Market Insights

JULY 2023

HARVEST
FINANCIAL SERVICES

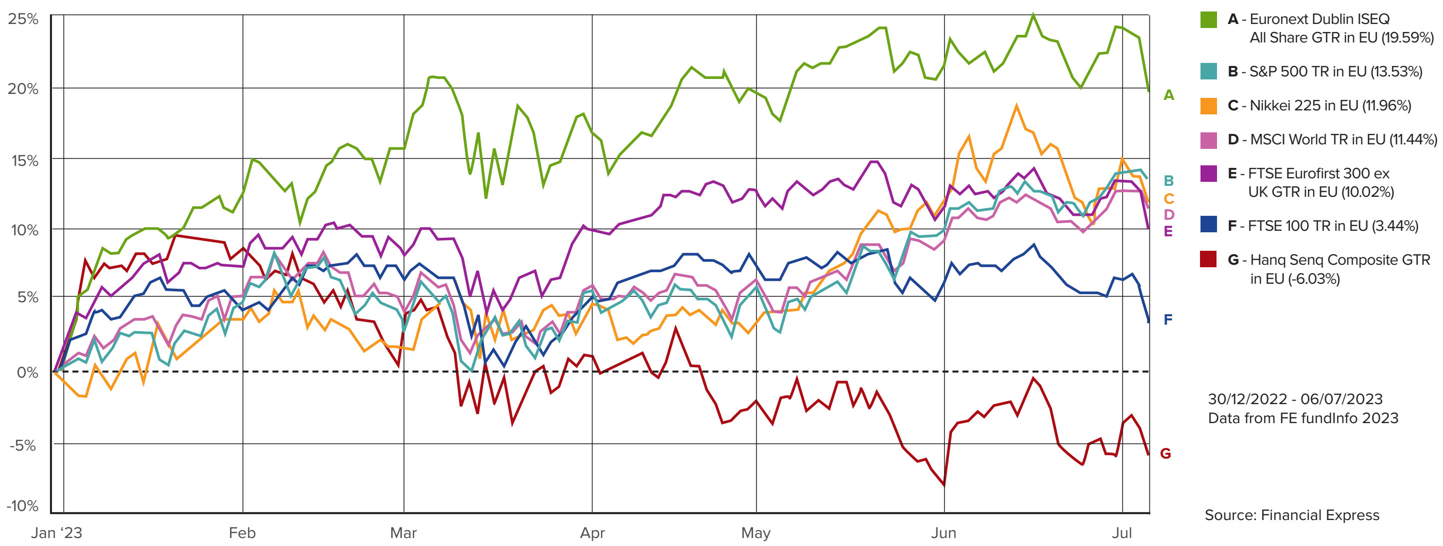
Current Topics in Markets

The return of optimism to financial markets was evident across most asset classes in the first half of this year. Inflation concerns settled back somewhat, the interest rate peak was supposedly in sight and the US economy was looking reasonably robust. At mid year we can say that at least some of that optimism has abated and things are looking a bit more uncertain than they were. At the recent Sintra summit in Portugal, both the US Federal Reserve and the ECB delivered a strong message around the plan for further rate hikes.

The 'risk' for central banks of course, to the extent that they perceive it as a risk, is that economies are driven into recession as a result of interest rate rises going too far too rapidly. If anything, the likelihood of such a scenario unfolding is increasing.

Against this background, it is not a time to be adding risk in the form of growth equities to portfolios whereas it is probably a good time to be adding bond and alternatives exposure.

Equity Markets Year to Date (Euro Terms)



Equity Markets

With the exception of China, equity markets across the globe have performed strongly over the first half of the year. However, the rise in the US market in particular, has been driven by a small number of very large companies and the underlying market has been relatively flat. In recent weeks, markets have been demonstrating a high level of sensitivity to negative economic news with the result that volatility levels have risen. It is our view that this pattern may well continue over the Summer months and a larger correction certainly cannot be ruled out. We continue to be cautious on equities over the short term as a result, and favour larger dividend paying companies over the growth end of the market.

Equity Market Performances (in euro terms)

Market	Performance June 2023*	Performance 1 year*	YTD*
Ireland	+3.09	+41.20	+19.6
UK	+1.63	+9.49	+3.4
Japan	+1.50	+13.26	+12.0
Europe	+2.74	+20.62	+10.0
US	+4.13	+14.01	+13.5
China	+1.58	-15.21	-6.0

*Source: Financial Times, Financial Express

Bonds

Following the broadly based bond sell-off in 2022 and the continued uncertainty around interest rates, bond markets are offering investors real value now in our view. While we do not see the market settling fully until the peak in the interest rate cycle is clearer, that is likely over the coming months. Yields on sovereign bonds are currently 3% plus while higher yielding corporate bonds are paying more than 7% per annum. While we are advising clients to build a reasonably broad exposure to bonds, our favoured area continues to be the higher quality end of the high yield bond sector where the risk reward balance seems particularly attractive.

Property

Sentiment towards property remains in the doldrums in most global markets and we do not envisage any kind of real recovery from this in the short term. Serious question marks around future requirements for retail and office space continue to linger and are significantly suppressing investor appetite. However, the negative investor sentiment has also affected other sub-sectors of property including residential, logistics and healthcare where demand levels have been consistently buoyant. As a result, many property vehicles are trading at significant discounts to asset value and are reliable sources of attractive levels of income. While recovery may be slow, investors now will be compensated by the high yields currently available.

Alternatives

Alternative asset classes including infrastructure, renewable energy and selected hedge funds all have a place in investment portfolios in the current uncertain markets. Infrastructure and renewable energy attract high levels of government support, and this is unlikely to change and growth opportunities in these asset groups will continue as a result. They are both strong sources of yield also. Hedge funds on the other hand may offer a counter to the current volatility in equities.

Fund in Focus – ICG Enterprise Trust

This month's fund in focus is the ICG is a listed private equity investment trust whose objective is to generate long term value growth through investment in unquoted companies. The fund invests via specialist vehicles and also directly into private companies. In terms of strategy, the focus of the trust is on large highly cash generative companies located in North America and Europe.

Points to note:

- Closed-ended investment company listed on the London Stock Exchange and a constituent of the FTSE250 index
- ICG Enterprise Trust is the only UK-listed private equity vehicle that focuses exclusively on investing in buyouts globally.
- The board is maintaining its progressive dividend policy and intends to declare dividends of at least 32p for the financial year, which would represent a 2p (6.7%) increase on the previous year.
- ICG incorporates ESG considerations throughout their investment process to generate long-term, sustainable returns. They have recently completed a €10m investment in a corporate governance & compliance software called Archer.
- We believe ICGT is well placed in the current uncertain economic environment with the manager focusing on defensive growth companies which are able to continue to generate returns in a range of economic conditions, as well as having no exposure to venture and growth equity
- As of 30th June 2023, ICG was trading at a 40% discount to its NAV.

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

ICG Enterprise Trust – 5 Year Performance Chart

Source: www.forbes.com, Financial Times

06/07/2018 - 06/07/2023

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.

HARVEST
FINANCIAL SERVICES

Harvest Financial Services Ltd,
Block 3, The Oval,
Shelbourne Road, Ballsbridge,
Dublin 4, D04 T8F2.

T: +353 1 237 5500
F: +353 1 237 5555
E: justask@harvestfinancial.ie
www.harvestfinancial.ie