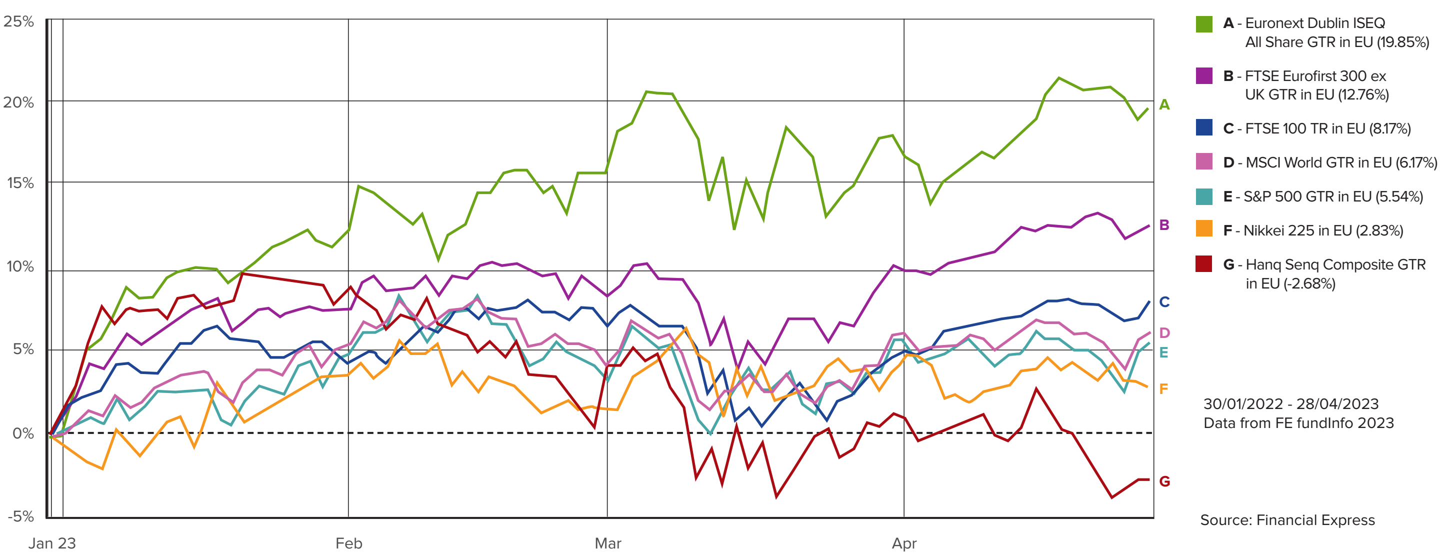
Over the past week both the Federal Reserve and the ECB have raised interest rates one more time. The latest signals from the US economy look quite mixed however, with inflation hardening on the one hand but jobless numbers rising and job vacancies falling.

Adding further complexity to the picture, the Fed now has the additional worry of failing banks, with a third second tier bank running into serious problems this past week resulting in a forced rescue of the business by JP Morgan. A recession of sorts is looking like a virtual certainty in the US this year, its just a question of how deep and how long.

While the US equity market has recovered well this year (S&P 500 up almost 10% year to date in dollar terms), virtually all of this can be accounted for by share price rises in just seven very large companies – the broader market looks relatively flat year to date.

The evolving economic picture is likely to bring bouts of volatility over the coming months and an equity market correction over the Summer cannot be ruled out.

Equity Markets Year to Date (Euro Terms)



Equity Markets

The Irish equity market has had a storming few months since the start of the year, mainly due to a very decent recovery in the share prices of the major banks. But Europe generally has done well and is the best performing regional equity market year to date. Of the major markets, China stands alone in not delivering a positive return in the four months to end April. The anticipated post covid recovery in China has turned out to be quite anaemic, with the position exacerbated by China/US trade tensions.

The coming months could see the markets levelling off. In addition, other regions will not be immune to a US recession which will undoubtedly increase the risk of a broader correction. For all of these reasons, we remain cautious on equities for now and we continue to favour equity funds focused on the value rather than the growth end of the market.

Equity Market Performances (in euro terms)

Market	Performance April 2023*	Performance 1 year*	YTD*
Ireland	+1.46	+16.85	+19.85
UK	+3.45	+3.48	+8.17
Japan	-1.02	-1.49	+2.83
Europe	+2.43	+9.19	+12.76
US	-0.05	-1.90	+5.54
China	-3.82	-6.93	-2.68

Source: Financial Times, Financial Express

Bonds

In contrast to equities, the value argument for bonds would appear to be a lot clearer. Average bank deposits in Europe are still well below 3% (and lower again in Ireland) while yields on investment grade bonds are currently around 5%. If the threat of recession materialises, we are likely to see deposit rates retreat, possibly by the end of the year. In that event locking in a 5% yield from higher quality bonds will look very attractive indeed. As a result, we continue to favour higher exposures to bonds in client portfolios.

Property

Commercial property worldwide continues to suffer from a post Covid hangover, as tenant demand for both office and retail best described as uncertain at best. Residential demand, in contrast, remains very robust, particularly in urban locations as does demand for specialist properties in the healthcare, logistics and retail warehousing sub-sectors. The sell-off of property funds over the past eighteen months, however, has been indiscriminate resulting in the creation of real value opportunities delivering strong income for investors in the more buoyant sub-sectors.

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 – Franklin Global Multi-Asset Income Fund

The fund pursues an actively managed investment strategy. It aims to earn income and to increase the value of its investments over the medium to long term by investing in a wide range of asset classes and geographic regions to support a steady level of annual distribution.

In the uncertain asset markets we are currently experiencing, we see a strong logic for clients to hold a diversified multiasset fund such as this in their portfolios, particularly one with an income focus. The fund's distribution yield is currently circa 3.9%.

Points to Note:

- This fund offers a consistent payout that is derived primarily from income and dividends, but also may include capital gains
- The Fund's exposure is to a wide range of equity and debt securities worldwide as well as derivatives
- The target market is anyone willing to hold their investment over the medium to long term for a minimum period of 3 to 5 years.
- Since the emergence of covid in March 2020, the fund has returned around 15%, mainly in the form of a consistent level of income.

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

Franklin Global Multi-Asset Income Fund– 3 Year Performance

Source:
*Financial Express, www.franklintempleton.lu, Financial Times

30/04/2020 - 28/04/2023
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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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.