DAVY

July 2022

MarketWatch

Has Goldilocks left the building?

Editor's note

Welcome to the latest edition of MarketWatch.

As we reach the halfway point of a difficult year, we reflect on our initial "cautiously optimistic" outlook for 2022. Of the many potential risks that we noted at the start of the year, the most serious ones have materialised. We have war in Europe, inflation is out of control, and central banks are hiking interest rates so fast, that the stock market is convinced they will cause a recession.

Taking a longer-term perspective, what has really changed? Is the cosy consensus that central banks can steer the economy, and the markets, safely between dangerous extremes. This is the "Goldilocks" notion that the economy can be prevented from running too hot (from inflation) or too cold (from recession). Currently, with inflation running over 8% in the United States and Europe, central banks have to choose a least-negative path, and they have clearly decided to cool things down.

As a result, investors have been hit at both ends of the risk spectrum. Growth-related assets have fallen into bear market* territory in anticipation of recession, while bonds, traditionally the safer assets, have suffered their worst half year in decades as yields rise in anticipation of higher interest rates. The damage has been most extreme in the most speculative areas, with previously enthusiastic investors no longer willing to buy into the promise of future profits.

In this edition of MarketWatch, we update our outlook for the economy and the markets for the remainder of 2022, and ask whether the good times really are over? We look at the composition of growth markets, public and private, and explore how different investment styles are working, at the index and manager levels, in this challenging environment.

We would also like to inform you that Davy Private Clients has been awarded the 2022 3D Award from ARC (Asset Risk Consultants), a leading independent provider of investment consulting, manager research and performance reporting to private clients, charities, family offices, professional trustees and their trusted adviser. The award is an independent endorsement of the quality of our investment process, which is managed by our 30-strong investment team.

Should you have any questions in relation to the content within this quarter's edition, please contact your Davy Adviser.

Donough Kilmurray
Chief Investment Officer

* a bear market means a price decline of 20%

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Warning: Forecasts are not a reliable indicator of future performance.

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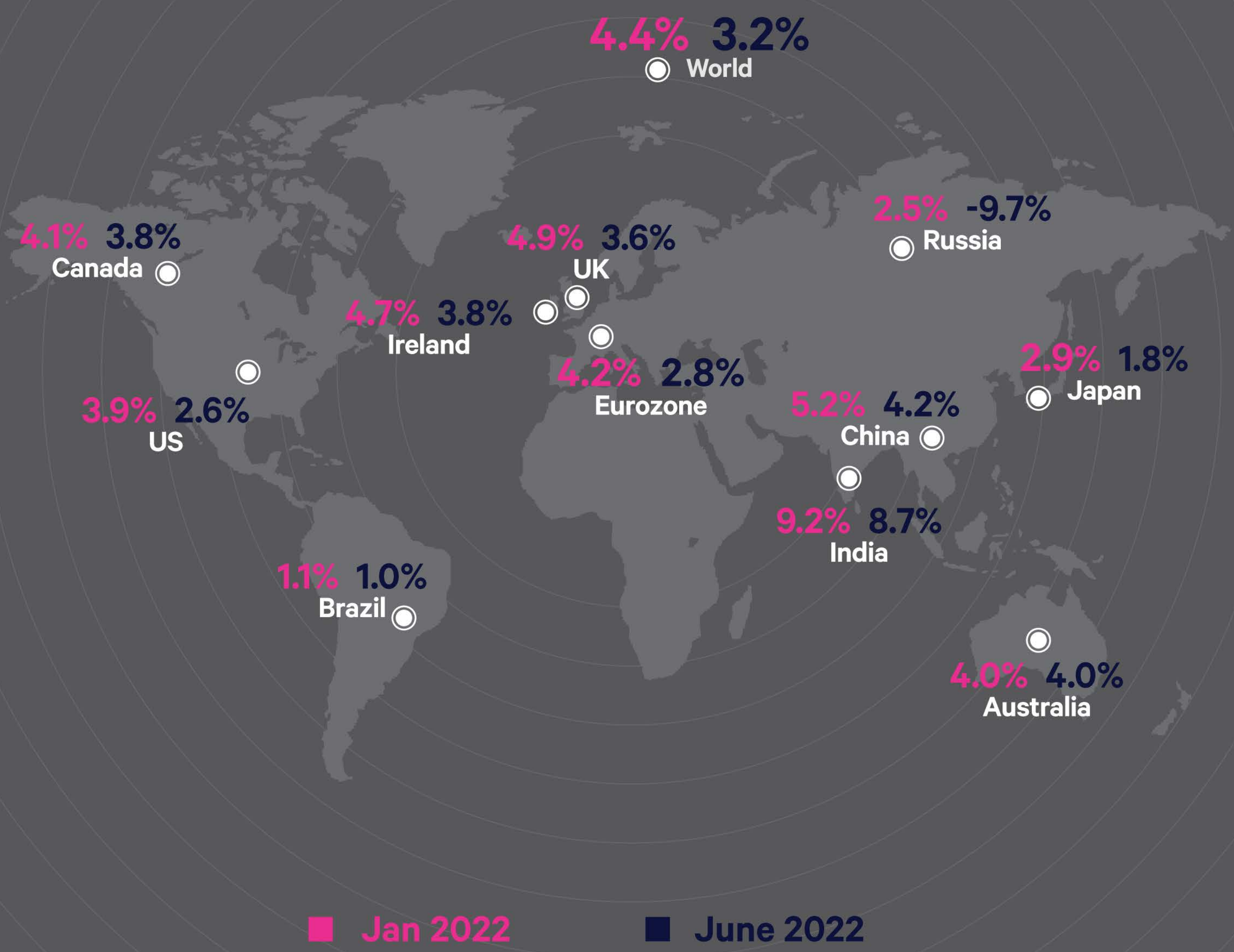
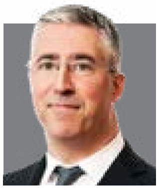
Gross Domestic Product (GDP) Growth-
Beginning of the year vs now



Source: Bloomberg consensus as at June 2022

Warning: Forecasts are not a reliable indicator of future results.



Donough Kilmurray
Chief Investment Officer

Global Outlook – Has Goldilocks left the building?

Economists can debate the rights and wrongs of central bank policies, but most investors look at the fallen markets and scratch their heads – are there any reasonable returns to be had, or is it all just risk ahead? Even if markets recover and asset returns are ok, will inflation eat up all the gains? In other words, is the "Goldilocks" era of not-too-cold growth and not-too-hot inflation over?

To figure out where we may be headed, it's useful first to understand how we got here. To do this, we look back to the decade where everything last went badly wrong – the 1970s. We focus mostly on the United States, as it's the biggest economy and market in the world, with the most important currency and most powerful central bank, the Federal Reserve or "the Fed".

Where it all went wrong – the stagflationary 1970s

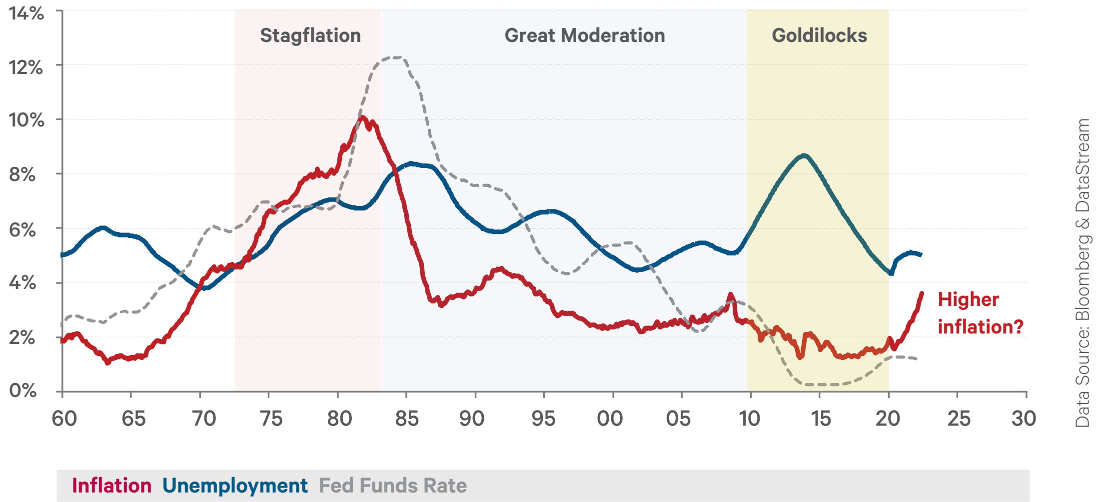
The 1970s have a terrible reputation for investors, due to the decade's negative real returns for both stocks and bonds, but as usual, the reality wasn't that simple. Many of the root causes began in the 1960s when governments and central banks pushed expansionary policies in the face of tight labour markets and expensive stock markets. Sound familiar? Of course, the biggest driver of inflation, the energy crisis, did come in the 1970s. While it's natural to compare this to the current crisis, the ten-fold increase in the price of oil during that decade is far beyond what we're experiencing now.

Another familiar feature was the perceived lack of willpower to fix the problem. Apart from a few notable exceptions, like Germany and Switzerland, most central banks dithered in the 1970s and allowed inflation to take hold, which meant that the ultimate cure would be much harsher and more economically destructive. Eventually in 1980, and again in 1981, Fed chairman Paul Volcker hiked US interest rates to 20% and stock market valuations fell to levels last seen in the Great Depression.

How it got better – the "Great Moderation"

The punishing rate hikes of the late 1970s and early 1980s did more than choke demand and bring inflation down to bearable levels. They established the reputations of central banks, especially the US Federal Reserve, as credible inflation fighters. As the economy stabilised and interest rates came down again, the cost of doing business fell and investing became less risky. For economists, this was the "Great Moderation" and for investors, it ushered in the Wall Street boom years.

Figure 1: Five year average unemployment, inflation & interest rates in the US (1960-2022)



It wasn't all smooth sailing, but whenever inflation looked like it might return, the Fed stepped in with pre-emptive rate hikes to cool things down, as in 1983 and 1994, and when there were emergencies, they provided rescue rate cuts, as in 1987 and 1998. Fed chairman, Alan Greenspan, became known as "the Maestro", and apart from a mild Gulf War recession in 1991, the US enjoyed almost two decades of steady growth, low inflation and extraordinarily strong market returns.

In hindsight, we know now that too much stability eventually causes instability. Economic over-confidence led to market over-valuation, and ultimately the stock bubble of the late 1990s. The Fed came to the rescue again with several years of very low-interest rates, which then led to the more devastating credit and housing bubbles of the 2000s.

The Goldilocks decade of the 2010s

Despite trillions of dollars of central bank stimulus, the "jobless recovery" after the global financial crisis was slow and painful, as enormous debt burdens had accumulated. Higher unemployment, better technology and cheap imports kept consumer prices and wage inflation low, and helped to boost corporate earnings. Below-target inflation meant that central banks kept interest rates low, creating ideal conditions for investors. Goldilocks was born.

Whenever it seemed like interest rates were going up, the markets had a tantrum, and the Fed either backed off, as in 2013 and 2015, or reversed course, as in 2019. This strategy continued to work, and the Goldilocks bull markets continued to thrive because inflation stayed cool.

Exit Goldilocks, enter the bear

But then 2020 brought the COVID-19 shock and the sharpest recession since the Great Depression. The Fed and others jumped into action, as fears of economic disaster and social disintegration led to the largest financial stimulus ever seen. Warnings of over-stimulation were brushed aside, and the money flowed to protect households and businesses. After disappearing in 2020, inflation began to rise again in 2021 as demand rebounded before supply chains recovered or workers returned. But most regarded this as transitory; central banks stayed their hand, and stock markets boomed again.

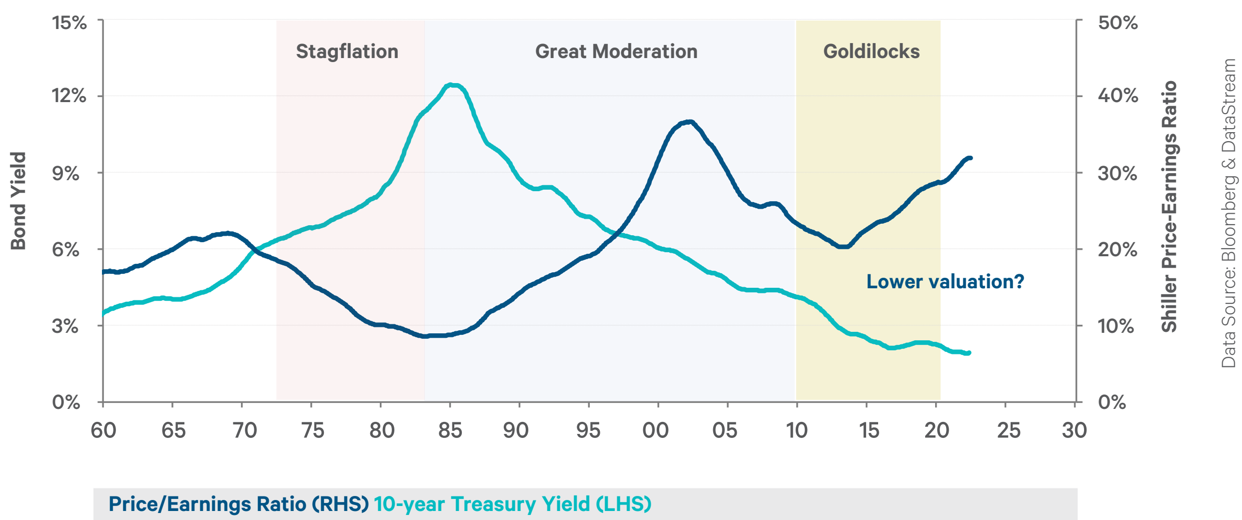
Towards the end of 2021, it became clearer that this new inflation was not fading away, and central banks changed their tune. Markets wobbled a bit at first, as they usually do at the start of rate hike cycles, but each higher inflation point made it tougher to regain their stride. Then Russia invaded Ukraine and energy prices pushed inflation to levels not seen in 40 years. Central banks had to choose between supporting the economy or stopping inflation, and they made it clear that inflation was more important. Without waiting to see the impact on the economy, markets assumed a recession was coming and sold off, causing the worst opening half year since 1962.

What's next for investors?

It's important to note that it's far from clear that this rate-hiking cycle, aggressive as it may be, will cause a recession any time soon. At least not in the US, where the consumer balance sheet and wage growth are unusually strong. In Europe, the recession risk is higher. So the stock market may be over-reacting. Also, unless inflation stays close to double-digit levels, which is not our view, the Fed won't need to repeat the extreme rate hikes of the Volcker era, and so any recession should be mild. This would be consistent with a price decline of 20-30%, close to what has already happened.

But where the markets have probably got it right is the realisation that the Fed will no longer automatically come to their rescue and protect the economy. No more Goldilocks – not when inflation is running so hot. Unfortunately, the more "sticky"

Figure 2: Five year average US bond yields and US equity valuation (Shiller cyclically-adjusted price earnings) (1960-2022)



components of the consumer price index, such as housing costs, and the tightness of the job market, indicate that inflation may not decrease to the official 2% target for some years yet. To protect their credibility, the Fed and other central banks may need to keep rates up for years too, and they may be reluctant to cut too much whenever the next recession does arrive unless inflation falls sufficiently too.

What does this all mean for investors? The post-Goldilocks era, where central banks choose to fight inflation rather than support growth, will be different in several ways. Firstly, bonds and stocks will be more volatile. Secondly, their returns will be more positively correlated than in recent decades, which means less diversification and higher risk at an overall portfolio level. Thirdly, stock market valuations are unlikely to run as high again. In market terminology, risk premia will be higher. And fourth, inflation may stay above target for much of this decade.

Ultimately, getting inflation under control will make for a more stable economy, and markets should benefit again, although perhaps not as much as they did in the Great Moderation. But until then, investors face lower and more volatile real returns, while cash will continue to lose its real value. In Goldilocks' absence, a robust financial plan, with enough growth risk to beat inflation and enough liquidity to maintain staying power, will be an investor's best friend.

Warning: Past performance is not a reliable guide to future performance. The value of your investment may go down as well as up. These products may be affected by changes in currency exchange rates. Forecasts are not a reliable indicator of future performance.

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Conall MacCoille
Chief Economist

Irish economic outlook

Once again Ireland's GDP (Gross Domestic Product) data are beating all expectations, but mainly on the back of the volatile and buoyant multinational sector. Irish GDP rose by 10.8% in Q1 2022, after a 6.2% contraction in Q4 2021. In light of this rebound, we expect that we will have to revise up our current forecast for 8.2% GDP growth in 2022 into double-digit territory.

These figures look a little bit too good to be entirely true. Clearly, companies in the information/communications technology, pharmaceutical and medical technology sectors are performing very well. Indigenous firms have faced a far more challenging couple of years with all the disruption from the pandemic. However, in aggregate, Ireland's economy is clearly performing well – evident in the labour market and buoyant tax receipts.

Recession prospects

Given the uncertainty created by the conflict in Ukraine and surge in energy prices, a recession in Europe clearly can't be ruled out. One reassuring feature of Ireland's economy is that the export sector is highly defensive. Ireland's exports are not concentrated in highly cyclical, heavy manufacturing and capital goods production. Similar to during the COVID-19 pandemic period, Ireland's export sector should prove to be relatively resilient should a substantial global downturn take place. It is worth highlighting how strong Ireland's labour market has performed. According to the latest data from the Central Statistics Office for Q1 2022, the level of employment is already 8% above its pre-pandemic level, with the unemployment rate falling to 4.7% in April.

Numbers employed in the information/communication (30%), industrial (10%), finance (17%) and professional & scientific (18%) sectors are all well above 2019 levels, more than compensating for domestic facing sectors such as retail, hospitality, services and tourism that were hard hit by COVID-19. This is a far better performance than other countries where employment is just getting back to pre-pandemic levels.

Inflation woes

Of course, Ireland will still need to withstand the headwinds facing many economies. HICP (Harmonised Index of Consumer Prices) inflation hit 8.2% in May as Irish energy companies passed on higher energy costs into electricity and gas prices. We expect that inflation will have peaked around 8.5% in June. This means consumer prices are rising faster than wages – hurting the real spending power of Irish households. Surveys of consumer confidence fell in early 2022, close to the troughs seen in early 2020 during the first COVID-19 lockdown.

However, once again, Irish consumers may be relatively well placed to deal with the squeeze in real incomes. Job growth over the next twelve months will likely be stronger in Ireland than in Europe or the United Kingdom. The Irish government also implemented income tax cuts in January, worth close to 1% of disposable incomes on the average wage.

Finally, Irish households have been conservative. The household savings ratio was 10.4% in 2019, before rising to 25% in 2020 and 21% in 2021. These accumulated savings will allow many households sustain spending, despite higher prices. Indeed, we estimate Ireland's household debt / disposable incomes ratio has now fallen to 96% below the euro area average for the first time – indicative of the prolonged process of balance sheet repair since the Celtic Tiger era.

Residential property price inflation (RPPI) hit 15.2% in March. There have been few material signs so far of any slowdown but this rate of inflation isn't

sustainable. We expect RPPI will slow to 7% by the end of 2022, as stretched affordability and the Central Bank's mortgage lending rules inevitably curb further price gains.

The prospect of rate hikes from the European Central Bank (ECB) may also create uncertainty for homebuyers. However, debt-interest payments on Irish mortgage lending are currently low by historical standards. The Central Bank of Ireland has also estimated house prices might have been 25% higher absent the 3.5 times threshold on loan-to-income ratios because homebuyers would have taken on more debt were it not for the mortgage lending rules. In this context, ECB rate hike won't help affordability, but will likely do little to curb housing demand.

Potential support for the cost of living "crisis"
Ireland's buoyant economy has been evident in the public finance data. Tax revenues in the first five months of 2022 were €30bn, up 27% on the same period of 2021. Whereas other European countries have run substantial fiscal deficits in the twelve months to May, Ireland's central government exchequer balance actually ran a small €32m surplus.

This raises the prospect of a "giveaway" Budget for 2023 – especially with the government under pressure to help Irish households with the cost-of-living "crisis". However, the government should ideally eschew broad based tax cuts and focus any measures on the most vulnerable households. A cautious approach in Budget 2023 is warranted to avoid the government's fiscal position adding fuel to growing inflationary pressures in the Irish economy.

The Irish Fiscal Advisory Council (IFAC) has also warned that corporation tax receipts look unusually strong and are an unpredictable and volatile base on which to base medium-term spending decisions. In the twelve months to May, corporation tax receipts were €17.5bn, up enormously from €11.8bn in 2020 and well above the Department of Finance's past projections. Recommendations that these unexpected receipts should be ring-fenced to pay down debt have so far fallen on deaf ears.

Conall MacCoille
Chief Economist

UK economic outlook

The UK is set to be the clear underperformer amongst the G7 economies over the next eighteen months – expected to see weaker GDP (Gross Domestic Product) growth and more pernicious cost of living pressures. Beyond the immediate headwinds of higher energy prices and Rishi Sunak's fiscal consolidation, there is a growing realisation that Brexit is a significant drag on growth prospects.

Evidence of slow down

Signs of marked slowdown are starting to emerge. The composite PMI (Purchasing Managers' Index) survey fell to 51.8 in May, indicating job growth had slowed to its slowest pace in thirteen months and on past form is consistent with flat-lining GDP growth. In May, the GfK (Growth from Knowledge) consumer confidence measure fell to its lowest level since the survey began in 1974. The latest indicators on retail spending point to households paring back spending on big-ticket items.

However, these developments are not surprising. Households have suffered a double-hit to their spending power. First, OfGEM's (Office of Gas and Electricity Markets) energy price cap was increased by 54% in April, pushing the bill for the average UK household up to £2,000. A further 40% rise in electricity and gas bills is expected in October.

Secondly, the 1.25% rise in national insurance contributions announced last September was finally implemented. Hence, the Bank of England expects that UK households' real incomes will fall by an enormous 1.75% in 2022.

Further challenges

In April, the CPI (Consumer price index) inflation rate hit a fresh high of 9%, markedly higher than in the euro area and the United States. Core CPI inflation (excluding food and energy) was 6.2%, well above the euro area figure of 3.5%. UK CPI inflation is also expected to peak later in the year, above 10% in the final quarter of 2022.

The explanation for the UK's exceptionally high CPI inflation rate is no doubt related to Brexit. Specifically, the additional supply-chain issues that have emerged since the UK left the EU single market and that have pushed up imported goods prices.

Brexit is also being felt in the labour market. In March, the unemployment rate fell to 3.7%. However, this largely reflects the fact that the labour force, at 33.8 million, is still 600,000 below pre-pandemic levels. Some of this decline reflects weak participation, particularly amongst older age groups, but a range of surveys have also pointed to labour shortages due to the lack of EU workers. Wage pressures are growing, adding further fuel to CPI inflation.

Brexit has also weighed on GDP growth. Global trade bounced back sharply in 2021 after the disruption of COVID-19 in 2020. However, UK exports have been left behind, currently still 15% below their pre-pandemic levels, no doubt suffering as the UK has been cut out of European supply chains.

Property sector struggles

One particular vulnerable area is the housing market. There has been little sign of any slowdown so far. House price inflation was still running at 11.2% in May according to the Nationwide index.

However, mortgage rates are now being raised rapidly as lenders have priced-in expectations that the Bank of England will raise official interest rates above 2% by end of 2022.

The average quoted interest rate on a two-year fixed rate, 75% loan-to-value, mortgage loans was 1.6% in January. In May, the average rate on two-year fixed rate products had increased above 3%. This is a stark change, hitting mortgage affordability. Hence, house price inflation is expected to cool rapidly in 2022 – with some commentators speculating price falls may be likely in 2023.

Waning support

Boris Johnson's premiership was clearly undermined by the 'party-gate' and other scandals that have been the media's focus in recent months. However, a key role in his demise was played by his budgetary plans to raise taxation to its highest level since the 1950s – to pay for additional health and social care spending, but anathema to backbench Conservative MPs. Few had been planning to support a "tax and spend" Conservative government.

However, the UK's diminished medium-term GDP growth prospects, evident since the Brexit referendum in 2016, have made it far more difficult to meet the cost of maintaining public services. This challenge remains. Hence, Labour's attack lines have been increasingly focused on the Conservatives as the party of low growth and high inflation – a message that will still resonate with the British public heading into the next election, irrespective of who becomes the next Prime Minister.

Aidan Donnelly
Head of Equities, Davy Private Clients

Global Equities – Totally consumed!!!

You will need to give me a little latitude and bear with me for a minute because I am going to get you to cast your minds back (way back!) to, some may say, a simpler time and to a place called Sesame Street. Anyone who was a fan or even an occasional watcher will remember the "which of these kids is doing his own thing" – feel free to sing along now that it is in your head. Four quadrants had children performing some tasks, but one of the four was doing something different. Well, when it comes to the investment world, there is something similar – it's called Wall Street versus Main Street.

It won't come as news to you that, for the last several months, Wall Street has been in a bit of a funk - to the point that some believed the glass was neither half empty, nor half full, but instead lay smashed on the kitchen floor. With inflation ratcheting higher, many believe that the required actions from central banks on both sides of the Atlantic would inevitably tip economies, particularly the US, into a recession in the coming quarters.

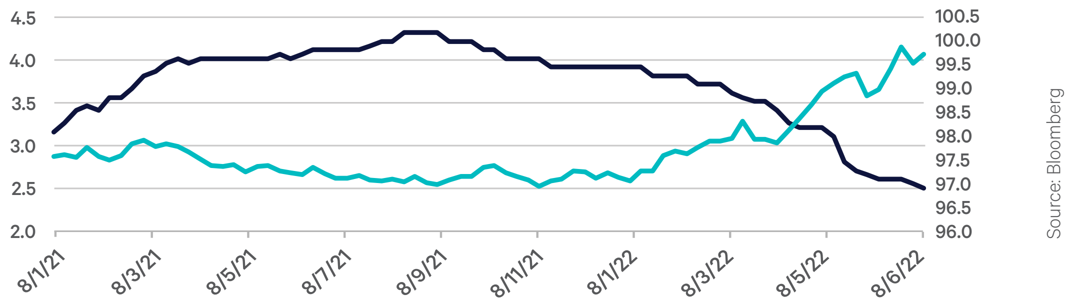
At the same time, many wondered about the impact on company fundamentals and growth prospects from a possible recession, the increased geopolitical tensions following Russia's invasion of Ukraine, and profit margin pressures brought on by higher energy costs and wage demands. For their part, company managements have been conservative in their guidance on the future, given the level of uncertainty out there.

The charts below are interesting from two perspectives in relation to the markets view of a potential recession. Firstly, although economic forecasts have been reduced, they still remain positive on growth (and some distance from a recession). Secondly, managements may be conservative but we have still seen aggregate forecasts for profits this year rise since the beginning of the year.

Now, while investors tend to focus most of their attention on what's happening on Wall Street, it is the residences of Main Street that have a far greater impact on the fortunes of the US economy – and ultimately the market. The reason for this is that consumer spending accounts for a significant portion of the Gross Domestic Product (GDP), aka the economy, and therefore, getting a gauge on how Joe and Joanne Public are doing or feeling is pretty important.

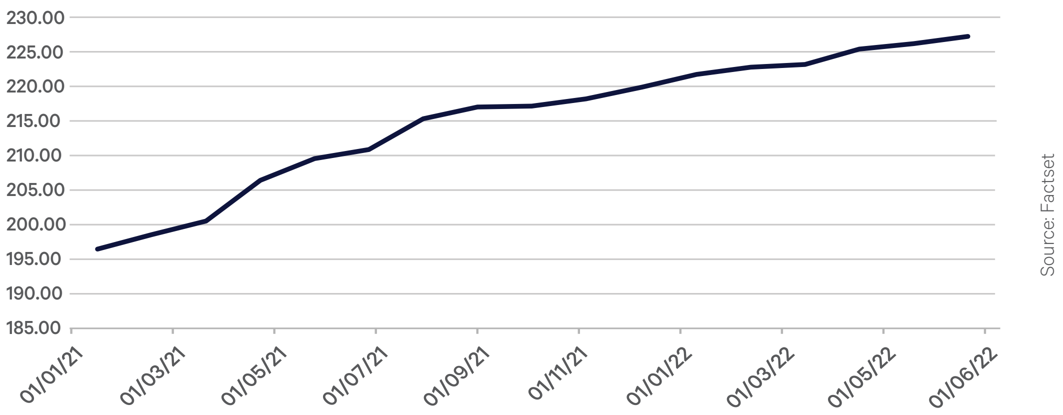
With consumer price inflation remaining elevated, there continues to be much media and Wall Street discussion on the impact of inflation on consumers – particularly those on low and modest incomes. Media stories sometimes cite surveys of sentiment which show that

Figure 1: Economic growth vs financial conditions



2022 Real GDP Growth **US Financial Conditions**

Figure 2: 2022 S&P 500 Earnings forecast (US dollar)



consumers are inclined to cut back spending in response to higher prices. But people don't always actually do what they say they are doing – sentiment is not the same as action. Aggregate credit and debit card spending was up 13% year-on-year (YoY) in April. Within this, credit card spending rose by 22% YoY, while debit card spending increased by 6% over the same period.

While higher inflation is leading to higher spending, it is clear that consumer strength goes beyond this, with aggregate spending growth exceeding current price inflation. The bears will point to the less than rosy news coming out of retail companies in recent weeks. What happened to Walmart and Target was not primarily about consumers spending less, instead it was about consumers spending differently. Walmart sold fewer hard goods and more food than it expected. As a result, the retailer was left holding too much "discretionary" goods inventory such as apparel. At Target, it was the same situation, but more so.

Or maybe, having spent much of the COVID-19 period spending money almost exclusively on goods, the consumer is now switching to services. There is sustained strength observed in travel and entertainment – search results on holiday websites are up massively; hotel occupancy rates have climbed significantly; and per-guest spending at Disney's US resorts was up by 20% from the year before, and 40% above 2019 levels.

But don't take my word for it! Managements at major US banks have been commenting on the consumer at their recent quarterly results. According to JP Morgan Chief Executive Officer (CEO) Jamie Dimon, "the consumer is in very good shape even today, which means if we go into a recession, it may be different than prior recessions". Over at Bank of America, its CEO said "consumers are in good shape, not overleveraged" – the bank's customers have current and savings accounts that are still larger than before the pandemic and are spending 10% more so far in May than the period a year earlier.

While some might point to COVID-19 era stimulus cheques to explain this, alas eaten bread is soon forgotten. The answer more likely lies in the labour market. With employment rising (also reflected in participation rates increasing), aggregate weekly hours across the economy are growing mid-single-digit. Strong employment growth in low-paid sectors, combined with strong hourly pay growth, means that aggregate income growth at the lower end of the income distribution could easily be in double-digits. The labour market story may be one reason why when you ask people how their own finances are, as opposed to general sentiment on the economy, they don't appear too bearish.

That said, as the US Federal Reserve (The Fed) continues to hike rates, there is growing concern about the impact of rising rates on the consumer balance sheet. For this year, the impact on consumers is limited since most of the consumer debt, including mortgages and auto loans, is subject to fixed rates. They will eventually face stiffer headwinds as more existing loans mature and new originations take place under higher interest rates, but the impact will not be felt uniformly.

There may be clouds over Wall Street right now, but over on Main Street the sun is still out, time to catch some rays!

Warning: Forecasts are not a reliable indicator of future performance.

Marie Gillespie
Senior Equity Analyst

Irish Equities – Where have all the good times gone?

It's hard to believe, but as markets tumble, inflation rockets upwards, supply chain issues heighten, and the spectre of possible recession looms, some Irish companies may be reflecting upon the time when the "only" issue to deal with was a global pandemic with a certain degree of fondness.

From a personal perspective, high inflation is not something I'm overly familiar with, despite a career spanning over twenty years in equity markets. On the contrary, having spent a considerable portion of that career covering Japanese equities, deflation was the name of the game. However, a potentially less than welcoming economic environment is a story I'm all too familiar with, and experience has taught me that even amidst difficult years, there will always be structural growth stories and plenty of opportunity for the success of companies. In many cases, that success correlates with a few key themes that pervade despite uncertainty – demographic changes, evolving technologies, energy conservation, etc. In this regard, long-term vision is the aim and good management teams can show their mettle by adapting to not only the short-term uncertainty but also forming plans with a view to the long-term vision and opportunity.

So in these times of economic and political uncertainty, what can we (and Irish companies) know for sure? Well, several listed Irish Equity Management teams have recently had the opportunity to hold investor events to set out plans for the next number of years and despite the broad range of sectors and geographies covered, there are several recurring themes that appear repeatedly when companies are planning for the long-term.

The Energy Transition

We, and many others have written about this theme in the past, and it is absolutely not going away any time soon. If anything, the war in Ukraine has strengthened the focus in Europe and accelerated the pace towards energy independence and the so called "net-zero" alignment. New details set out in the recent "REPower EU" plan include accelerating renewable energy targets from 40% to 45% by

2030; increasing solar energy targets; "drastically accelerating" offshore wind permitting, doubling the capacity of heat pumps; saving energy and investing in hydrogen and energy storage - to name just a few areas. This provides ample opportunity for companies operating in a variety of sectors to be exposed to growth.

The Changing Nature of the Food Industry
Once again, changes in the food industry were already evident before COVID-19 or indeed the war in Ukraine, with diets changing and authenticity around sustainability becoming of increased focus for consumers for some time. However, the war in Ukraine has particularly highlighted issues surrounding dependence on any one particular region for certain food supplies. Adding that current issues surrounding supply chains, it's clear that we are likely to see changes as easing food insecurity becomes paramount for European countries. Controversially, there is also some argument that inflation in food prices is only just starting to be felt and the situation is likely to become even more heightened in coming months.

Climate also plays a part in the food industry, with the EU "Farm to Fork" strategy a key element in aiming to make food systems fair, healthy and environmentally friendly in the future. This includes targets for a reduction in nitrogen fertilisers and emerging innovative technologies.

Overall, while no one knows all the answers yet for the industry, it is clear that great change is underway in food, which could lead to opportunities - whether that be in changes to the way we use land, BioSolutions, technology, more local production, or other areas.

Population Changes
We're probably all familiar with the statistics – the global population is set to reach over 9 billion people by 2050, from the circa 7 billion we have today. This will obviously have an impact on the need for food (as per our point above). However, the changing demographic also has implications for healthcare (in particular as the population ages); the labour market, and wealth. Furthermore, where people choose to live is changing and urban populations are growing, which again has implications for land use and biodiversity. Also, all those extra people will need somewhere to live, with long-term implications for housing. That's without any changes in migration if some of the predictions surrounding weather patterns due to climate change prove to be correct. Overall then, population changes could lead to opportunities in the housing, healthcare, and food sectors to name a few.

Warning: Forecasts are not a reliable indicator of future performance.

Stephen Grissing
Investment Strategist

Can the US dollar keep smiling? – Remaining front and centre

Having gained the status as the world's premier reserve currency following the Bretton Woods Agreement in 1944, the US dollar remains the most prominent global currency today. According to the International Monetary Fund (IMF), the dollar makes up 59% of all central bank foreign exchange reserves, with the euro lagging behind in second place at 21%. In addition, almost 40% of all global debt is issued in US dollars, while it accounts for 40% of all global SWIFT (Society for Worldwide International Financial Telecommunications) payments.

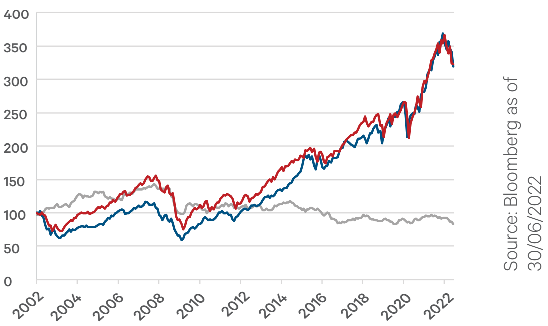
The dollar also plays a significant role for global investors. An investment in a diversified global equity index like the MSCI World, due to the size of the United States (U.S.) equity market, means that over 60% of your investment's exposure will be in U.S companies. By investing in any global financial asset, an investor becomes subject to two separate sources of return – the return of the underlying asset and the return of the asset's base currency relative to the investor's base currency.

In the short-term, currency fluctuations can have a significant impact on investment returns – adding to the underlying asset's returns in some years, while reducing returns in other years. However, in the longer-term, the impact from currency fluctuations become less significant as the growth of equity returns outpaces currency fluctuations (see Figure 1).

A justified smile

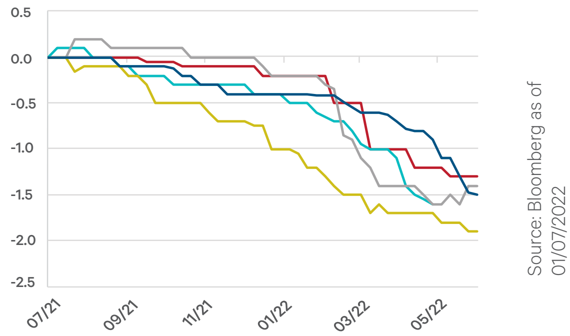
In 2021 and during the first half of 2022 the US dollar has reigned supreme, increasing by 6.9% and -7.8% versus the euro, and -1.0% and -10.0% versus sterling. The dollar reached its highest level in 20 years in May versus a basket of currencies of its main trading partners. The moves, although extreme, appear to have been largely justified to us. At one side of the dollar's smile, it tends to benefit in an environment where US interest rates, or expectations for future interest rates, move ahead of its peers. This has been particularly notable in comparison to Europe and Japan where a divergence in monetary policy has developed.

Figure 1: Impact of currency fluctuations on global equity returns



MSCI World Net Total Return EUR Index
MSCI World 100% Hedged to EUR Net Total Return Index EURUSD

Figure 2: A deteriorating global economic growth outlook



World China US EZ **UK**

Although the divergence in monetary policy has likely peaked as central banks like the European Central Bank (ECB) begin to play catch up, the US dollar continues to be propped up at the other side of its smile. It has a tendency to outperform when global economic growth is deteriorating, which has been the case since the second half of 2021 (see figure 2). Despite the fact that the US growth outlook has not been immune to the global slowdown, the dollar has displayed a greater level of resilience than the more cyclical currencies such as the euro and sterling in this environment.

What to expect from here

With supportive drivers remaining broadly in place, a sharp fall from grace for the world's reserve currency is not anticipated. At the same time, the dollar has had a particularly strong run and is expensive on a number of valuation metrics. In a scenario where global economic growth receives a boost from China re-emerging from a COVID-19 induced lockdown and tensions between Russia and Ukraine dissipate later this year, the dollar's broad smile might be reduced to a grin.

The extent to which currencies such as the euro and sterling can stage a recovery versus the dollar is up for debate. A key question for the euro currency will be the ECB's ability to implement the anticipated number of interest rate increases. The futures market is currently pricing in a deposit rate of +1.3% by June 2023.

The ECB has an unenviable task of deciding how to act, faced with record high inflation driven predominantly by energy costs, at a time when its economic outlook remains uncertain. They also need dexterity to set an appropriate interest rate for nineteen separate countries, while keeping a close eye on government bond spreads of the more vulnerable ones. Despite the challenges, the euro is likely to receive a boost when European interest rates move out of negative territory for the first time since 2014.

At the time of writing, the Bank of England also find itself in a precarious position. The context of interest rate hikes is important for currencies – raising rates against a backdrop of a sharply slowing economy is likely to limit the support provided to sterling. Monetary Policy Committee members are opting for a gradual approach to higher rates. In the market, short positions have been growing against sterling as an increasing number of investors bet against the pound. With sterling down 10% versus the dollar this year, some degree of the negative backdrop has already been priced in.

Davy's approach

At Davy, we invest in a global universe of financial assets through our discretionary managed portfolios, so currency fluctuations play a part in determining the returns achieved for our clients. Given the volatile nature of currencies and the difficulty in forecasting short-term moves, we generally refrain from implementing tactical views on currencies in portfolios, in the knowledge that over the long-term the impact of currency fluctuations reduces in significance. Having said that, given the current elevated levels of the US dollar, we are mindful of adding additional US dollar exposure in discretionary managed portfolios at this time.

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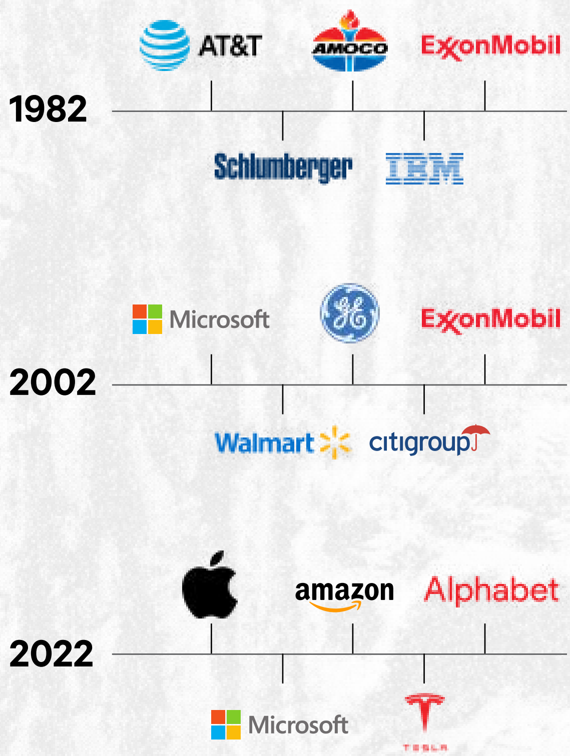
Warning: Forecasts are not a reliable indicator of future performance.

Market Trends and Insights

Over time – Growth evolves

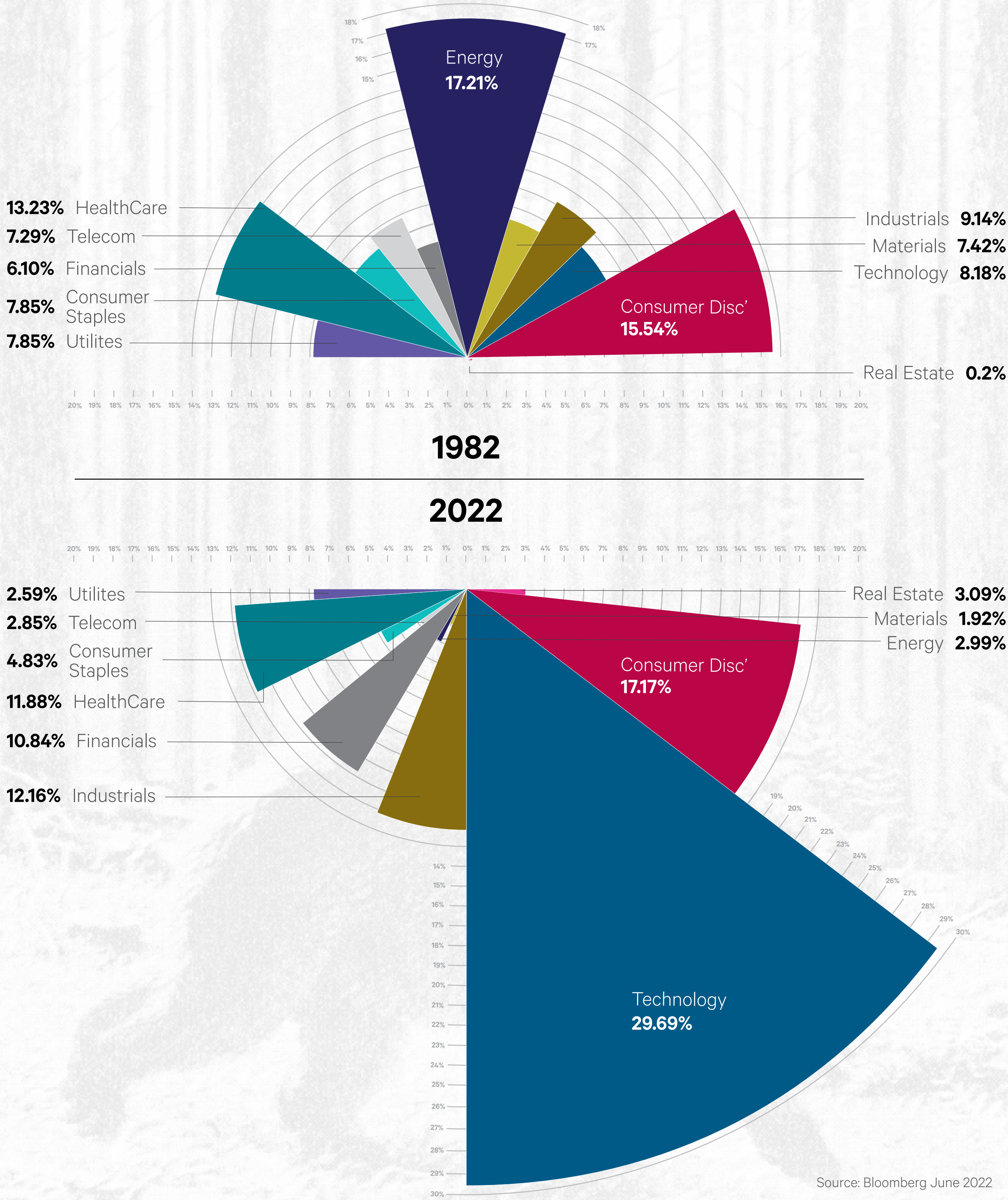
The market leaders today, were not the market leaders 20 or even more so, 40 years ago. A change in sector leadership can be a attributed to perfectly normal, economic and market behaviour.

Entire sectors can lead the market for many years before moving into the background.



These companies were the largest 5 in the world in each year.

USA sector size: Today vs 40 years ago



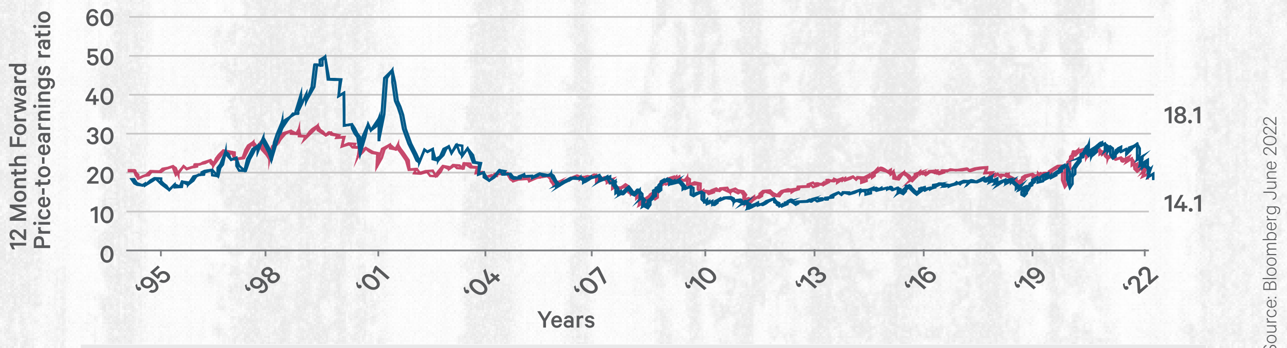
Source: Bloomberg June 2022

The stretching of growth valuations now & in the past

Stock valuations can change drastically and rapidly over time. However, while volatile, investors use these fluctuations as a signal, indicating if a market is becoming too expensive or if it's a little cheap.

After 5 months of global equites selling off, where are valuations today? We primarily focus on the Tech sector as it is the largest sector in the US by market capitalization as well as being a leading proxy for 'growth-equities'.

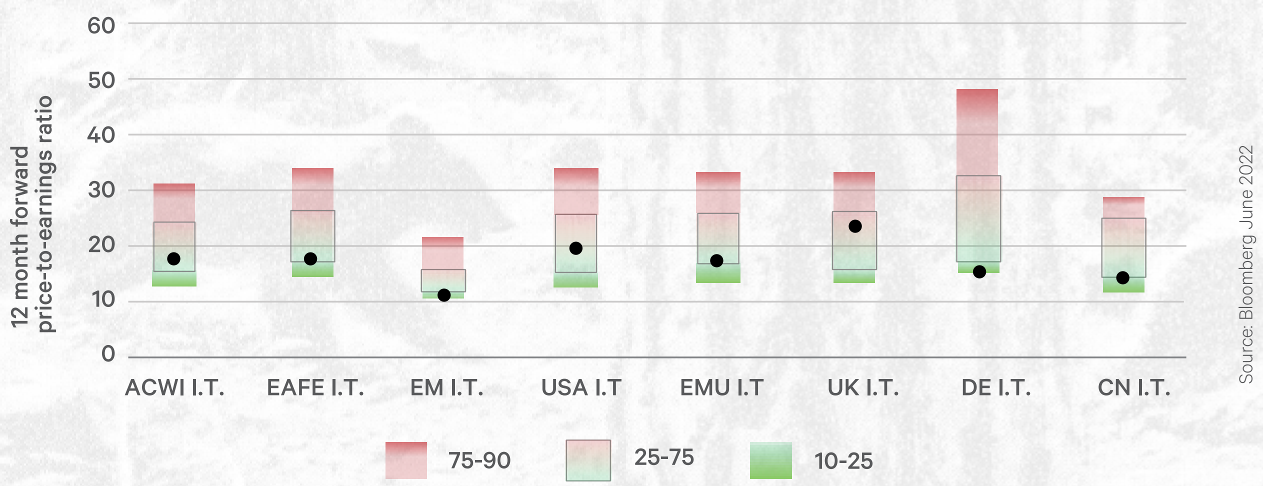
■ ACWI IT Valuation History (ACWI = All Country World Index, I.T = Information Technology)



ACWI ACWI I.T. = Information Technology

Additionally, valuations can vary between locations with investors exploring different global markets to assess if some regions are 'trading at a discount' to others.

■ Valuations globally

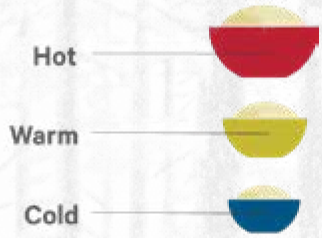


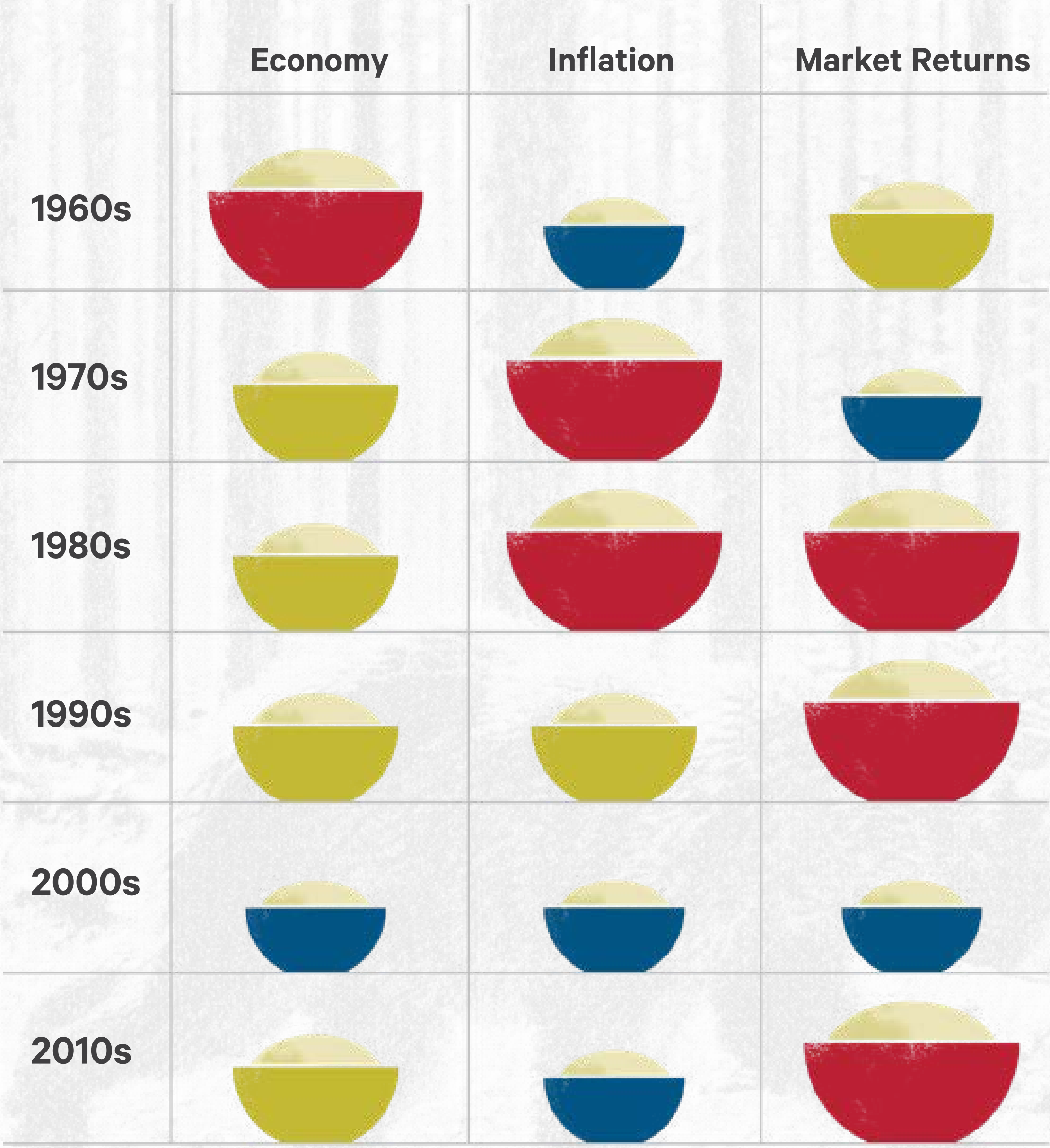
Percentiles for the valuations.

ACWI - All Country World Index, EAFE - Europe, Australasia, Far East, EM - Emerging market, USA - United States of America, EMU - European Economic and Monetary Union, DE - Germany, CN - China, I.T. - Information Technology

Goldilocks Economy

A Goldilocks economy describes an ideal state for an economy, were it is not expanding by too much or contracting. A Goldilocks economy has steady economic growth, avoiding a recession, but too much growth that inflation rises excessively





Source: Davy

Huong Tran
Investment Associate

Dive into equity factors

Factors form the basis of performance. Just as an interviewer might consider "work experience" or "technical abilities" factors in a job interview, an investor might consider "value" and "momentum" as factors in a security or a portfolio

- Goldman Sachs Asset Management

Equity factors (such as value and quality) have been used by institutional investors as a way to build and manage their portfolios for decades. We traditionally think about portfolios in terms of their region and sector classifications, but it has become crucial for investors to understand their portfolios through the factor lens. Understanding the importance of factors in driving returns and how factors behave in different market environments can be a source of alpha (excess return) generated from the active management in a portfolio.

What are equity factors?

Prior to the publication of the Fama French 3-factor model in 1992 which identified the value and size factors, it was widely believed that a single factor, Beta (a measure of systematic risk), provided the best explanation for the variation of stock market returns. Since 1992, the number of factors has increased to include the four other most well-known factors: Quality, Momentum, Yield and Volatility. Investors and professionals have since incorporated factors into their investment decision making process, in order to yield returns in excess of market returns earned from holding a well-diversified market portfolio. These factors have been examined empirically and theoretically in the literature and have been used in practice by many equity managers to enhance their long-term portfolio returns.

Factors drive returns

Factors have been proven to provide excess returns, or what's known as a "factor-premium", over the long-term. A factor premium can be explained by both traditional finance and behavioural finance. For example, the quality factor can be explained by investor bias in which investors are attracted by high headline earnings. In another example, value and size factor premia can be explained by the higher compensation paid

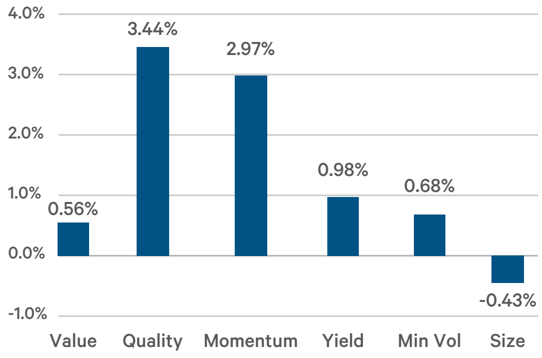
Table 1: Six most commonly researched factors

Equity Factors	Factor definition
Value	Investing in securities that appear to have cheaper fundamentals (price-to-book, price-to-earnings, price-to-sales etc.) relative to the broader market.
Size	Investing in small to medium size companies' securities rather than in large size companies' securities.
Quality	Investing in securities whose earnings display higher quality (e.g., stability and sustainability) relative to the general market. The quality of earnings can, for example, be determined by ratios such as return on equity, debt-to-equity or earnings variability.
Momentum	Investing in securities exhibiting an upward trending price relative to the market over a time frame determined by the investor.
Yield	Investing in securities with higher dividends than the market.
Minimum Volatility	Investing in securities that have lower volatility than the market.

Source: Davy

to investors who are willing to accept the higher risk associated with these 'value' companies which are cyclical, highly leveraged and less profitable; or smaller cap companies which are less liquid.

Figure 1: Historical factor premia of MSCI Equity Factors is shown below.



Source: Bloomberg. Factor premium = MSCI Factor Return – MSCI World Return. Returns shown include the longest back-tested data for each factor. Returns are gross of fees, annualised.

Factors behave differently in different market environments

In reality, factor performance is more difficult to predict, the same way it is difficult to forecast market cycles. Generally, we can expect cyclical factors such as value and size to outperform in recovery/expansionary economic environments.

In recent months, we have seen the return of the performance in the value factor, after a decade of underperformance. In the last decade, the quality and momentum factors have been dominant, driven by the low inflation and low bond yield environment which benefited more "growthy" stocks. The rotation from growth to value has been driven by rising inflation expectations and the subsequent increase in expectations for central bank interest rates.

Factors in practice

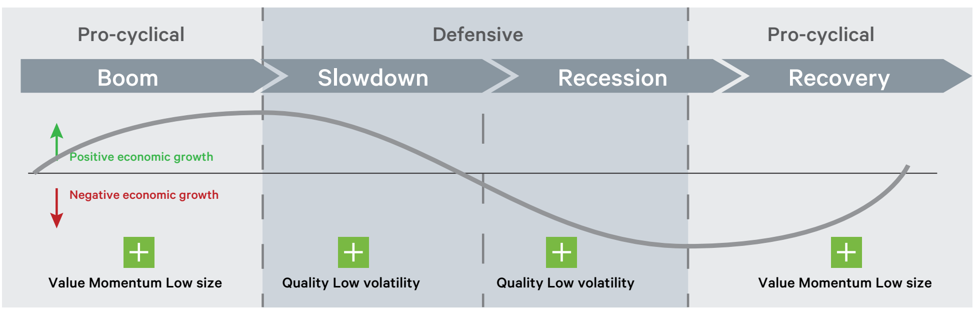
Given the importance of factor exposures in relation to potential risk and return for clients, the investment team at Davy spends considerable time trying to understand how our portfolios are positioned in relation to the various factor exposures.

We review our equity exposures on a regular basis and use analytical software packages that aid us in understanding where these exposures are and how they may have changed over time. This allows us to make more informed decisions about allocations and positioning in clients' portfolios at different points in the market cycle.

For example, we had been positioned with an overweight to growth in our portfolios for several years and were compensated by the outperformance of this factor relative to the broad market. Coming into this year, however, we saw a shift in expectations in terms of inflation and interest rates. This led to underperformance in growth stocks and outperformance from value managers. Our assessment was that we were entering a different market environment in the medium term to what we've seen in the recent past and in anticipation of this higher inflation and interest rate environment, we altered our positioning to reduce this exposure to growth.

Factor based investing has grown in popularity in recent years, and can be compelling as it provides targeted access to factor exposures through ETFs (exchange traded funds) or index funds. Viewing portfolio exposures through the factor lens gives us an important insight into the potential return drivers for portfolios. We supplement this view with other analyses to give us the most informed assessment of client allocations.

Figure 2: Factors and market cycles



Source: DWS Group

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Warning: Forecasts are not a reliable indicator of future performance.

Killian Buckley
Senior Investment Selection Analyst

What is and isn't working for equity managers?

2022 has been a more challenging year for equity investors for reasons that have been well documented. Concerns around the impact of higher inflation and rising interest rates coming into the year have been exacerbated by the war in Ukraine. These factors have led to a rotation in the types of companies that have performed best in stock markets which we explore in more detail below.

Growth and value investing

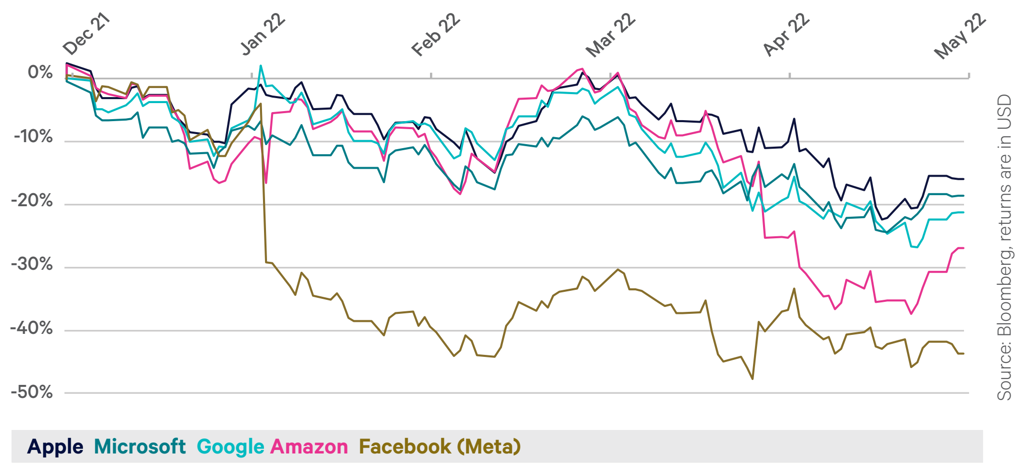
Investment managers that manage equity funds tend to align themselves to a particular investment style. This can be broadly defined by the characteristics they look for when investing in stocks. For example, growth investors seek to identify companies that they believe can generate superior earnings growth over the long-term.

Value investors attempt to identify stocks that they believe are undervalued by the market. This approach seeks to quantify the intrinsic value of a company based on future expected cashflows discounted back to their present value. Value investors look for opportunities where the price paid represents a meaningful discount from their estimate of intrinsic value and, to reflect the uncertainty in attempting to forecast cashflows, value investors usually require a "margin of safety" between estimated intrinsic value and the market value. It is important to note that these two seemingly contrasting approaches do not need to be mutually exclusive. Fund managers that adhere to a value approach are unlikely to concede that the companies they hold have no growth prospects. Growth managers on the other hand are prepared to pay higher valuation multiples but view these higher prices as representing "value" relative to the higher growth rates they expect those companies to generate into the future.

Rotation from growth to value in 2022

For an extended period up to the end of 2021, the growth style of investing had significantly outperformed the value approach. Over 10 years to the end of 2021, the MSCI World Growth index generated a 17.2% annualised return compared with 11% for the MSCI World Value index. This dynamic has reversed this year however, and we have witnessed a rotation away from Growth due in part to the underperformance of many of the larger US growth stocks. Figure 1 below highlights the share price reversals experienced this year by Facebook, Amazon, Apple, Microsoft, and Google.

Figure 1: US Growth Stocks 2022 return



Collectively, these names represented 23% of the US S&P 500 index at the end of 2021 and their negative returns in 2022 have had a material impact on the broader market and in particular the Growth component.

In comparison, Value has experienced its best start to the year in over 35 years. According to analysis by asset manager Robeco, the outperformance of Value this year exceeds even the early 2000s period post the bursting of the dot com bubble.

Why value now?

So, what has been behind the reversal towards Value this year? While there are numerous views on this subject, the composition of Value portfolios tends to be more weighted towards sectors such as Energy, Financials and Consumer Staples. Financials, in particular Banks, have benefited from the rising interest rate environment allowing them to reprice their loan books at higher rates. Sector differences alone however do not explain the difference in returns between Value and Growth this year. Within sectors, those companies that are trading at lower relative valuations have outperformed their counterparts in the same sector that are more expensive. In other words, Value has outperformed Growth across sectors but also on a sector-neutral basis.

Energy has been supported by the sharp post-COVID-19 rebound in economic activity, leading to increased demand for oil and related commodities. On the supply side, oil production has been constrained by the conflict in Ukraine combined with the under-investment in supply by energy companies in recent years. These supply/demand dynamics have combined to cause the oil price to rise sharply and consequently, the MSCI World Energy sector to appreciate by 54% in the year-to-date.

Other reasons for the outperformance of Value include the disproportionate impact of rising interest rates on the value of growth stocks as more of their present value is derived from discounting future earnings. This certainly has been a factor in the recent growth reversal however the relationship is not constant over time and there have been periods where value outperforming growth coincided with declining interest rates as was the case in the early 2000s.

Higher dividend stocks

Another notable development in 2022 has been the strong relative performance of higher dividend stocks. In recent years, this was an unloved area of the market that lagged through the growth driven market cycle. Dividend focused investors seek to invest in companies offering a stable and growing income stream. These stocks are typically concentrated in more mature industries with companies that have sustainable levels of free cash flow that can be returned to shareholders. Growth stocks in contrast have more volatile and less predictable earnings and their higher rates of growth lead them to reinvest cashflow back into the business to support further growth. The more risk averse market environment this year is rewarding the stability of dividend paying companies with a track record of distributing excess cash to shareholders.

Implications for investors

The rotation from what had been a multi-year outperformance of Growth vs. Value provides some lessons to investors in managing their equity exposures. Changes in the risk appetite and preferences of investors over time cause rotations across investment styles in a manner that is very difficult to time or predict in advance. Investors should therefore ensure their equity exposures are diversified not only by region or market capitalisation, but also by investment style. A single investment style cannot outperform in perpetuity and it is critical to invest across different strategies to ensure a more consistent path of returns.

At Davy, we invest with fund managers who we consider to be skilled investors that maintain a consistent investment style. From our perspective, it is critical that fund managers adhere to their process and style of investing through periods when their approach is out of favour, as this allows us to appropriately blend portfolios. It has been encouraging that many of our better performing funds this year have been those that were disciplined in sticking to their investment process though periods of under-performance and, by doing so, have captured good returns from the market rotation this year.

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Anna Heaney
Investment Associate

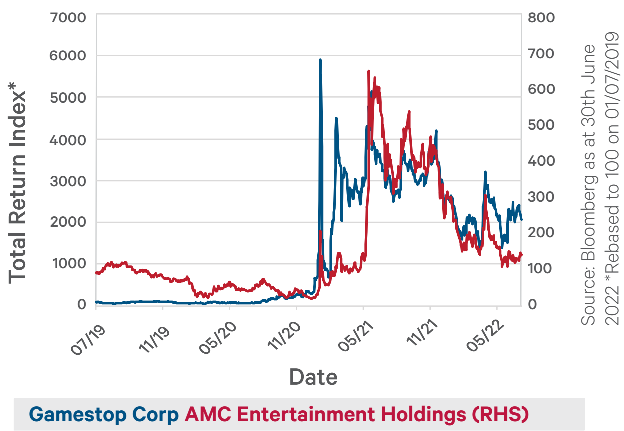
The rise and fall of day traders

Rookie investors and those entering the market in the past two years' retail frenzy have had to come to terms with a bear market after quite a short spell in their investing careers. Ignoring the much-preached benefits of a diversified multi-asset portfolio, the concentration of pandemic-era portfolios in COVID-19 investment darlings was always an issue. With meme stocks, NFTs (non-fungible token) and cryptocurrencies filling the majority of baskets at the extreme end, and single stock picks dominating the rest. The nature of day trading contrasts significantly with what we promote at Davy - investing long-term in a multi asset portfolio. For investors who joined the ranks during the past two years, now is the time to ask "what are you actually trying to achieve"?

"Finfluencers"

It was a brief but socially significant phenomenon that took hold during the pandemic-era bull market. The Goldilocks central bank conditions made for cheap money and a thrilling but short-lived ride. Also, COVID-19 lockdowns meant that as other entertainment sources were cut off, and idle hands being the devil's playthings, chaos ensued. Forums and social media sites became the new hangouts and the day trading craze took hold. Along came the emergence of Finfluencers (financial influencers), Tiktok videos promoting momentum trading (buying securities that are rising and selling them when they fall), and forums like WallStreetBets that raised a call to arms against the financial old guard. This all captured the zeitgeist of late 2020/early 2021. Millions of day traders came into the market. But now that countries have reopened and traditional entertainment sources have been reestablished, the draw to partake is gone for many retail investment newbies. The spare time and spare available cash have ended and the current inflationary pressures mean that most people have very little of either.

Figure 1: Meme stocks activity through the period



Bitter pills

While mainstream markets have fallen, many who waged war against Wall Street have experienced devastating losses. The online sphere created a situation where people who never before had the access or the means to enter the investment landscape were at the front line playing with new money. Things have shifted dramatically since then and top meme picks, AMC and Gamestop are now down over 60% (in USD terms) from their 2021 highs - a sign of the changing times. A Bloomberg index set up to track a basket of meme stocks has slumped to record lows and popular "story stocks" such as Zoom, Peleton and Tesla, which surged with the COVID-19 lifestyle changes, bringing huge gains for a lucky few, have now also plummeted from their peaks. The afore-mentioned WallStreetBets, the forum that kicked off the craze has now entirely lost its trending status. And finally, Robinhood, the app where frenzied retail traders ran riot on day trading, has now lost 85% (in USD terms) in value since its peak in August 2021, and its monthly active users declined by 10% to 15.9 million in the first quarter of this year.

According to Morgan Stanley, speculative day traders have now lost all of the gains made since the start of 2020. The gamification of the stock market which we referenced at the time has now resulted in many losers and most have left the game entirely. Currently, around half of single-stock retail positions in the Nasdaq 100 and a quarter of those in the S&P 500 accumulated since January 2019 are now sold, according to data from Goldman Sachs.

"Crypto bros" feel the lows

Cryptocurrencies in particular were embraced by many as a means of achieving transformational wealth. They promised economic empowerment and an escape from the traditional financial system. A few retail investors did make millions from their crypto investments and trading strategies, enabling them to quit their jobs, clear debt and partake in lavish lifestyles. Now though, at the other end of the spectrum, many have lost their life savings or their jobs in the crypto industry during the sharp fallout. The allure of overnight wealth is immense but the risks are shattering and are coming to fruition.

After momentary success, it is again becoming clearer who rules the market. Cryptocurrencies faced their "Lehman moment", with luna for example, which was not so long ago a top ten cryptocurrency, crashing to $0 and TerraUSD (a "stablecoin" seen as a safer bet than others) collapsing too. If crypto volatility isn't enough to put people off going forward, there are other considerations. In the era of enhanced focus on sustainability and ESG (environmental, social and governance) issues, crypto creates a social dilemma. Bitcoin alone consumes 131 terawatt-hours annually, ranking it between Ukraine and Egypt in terms of electricity consumption, according to a 2022 estimate by the Cambridge Centre for Alternative Finance.

Hard lessons

Few investors have been immune to feeling the brunt of the bear market. Goldilocks conditions are no more and fear of recession is rife. However, as discussed previously, different asset classes behave differently, depending on the market environment. Thus, having a diversified portfolio with a mix of asset classes should fare much better than one that is concentrated in singular high risk picks. Many retail traders will likely be put off by the pivot to red in financial markets, but for those who stick around through these interesting times, there may have been some very valuable lessons learned.

Ronan Barry
Investment Selection Analyst

Is private equity over-heated?

Over the last ten to fifteen years, vast amounts of capital have flowed into private equity. Strong absolute and relative returns over a prolonged period, as well as attractive diversification benefits, have led to increased investor demand for the asset class. 2021 was by many standards a record year for private equity, with deal value and exits both setting new records, according to Bain & Co., while capital raised by buyout funds was the second highest recorded annual total, resulting in dry powder (i.e. capital raised by private equity firms but not yet invested) reaching new heights. All of which begs the question, is private equity over-heated?

Undoubtedly, inflows to the asset class, with an increased number of funds deploying a larger volume of available capital, has resulted in heightened competition for deals. Combine this with very accommodative financing markets over the last ten years or so and we can see that the cost to acquire businesses has risen. McKinsey reported that the median purchase price for a buyout deal in the US has risen from 8.6x EBITDA ("earnings before interest, taxes, depreciation and amortisation", a common metric to compare purchase prices) in 2009, to 12.7x in 2021. Therefore, managers who rely heavily on using multiple expansion (selling the business at a higher multiple than they bought it for) as a primary driver of returns are likely to face issues at this point in the cycle.

This highlights an important point on vintage diversification (i.e. year of fund inception). By committing to private equity managers on a phased basis over time, it results in capital being invested at a range of entry points or valuations and reduces the risk of investing solely at the top end of the market.

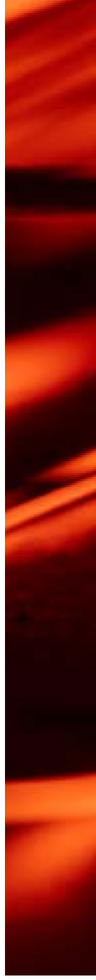
Managing a competitive environment

Private equity managers that are able to source deals in a unique way and avoid a competitive bidding process or auction can often acquire businesses at a lower entry multiple than otherwise available in the broader market. The leading firms in the space build a network of industry participants and engage with business owners even prior to the business being for sale, which can result in access to deals on a proprietary basis and the ability to acquire them at a more attractive valuation.

The very low interest rate environment in the years following the global financial crisis (GFC) increased the availability of cheap debt. This has resulted in the amount of leverage used to finance private equity deals increasing from 4.2x EBITDA in 2009 to 6.9x EBITDA in 2021, according to McKinsey. With the expectation of rising interest rates over the next few years, the cost of servicing any debt used as part of a transaction increases. Managers who primarily rely on using financial leverage (using debt in the purchase of the business and selling down to increase value attributable to equity shareholders) to deliver returns for their investors may also find this source of return difficult to sustain.

A focus on value creation

With multiple expansion and debt paydown likely to be more limited as sources of returns going forward, this places even more emphasis on the final, and in our view, most important source of return generation, earnings growth. Private equity managers who get operationally involved in their portfolio companies have the potential to use value creation initiatives to drive transformational change and increase earnings. These managers typically have a deep playbook of strategic initiatives across



commercial strategy, operational efficiencies, talent management, procurement, digital transformation, and capital markets (including accretive Mergers and Acquisitions) which they employ to ultimately increase the earnings generated and the overall value of the business. We believe that this source of return is achievable in both positive economic environments as well as more challenging ones which is why we focus on managers who have a proven track record of value creation.

When assessing value creation, managers who have a deep understanding of the markets they invest in are more likely to identify strong investment opportunities and deliver growth. Focusing on a manger, or a group of managers, who specialise in a few core sectors provides the benefit of them having a sufficiently deep understanding of those sectors, whilst also allowing them the flexibility to deploy capital in the most attractive opportunities at any point in time.

Where to from here?

So, does all this mean that private equity is overheated? It's fair to say that private equity returns experienced over the next ten years are unlikely to reach the same levels that they have been over the last ten years. However, we still expect private equity to deliver stronger returns than public equity markets in the long-run.
We also expect to see a wide range of returns – with the firms who are most focused on driving earnings growth in their portfolio companies most likely to outperform. Therefore, we think that partnering with a group of private equity managers, diversifying across strategies, sectors, and vintages, who have a proven track record of unique deal sourcing and value creation, could give investors the greatest potential for achieving a positive outcome in the long run.

WARNING: The information in this article is for illustrative purposes only and does not purport to be financial advice as it does not take into account the investment objectives, knowledge and experience or financial situation of any particular person. Private equity investments can be illiquid and long-term in nature. You should seek advice in the context of your own personal circumstances prior to making any financial or investment decision from your own adviser.

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Market data

Total Return (%) in local currency	2017	2018	2019	2020	2021	YTD
Equities (local currency)						
MSCI World	19.1	-6.9	28.1	14.1	24.7	-18.0
MSCI World 100% Hedged to EUR	16.8	-9.4	24.6	11.9	23.3	-19.1
MSCI USA	21.2	-5.0	30.9	20.7	26.5	-21.3
MSCI USA Financials	22.1	-13.6	32.9	-2.0	35.8	-19.7
MSCI USA Small Cap	16.8	-10.4	26.7	18.3	19.1	-21.7
NASDAQ	29.6	-2.8	36.7	44.9	22.2	-29.2
NASDAQ 100	33.0	0.0	39.5	48.9	27.5	-29.2
MSCI Emerging Markets	37.3	-14.6	18.4	18.3	-2.5	-17.6
FTSE Europe Ex UK	14.9	-10.4	27.8	2.2	24.5	-19.6
S&P 500	21.8	-4.4	31.5	18.4	28.7	-20.0
Eurostoxx 50	9.2	-12.0	28.2	-3.2	23.3	-17.9
FTSE 100	11.9	-8.7	17.3	-11.5	18.4	-1.0
ISEQ*	8.0	-22.2	31.1	2.7	14.5	-25.6
MSCI ACWI	19.8	-7.7	26.2	14.2	20.9	-17.7
CSI 300	24.3	-23.6	39.2	29.9	-3.5	-8.3
Nikkei Index	21.3	-10.3	20.7	18.3	6.7	-7.3
AMC	-55.1	-18.7	-41.0	-70.7	1183.0	-50.2
GameStop	-28.9	-29.7	-51.8	209.9	687.6	-17.6
Robinhood	-	-	-	-	-	-53.7
Zoom	-	-	-	395.8	-45.5	-41.3
Peleton	-	-	-	434.2	-76.4	-74.3
Tesla	45.7	6.9	25.7	743.4	49.8	-36.3
Meta (Facebook)	53.4	-25.7	56.6	33.1	23.1	-52.1
Amazon	56.0	28.4	23.0	76.3	2.4	-36.3
Apple	46.1	-6.8	86.2	80.7	33.8	-23.0
Microsoft	37.7	18.7	55.3	41.0	51.2	-23.6
Alphabet (Google)	35.6	-1.0	29.1	31.0	65.2	-24.4
Equities (EUR)						
MSCI World	7.5	-4.1	30.0	6.3	31.1	-13.5
MSCI World 100% Hedged to EUR	16.8	-9.4	24.6	11.9	23.3	-19.1
MSCI USA	6.4	-0.3	33.3	10.8	36.1	-14.4
MSCI USA Financials	7.1	-9.3	35.6	-10.0	45.8	-12.8
MSCI USA Small Cap	2.4	-5.9	29.3	8.7	27.9	-14.9
NASDAQ	13.7	2.0	39.4	33.1	31.2	-23.1
NASDAQ 100	16.7	5.0	42.2	36.7	36.9	-23.1
MSCI Emerging Markets	20.4	-10.3	20.8	8.7	4.6	-10.5
FTSE Europe Ex UK	14.9	-10.4	27.8	2.2	24.5	-19.6
S&P 500	6.9	0.4	34.1	8.8	38.2	-13.1
Eurostoxx 50	9.2	-12.0	28.2	-3.2	23.3	-17.9
FTSE 100	7.6	-9.7	24.5	-16.4	26.1	-3.2
ISEQ*	8.0	-22.2	31.1	2.7	14.5	-25.6
MSCI ACWI	8.9	-4.8	28.9	6.7	27.5	-13.2
CSI 300	16.3	-24.1	40.1	27.3	6.4	-5.5
Nikkei Index	10.3	-3.9	24.9	13.8	3.8	-15.1
AMC	-60.6	-14.6	-39.9	-73.1	1277.6	-45.9
GameStop	-37.7	-26.2	-50.9	184.6	745.7	-10.5
Robinhood	-	-	-	-	-	-49.7
Zoom	-	-	-	355.4	-41.5	-36.2
Peleton	-	-	-	390.7	-74.7	-72.1
Tesla	27.8	12.2	28.2	674.7	60.8	-30.8
Meta (Facebook)	34.6	-22.0	59.7	22.2	32.2	-47.9
Amazon	36.8	34.8	25.5	61.9	9.9	-30.8
Apple	28.2	-2.2	89.9	66.0	43.7	-16.4
Microsoft	20.8	24.6	58.3	29.5	62.4	-17.1
Alphabet (Google)	18.9	3.9	31.7	20.4	77.3	-17.9

Total Return (%) in local currency	2017	2018	2019	2020	2021	YTD
Global Sectors						
MSCI World Energy	5.0	-15.8	11.4	-31.5	40.1	24.0
MSCI World Materials	28.9	-16.9	23.3	19.9	16.3	-17.5
MSCI World Industrials	25.2	-14.5	27.8	11.7	16.6	-21.8
MSCI World Consumer Disc	23.7	-5.5	26.6	36.6	17.9	-31.9
MSCI World Consumer Staples	17.0	-10.1	22.8	7.8	13.1	-9.8
MSCI World Health Care	19.8	2.5	23.2	13.5	19.8	-10.3
MSCI World Financials	22.7	-17.0	25.5	-2.8	27.9	-17.5
MSCI World IT	38.2	-2.6	47.6	43.8	29.8	-29.7
MSCI World Telecoms	5.8	-10.0	27.4	23.0	14.4	-27.8
MSCI World Utilities	13.7	2.0	22.5	4.8	9.8	-6.2
MSCI World Growth	26.4	-7.8	32.2	32.7	20.4	-29.1
MSCI World Value	14.2	-13.1	18.3	-3.6	19.3	-13.2
Government Bond Yields (%)						
US 10 Year	2.4	2.7	1.9	0.9	1.5	3.0
US 2 Year	1.9	2.5	1.6	0.1	0.7	3.0
Germany 10 Year	0.4	0.2	-0.2	-0.6	-0.2	1.3
Germany 2 Year	-0.6	-0.6	-0.6	-0.7	-0.6	0.6
UK 10 Year	1.2	1.3	0.8	0.2	1.0	2.2
UK 2 Year	0.4	0.8	0.5	-0.2	0.7	1.8
Japan 10 Year	0.0	0.0	0.0	0.0	0.1	0.2
Japan 2 Year	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
France 10 Year	0.8	0.7	0.1	-0.3	0.2	1.9
Canada 2 Year	1.7	1.9	1.7	0.2	1.0	3.1
Bond Performance (Total Return)						
Bloomberg US Treasury Total return fund	2.3	0.9	6.9	8.0	-2.3	-9.1
Bloomberg euro gov't bond index	0.4	0.4	3.2	2.1	-1.6	-7.1
Bloomberg Global Government Bonds	7.3	-0.4	5.6	9.5	-6.6	-14.8
Bloomberg Barclays Global Agg Neg Yielding Debt	3.1	0.4	35.4	57.6	-36.3	-81.5
Bloomberg Asia Ex-Japan USD Credit Corporate High Yield	6.1	-3.5	13.0	7.5	-15.2	-21.6
Bloomberg China USD Credit Corporate High Yield Index	6.5	-4.2	12.7	7.5	-26.3	-28.0
Commodities						
Bloomberg Commodity Index	1.7	-11.2	7.7	-3.1	27.1	18.4
Gold	12.8	-2.8	18.0	20.9	-4.3	-1.5
Brent Crude Oil	15.5	-15.3	37.7	-35.1	63.0	55.6
WTI Crude Oil	4.1	-20.5	34.1	-60.3	62.2	54.9
Natural Gas	-36.5	4.8	-32.3	-45.9	35.1	52.9
Platinum	3.0	-14.8	21.6	8.5	-11.4	-7.1
Wheat	-13.3	1.5	7.1	9.8	14.0	11.6
Corn	-12.1	-4.6	-5.2	12.9	34.4	12.8
Silver	5.8	-10.2	13.9	42.5	-12.3	-13.4
Currency rates						
EURUSD	1.2	1.1	1.1	1.2	1.1	1.0
EURGBP	0.9	0.9	0.8	0.9	0.8	0.9
EURJPY	135.3	125.8	121.8	126.2	130.9	142.3
GBPUSD	1.4	1.3	1.3	1.4	1.4	1.2
GBPEUR	1.1	1.1	1.2	1.1	1.2	1.2
USDJPY	112.7	109.7	108.6	103.3	115.1	135.7
Currency rates						
Bitcoin	14310.9	3674.2	7158.3	28996.3	46333.7	18731.3
TerraUSD	-	-	-	-	85.6	0.0

Source: Data is sourced from Bloomberg as at market close June 30th 2022 and returns are based on price indices in local currency terms, unless otherwise stated. *Figures are price return as total return unavailable for certain indices.

Warning: Past performance is not a reliable guide to future returns and future returns are not guaranteed. The value of investments and of any income derived from them may go down as well as up. You may not get back all of your original investment. Returns on investments may increase or decrease as a result of currency fluctuations.

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