DAVY

October 2021

MarketWatch

And the beat goes on...

Editor’s note

And the beat goes on...

Looking back over 2020-21, we’ve been through an unusually violent swing down and then back up in the economy and markets. With the extraordinary stimulus being reduced, inflation raising economists’ eyebrows, stock markets at record highs, and the delta variant still hanging around, investors are naturally worried that we might be about to slide down again. However the big picture economic data is ticking along fine, jobs are plentiful again, and corporate earnings are doing surprisingly well. If we fade the noise, and focus on the underlying beat, the momentum is still strong.

From a longer term investment perspective, last year will eventually look like a blip. A sharp and distressing blip, but not enough to derail a solid long term financial plan. The economy is back to pre-COVID-19 levels, and earnings are returning to their pre-COVID-19 trend. If their liquidity is provisioned for, an investor should be able to take the long term view. Yes, at these high prices, returns will likely be lower. But even with lower returns, the steady power of compounding is not to be over-looked, nor interfered with by trying to time the market.

In this edition of MarketWatch, we give an update on the state of the economy and the markets, bearing in mind the many outstanding areas of concern. Also, with a view to the longer term, we describe our approach to strategic asset allocation, which forms the backbone of our client portfolio construction process.

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

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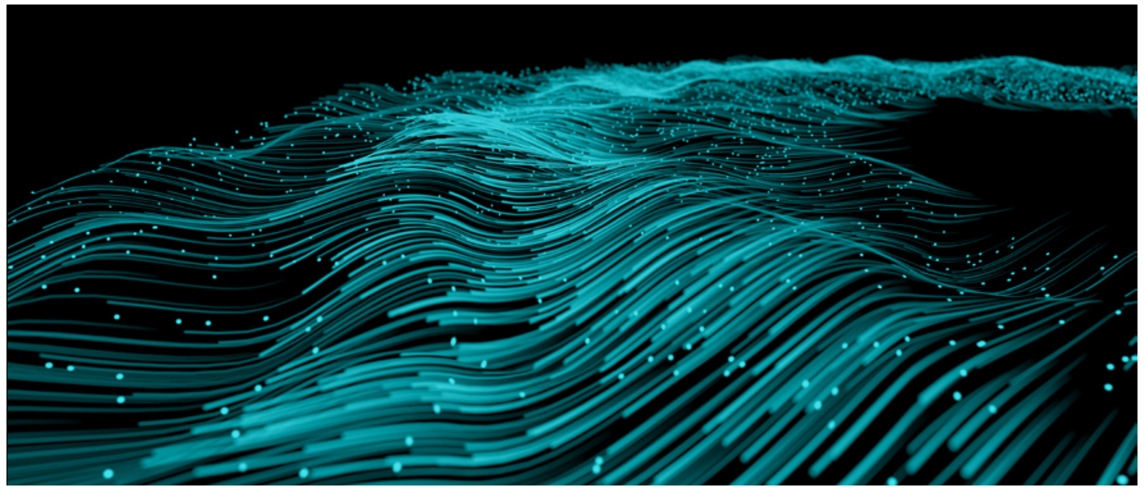
Global & regional outlook

Donough Kilmurray
Chief Investment Officer

Global Outlook
And the beat goes on...



The most common question that we get these days is some variation of 'the markets have gone up so far already – shouldn't we take some money off the table?' Apart from the discipline of rebalancing, when market moves push asset allocations away from their target levels, we generally advise against trying to time a risk reduction.

However, it is natural to ask, after a year of unexpectedly strong market returns, with economic growth apparently peaking and the virus still circulating, whether it is worth staying fully invested. Of course, nobody knows in advance the right time to sell, though plenty will point back afterwards and tell us it was obvious. As always, there is a long list of concerns, and maybe the list is longer today than usual. It's well documented that humans have a hard time thinking rationally about extraordinary events. But we also tend to overlook the ordinary. While we fret about all the things that could go wrong, the economy usually rumbles along, earnings grow and markets move on up. Our first principle as investors should be to 'not fight the beat'.

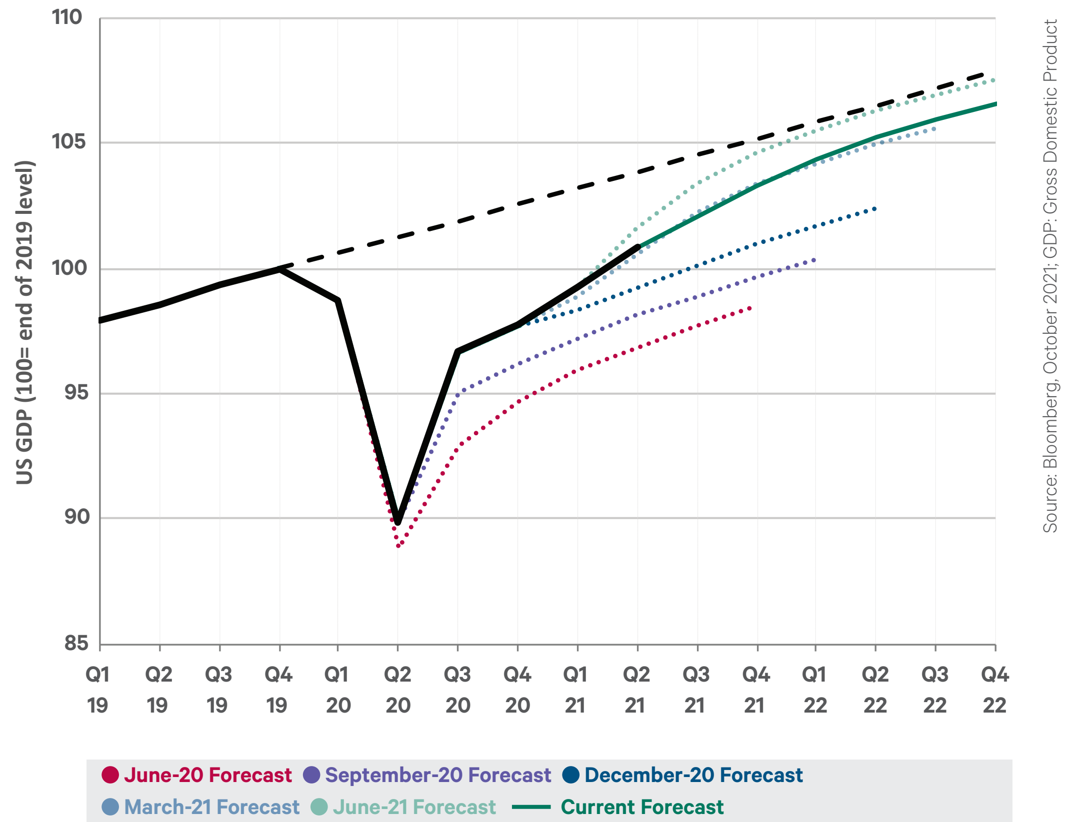
Has the economic recovery peaked?
Yes and no. Apart from the Q3 bounce off the Q2 bottom last year, the second or third quarter of this year will see the fastest growth rate of the recovery. After this, the gains will slow down. So yes, the rate of growth is probably peaking. But that doesn't mean that the recovery is over, just that it's continuing at a slower pace. And even this slower pace will be faster than normal.

With stimulus fading and COVID-19 still lingering, what makes us think that the recovery will continue? Firstly, jobs. Despite rapid drops in the unemployment rate, there are still 5 million fewer people working in the United States now than before the pandemic. At the same time, there are millions of jobs unfilled, and we expect workers to return as support payments end, wages rise, and workplaces become safer. Secondly, we see similar supply issues across industries, with inventories at low levels, and production required to ramp up to meet surging demand.

On the policy side, we see continued support for the economy. COVID-19 is still with us, but the appetite for more growth-destroying lockdowns is minimal.

The UK may be an early mover in raising taxes to plug their enormous budget deficit, but further stimulus is coming in the US, and the EU Recovery Fund is slowly getting going. As for central banks, again, the Bank of England will be the early mover, but the US Federal Reserve will take longer, despite above-target inflation, and the European Central Bank is years away from raising interest rates.

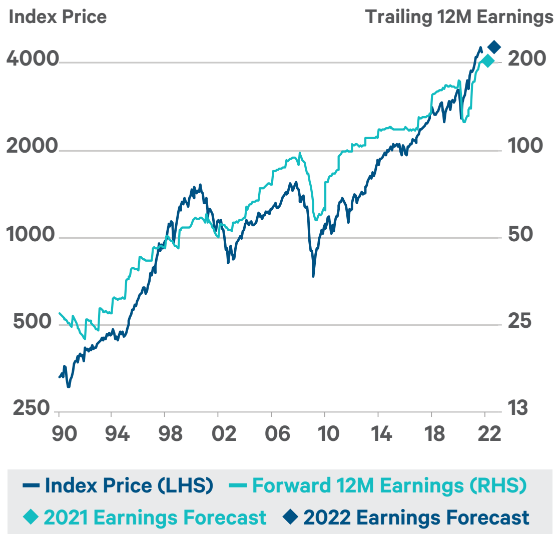
Figure 1: Economic growth forecasts slowing down



If growth has peaked, does that mean the market has peaked?
Throughout the COVID-19 crisis, we stressed that markets are forward-looking. They are less concerned with what's happening now, and more driven by changes in expectations for the future. With economic growth forecasts moderating, it's not unreasonable to think that stock market gains will slow down too, and we agree. Importantly though, this is not the same as the market peaking.

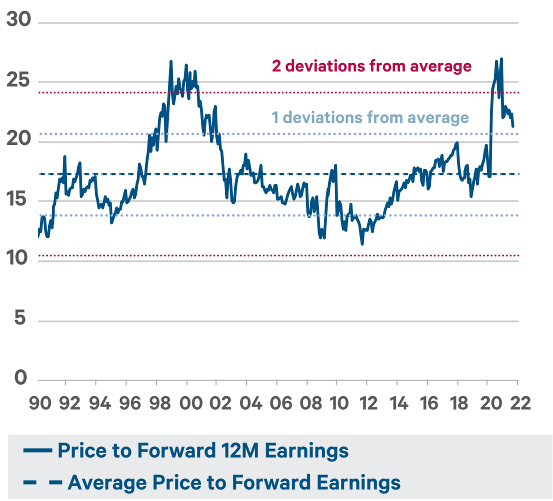
Nervous investors point to the market making record highs in most months of this year, despite the many uncertainties. We're less concerned about this, as the market hits new highs most years, and more concerned with the ratio between the market price and the underlying corporate earnings. At one point last year, when markets had taken off, as the economy was still cratering, this ratio spiked to levels last seen in the late 1990s. But this year's earnings have grown faster than prices, and the ratio is coming down to more reasonable levels.

Figure 2: US index earnings catching up with index price



Source: Bloomberg, October 2021; S&P 500 total return, (USD)

Figure 3: US index price/earnings ratio moderating



Source: Bloomberg, October 2021; S&P 500 total return, (USD)

As long as the music is playing, you've got to get up and dance

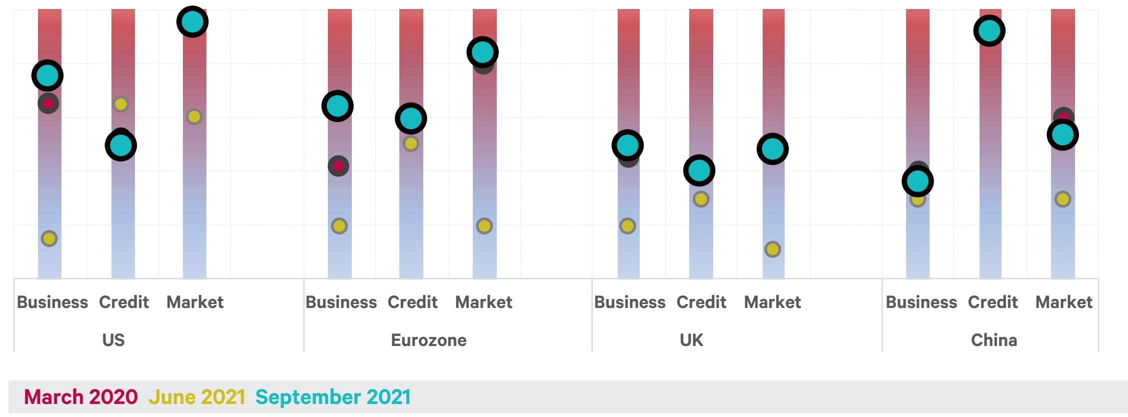
These were the famous last words of Chuck Prince, CEO of Citigroup in the summer of 2007, before the credit crisis almost took down the global financial system. To be clear, we're not advocating blindly continuing to invest no matter how expensive or risky things are. Even Prince himself recognized this, saying 'When the music stops, in terms of liquidity, things will be complicated'. This is the reason for our 3 cycle model. It's not an attempt to time the economy or market. It's a check on how stretched and vulnerable the financial system is, and how nervous we should be.

Since our last update, the business cycles in the US and Europe have warmed up, with the labour market tightening and inflation surging. Importantly, most major central banks are not minded to cool their economies down too soon with tighter policy.

Stock markets are still running hot in each region, except for the UK, which faces a difficult set of self-made challenges. The real structural dangers lurk in the credit cycles. Here we see, that despite super loose borrowing conditions, private credit, outside of corporates, is still not particularly extended in most places.

The exception to all this is China, where the economy is cooling slightly and markets are lukewarm (but not cheap). While the government was cracking down on companies who were out of line with their Common Prosperity objectives, serious cracks appeared in the highly levered property sector. Given the unique nature of China, we expect the government to head off a full-blown credit crisis and political storm, by restructuring and distributing the damage around the system.

Subjective overview of the three cycles from March 2020 to September 2021



Source: Davy, September 2021

Why not just wait for the dip?

One of the most seductive pieces of investment advice is to hold back until markets take a step down and then buy-in. It sounds reasonable because we know that there will always eventually be another drop in the market. But it's rarely a profitable strategy because the market has usually already gone up by more than it comes down.

The strategy feels even more appealing when, like today, the market is expensive and there are so many worries on the horizon.

And who knows, there may be worse things out there that we haven't considered yet. Imagine going back to 2016* in a time machine and warning investors that their next 5 years would include Brexit, President Trump, global trade wars, the COVID-19 pandemic and an inflation spike. Would they have been right to expect serious drops in the market?

Yes, the US index fell by almost 20% in late 2018 and 34% in early 2020 (S&P 500 total return, in USD terms. But would they have been right to wait for these big dips? No, as the index never dropped below its 2016 level.

A cynic might point out that this is only because the market has gotten more expensive since 2016, and they would be partially right, and future returns will likely be lower. The key point is; adding risk on market dips can boost returns, but decreasing your risk in anticipation of a dip is unlikely to work in your favour. Of course, this means that your portfolio will take a hit when a dip does eventually happen.

The best defence against this is having enough liquidity, but not more than enough, already set aside to see you through the down period. In other words, a robust financial plan.

* thanks to Gary Connolly for this idea

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Conall MacCoille
Chief Economist

Irish economic outlook

Once again Ireland's Gross Domestic Product (GDP) figures have beaten expectations. The Central Bank of Ireland and Department of Finance now both expect GDP growth to exceed 15% in 2021. However, the underlying story is a familiar one. The multinational sector, dominated by technology, med-tech, and pharmaceutical firms saw output up 23% in the first half of 2021, exhibiting no apparent disruption from COVID-19. In contrast, indigenous sector output was still 6% below pre-pandemic levels in the second quarter, gradually recovering following the end of the third lockdown early in the year.

> *"…revenues in the first nine months of 2021 were up 16% on 2020… well ahead of the Department of Finance's forecast*

There is no doubt that the rebound has continued through the summer. The number of Pandemic Unemployment Payment (PUP) claimants had declined from 228,000 at end-June to 101,000 by end-October. As in other countries labour shortages are now being felt, despite high numbers of workers from the construction (9,500), hotels/restaurants (17,300) and wholesale/retail (16,100) sectors still claiming the PUP. The overall picture indicates an incomplete recovery and many firms will face a testing time in 2022 as supports such as the wage subsidy scheme are withdrawn.

Housing remains the hot topic

Now that Ireland is emerging from the COVID-19 pandemic, housing has once again become the touchstone political issue. In September, the Irish government launched its new 'Housing for All' strategy, involving funding for up to 16,000 social/affordable homes per annum. However, the plans will require approved housing bodies, the Land Development Agency (LDA) and local authorities to deliver, in the context of growing evidence of capacity constraints in the construction sector. The other key initiative is the equity loan scheme. This provides a 20% equity loan, on top of the existing 10% tax rebate available under the Help-to-Buy scheme. Remarkably, this means the government could soon be providing €100,000 of funding for newly built houses in the Dublin commuter belt – where the price cap for the loan scheme is set at €350,000. The intention here is to improve viability for housing development, but the obvious critique is that the scheme may prove inflationary.

Boost for public finances

One good news story has been the performance of the public finances in 2021. Tax revenues in the first nine months of 2021 were €46bn, up 16% on 2020 and well ahead of the Department of Finance's forecast for 10% growth. The upshot is that the deficit this year will be close to €15bn, or 3.5% of GDP, one of the smallest expected in the OECD. So the Government faces an easier task in Budget 2022, under less pressure to rein in the public finances.

Ireland now looks set to agree to the OECD reforms on corporate taxation. Firms with revenues exceeding €750m will eventually face a higher corporate tax rate of 15%. However, this shouldn't be a threat to Ireland's competitiveness. Our main competitor for Foreign Direct Investment (FDI), the United Kingdom is now outside the EU single market and plans to raise its rate to 25% from April 2023. Perhaps more pressing are the infrastructural deficits and lack of housing, which could increasingly impede FDI if not addressed.

UK economic outlook

Speaking in October, Bank of England Governor Andrew Bailey joked he was tempted to ask 'when are the locusts due to arrive' such has been the array of headwinds and bottlenecks now hurting the UK's growth prospects.

Factors affecting the recovery

In July, the UK's rebound from COVID-19 had clearly faltered with Gross Domestic Product (GDP) flat on the month. This was a surprise – most commentators expected a further rebound. However, it has become increasingly clear that supply-chain issues and labour shortages are stopping firms getting back to business as usual. Vacancies, particularly for low-paid work have surged, most evident in the lack of heavy goods vehicle drivers.

Even the Conservative party has been forced to admit that Brexit has contributed to these difficulties. Boris Johnson now argues that UK firms face an adjustment to life outside the EU single market with less ready access to cheap labour – as he sees it part of a desirable process to push up wages.

Unfortunately, absent any improvement in investment and productivity, higher wages brought on by labour shortages will merely stoke inflation. Indeed, the Recruitment and Economic Confederation (REC) survey of recruitment firms now indicates skills shortages and wage pressures are now at their highest level on record.

Hence, the minutes of the Monetary Policy Committee's (MPC) September policy meeting caught markets by surprise – attributing the slowdown in the UK economy during the summer to structural problems and concerned inflation expectations might threaten a wage-price spiral, inconsistent with their 2% target for Consumer Price Index (CPI) inflation.

Inflation woes

The MPC is currently forecasting CPI inflation will surge to 4% by end-2021. Furthermore, the recent rise in wholesale gas prices has yet to be fully passed through. An increase in the statutory energy price cap is scheduled for April 2022, and once it's inevitably increased, could keep CPI inflation above the MPC's 2% target well into next year. Hence, markets are now pricing in a first rate hike from the Bank of England by February 2022 – far sooner than previously expected.

To add to the gloom, Rishi Sunak now seems determined to take action to rein in public borrowing. The Conservative's have already taken the decision to raise national insurance rates by 1.25% from April 2022, a very substantial income tax rise. Furthermore, Sunak has resisted pressure to extend the jobs furlough scheme, that was supporting the income of 1.6 million workers, but came to an end in September.

Ahead of the October 25th Budget, universal credit has also been cut by £20 per week. The key message here is that the UK government's fiscal stance will soon prove to be a drag on growth as efforts are made to rein in the deficit.

Market outlook

Aidan Donnelly
Head of Equities, Davy Private Clients

There's always something!

There probably aren't too many places where the name Forrest Gump appears in the same sentence as investment advice, but this might just change that. In one of his more philosophical moments, Forrest notes that 'Life is like a box of chocolates, you never know what you're gonna get'. The same can be said with investing. By its very nature, every investment decision takes place in an environment of uncertainty, and those who are waiting for a 'worry-free' moment to invest, will have a long wait. The headlines that cause reticence today will be different from those six months prior and six months hence.

That said, we can't ignore what is going on, so let's try to divine the tea leaves of what is happening currently, and it seems the big debate into Q4 is going to be settled by where the US bond yields end up. On the one hand, it seems hard to see them running too far if developments in Asia, or more particularly China, take the shine off Q4 global growth. On the other hand, any tapering of bond purchases under the Quantitative Easing (QE) by the US Federal Reserve (Fed) would see a change in the demand/supply dynamic for that market, with a knock on – most likely upward - impact to bond yields.

For the former, it is worth keeping an eye on the economic data coming out of China. However, to preface this debate, it is worth remembering when you see headlines like 'all major activity indicators disappointed in July, pointing to a faster-than-expected slowdown', the context is crucial – in this case, it means that the growth rate is lower than it was relative to previous months but, crucially, still positive and at levels, many developed countries would give their teeth for. As the property sector cools off quickly, industrial capex expansion cannot uphold investment alone, and the retail weakness shows a bumpy road for the catch-up of consumption.

The Delta variant has spread to over 17 provinces and has led to tighter prevention measures. The supply/shipping constraints, the rising domestic costs, and the recovery of global production post-vaccination could put more pressure on exports. The high and medium risk COVID-19 areas identified by the government account for a sizeable amount of China's economic growth engine, with consumer services like tourism and transportation being hit again. On the positive side, against this backdrop, the monetary policy will likely tilt to an easing bias and more targeted support to small/medium-sized enterprises (SMEs) will likely continue – though the possibility of aggressive easing remains low.

It may not be just the Delta variant that is impacting consumer sentiment. Recent months have seen several high-profile regulatory interventions by the Chinese government against a range of companies (food delivery, social media, education, financial services). While these measures are quite China-specific and therefore have not created much contagion into other markets, it is hard to imagine the sizeable drawdown in China-related markets (in some case nearly 50% off their recent highs) not having some impact on consumer sentiment in the region.

But it's not just the Chinese consumer that is feeling a little ho-hum. Recently we saw a surprising plunge of one US consumer sentiment reading to a decade low, which was notable for not only the headline miss versus expectations but also for the factors that drove it. The pandemic provides an ideal backdrop for sentiment shifts as public health trends, and the public's reaction to them, evolve. But there is always a danger in reading too much into one indicator, particularly one based on sentiment rather than hard data – a person gets out of the wrong side of the bed on the day the survey is filled in, and we have a different conclusion!

There are two schools of thought for the cause of the fall in consumer sentiment – the Delta variant potentially causing further restrictions and/or a delayed response to the pocket pinch from the inflation spike. While either might explain the consumer reaction, the monetary authorities will take a more systemic view.

The current setup is particularly fascinating as financial markets contemplate the timing of a taper announcement from the Fed. Any keen market observers have most likely realised that the Fed should be normalising policy to varying degrees. Whether it's within its core mandate of growth/employment, or indeed the current inflation trajectory, there is more than ample evidence to suggest that $120bn of bond purchases every month is no longer appropriate. Thankfully, even the Fed has now finally acknowledged this. However, central bankers are so scared of a re-run of the market turmoil in 2013 (or 2018) that the magnitude of runway needed before lift-off has been extended dramatically when compared to previous cycles. The central bankers are not alone in this regard, as the politicians are acutely aware that the same applies on the fiscal spending side.

The fact that there is a plethora of evidence to say that the economy is currently being overstimulated doesn't mean it won't continue well into 2022. This is thanks to to a central bank that is comfortable being behind the curve and an administration that is equally comfortable injecting several trillion back into social programmes and infrastructure. However, this course of action is not without consequences. It may well create an overshoot of inflation longer than both the Fed and the market are expecting. This could, in turn, necessitate a tightening of financial conditions faster and more pronounced down the road.

The Fed's strategy is a balancing act which allows for economic expansion to progress further than it has in the past before raising interest rates. The aim of which is to drive unemployment rates down faster and allow low-income groups to share in the benefits from a strong economy. That also means allowing inflation to overshoot the central bank's 2% target for a time, to make up for periods coming out of downturns when it under-runs the target. Whilst job growth has picked up swiftly as vaccines have rolled out across the country and consumers have resumed high-contact activities, prompting mass rehiring in leisure and hospitality, the spread of the Delta variant has put a damper on progress.

For the markets, Powell must convince investors that even if tapering does commence in the coming months, it doesn't automatically put the central bank on a glide path to rate hikes in 2022. The Fed has a committee with many different views, and it will be essential in the weeks to come that the chairman brings people together around a process whereby they retain the flexibility to react in either direction, should they prove wrong on one of their forecasts.

And by then, there will be something else to worry about!

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Marie Gillespie
Senior Equity Analyst

Irish equities - An uneven road to recovery

Any investor hoping for the usual 'summer lull' in the Irish Equity markets this year will have been sorely disappointed. Not only did the market race ahead in the summer months, but it was evident that companies were effecting long-term strategic planning for the years ahead in an optimistic post-pandemic world. This long-term thinking is a great sign of quality management – something I've often written about in the context of the Irish market.

The way in which that long-term recovery will develop very much depends on the sector you're exposed to. If you are a company whose business model was directly impacted by the pandemic, it's been a tough slog for the past 18 months. However, for some other companies, it's been a great chance to fine-tune the balance sheet and have a look at long-term expansion and M&A (mergers and acquisitions) possibilities. Also, the welcome news is that whilst we are beginning to see considerable M&A in some sectors in Ireland, there does appear to be appreciable pricing discipline and strategic long-term thinking involved, rather than bargain hunting.

For other companies that are more directly exposed to the travel or office sectors (amongst others), the outlook is naturally different. However, the first green shoots of recovery are appearing. In the office sector, short-term vacancy rates have spiked and hybrid working looks like it will be the new norm going forward. However, despite this, there are signs that large corporates are very optimistic for the longer term, with some long-term rental terms agreed for the future.

For the travel industry, it's very much a long-term story, with 2023 or 2024 earmarked as likely to be 'full recovery' when international and business travel will fully resume. However, domestically, hotel rates recovered hugely in August, and the European passport system has proved to be a positive development for travel bookings more generally. It's also interesting to see that sustainability appears to be a big 'draw' in the travel sector currently - it is now perceived as a competitive advantage.

This takes multiple forms, such as airlines disclosing sustainability initiatives around fuel and carbon offsets; and hotels aiming to win corporate business via high sustainability rankings.

However, it's clear that sustainability remains a huge focus in multiple sectors as we continue to see 'Heads of Sustainability' being appointed in many of the listed Irish corporates. In addition, commitments to 'Net Zero' or 'Science Based Targets' are also surging in popularity alongside improved disclosure to the CDP (Carbon Disclosure Project). This increased sustainability focus is likely to accelerate over time as the European 'Fit for 50' and Sustainable Finance Disclosure Regulations become embedded.

Within the Irish listed names exposed to the domestic housing market, consideration for the next few years must also be given to the new 'Housing for All' policy recently published by the government. It's a clear demonstration of the Irish government's commitment to resolving the housing issue over several years. Undoubtedly, it will take time to fully resolve the housing shortages in Ireland. However, the interim period provides an opportunity for some of the Irish listed companies in addition to being positive for the Irish economy overall.

Finally, one big global issue that is also affecting Ireland is costs, which are rising for many sectors. This is probably being felt most acutely in the industrial sector, where construction demand globally is very strong following pandemic-induced interruptions. However, add to this strong demand, the Brexit impact on the UK labour market particularly, many companies with UK exposure are feeling the pinch. One area of particular pressure seems to be on the lorries side, where not only is labour an issue, but also freight rates and fuel costs have risen significantly. The good news is that by and large on the cost side so far, companies appear to be able to pass on costs admirably, although time will tell if this will continue.

Overall, there are plenty of good reasons to be long-term positive for opportunities in the Irish market. There will of course be hiccups along the way, but those companies with strong management teams that focus on long-term strategic thinking will undoubtedly continue to benefit.

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Stephen Grissing
Investment Strategist

Yields - What's holding them down?

The yields of longer-maturity government bonds had been following a well-rehearsed script in the early part of 2021, diligently moving higher as the economic recovery gathered pace. Since April, bond yields have taken a more 'improv' approach.

Script for an expansion phase of a business cycle

The difference in the yield offered between a long maturity US Treasury bond and a shorter maturity bond, such as a 2-year bond, is represented by the yield curve. With interest rates remaining at pandemic induced lows, the yield on 2-year bonds has generally remained closely anchored to the prevailing interest rate. At the longer end of the curve, bond yields generally move with growth prospects and expectations for future interest rates.

A casual glance at the chart on the following page (Figure 1) highlights a recent interruption in the steeping journey of the US yield curve. At a time when global growth levels are peaking, is this recent flattening of the curve conveying an approaching end to the current business cycle, or are additional factors at play? There has been no shortage of theories put forward to explain falling yields from their 2021 peak of 1.74% reached in March.

Possible additional factors include:

Positioning:
Shorting US Treasuries was a popular trade among hedge funds entering 2021 (a trade that profits when rising bond yields). It proved a successful trade initially. However as yields moved lower from their peak in March to below 1.4% in July, many hedge funds were forced to cut their short positioning, requiring them to buy back the borrowed treasuries to cover the short positions, increasing demand.

Supply/demand dynamics:
The pace of treasury purchases by the Federal Reserve has remained steady at $80 billion per month in 2021. In the background government bond issuance levels have fallen sharply since March as the US Treasury attempts to draw down nearly $1.6 trillion of built-up cash reserves, and more recently the US debt ceiling has been reached, preventing US Treasury from increasing overall indebtedness.

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...anyone who began following the bond market in the past 20 years would be forgiven for assuming that quantitative easing is a normal practice...

Where to from here for yields?

We believe that government bond yields will revert to the script and re-commence gradually moving higher for the remainder of 2021 and into 2022. While shorter maturity bonds are predominantly influenced by prevailing central bank interest rates, longer maturity bonds are more forward-looking. Based on current market pricing of US interest rate increases in coming years, we estimate that the current US 10-year yield is approximately 40 - 50 basis points too low.

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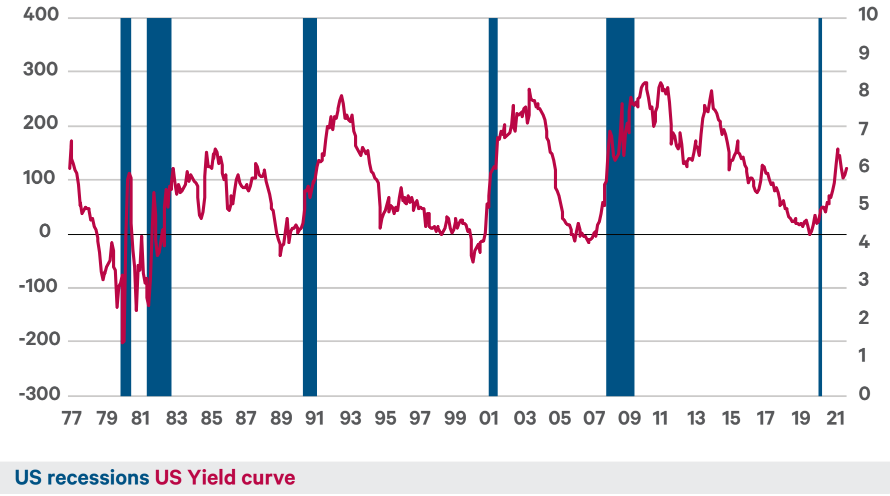
Figure 1: Difference in yield between the 10-year and 2-year US Treasuries, basis points



Source: Bloomberg 30/09/2021 Note: US recession is represented by the peak and trough dates provided by the National Bureau of Economic Research

Davy discretionary managed portfolios are currently positioned for higher bond yields in the coming months. It should be noted that given the Federal Reserve's long term interest rate projection has been in a steady decline over the past decade (from 4.25% in 2012), currently standing at 2.5%, we do not expect the level of yields to rise significantly beyond this level in the medium term. A risk to this base case is a scenario where inflation proves to stay persistently high and more volatile, increasing the term premium and with it bond yields.

Tapering – no need to be alarmed

For anyone who began following the bond market in the past 20 years, they would be forgiven for assuming that quantitative easing is a normal practice in a developed country's government bond market.

At Jackson Hole in August Federal Reserve chairman, Jerome Powell, declared that it could be appropriate to begin the tapering process in 2021. Given the strength of the economic recovery to date, this makes sense. After all, it is not beneficial to keep stabilizers on a toddler's bike until they reach their 21st birthday. Given the level of communication and the "talking about talking" about tapering, a repeat of the 2013 taper tantrum is an unlikely outcome.

Elsewhere, the Bank of England and the European Central Bank (ECB) are also "talking about" tapering. For the ECB it remains to be seen if the process will involve simply winding down Pandemic Emergency Purchase Programme (PEPP) in exchange for enhancing their existing Asset Purchase Programme (APP) – the future path of inflation is likely to be a key determinant.

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Pete McGuigan
Investment Strategist

Cryptocurrency - The empire strikes back

The technologies behind cryptocurrency are dynamic, ever changing how the digital mediums function, transact, and manipulate the perceived value stored upon them. While 'crypto' (cryptocurrency) enthusiasts each year revere the technological advances as a clear indication of the inevitable and impending world adoption of decentralised digital currencies, regulatory bodies and governments take a more cautionary view on the matter.

Ironically, cryptocurrency has often been viewed as falling outside the regulatory sphere given its decentralised nature and, in earlier days at least, more niche investment circles. However, it has both a long and tangible relationship with the impact of regulation.

The Great Crypto Wall

Despite China historically being one of the largest "exporters" (in that it mines the most cryptocurrency globally) of digital currencies, it has also been at the forefront of squeezing and lately outright banning virtual currencies, their technology, and their markets. As recently as September 24th, China put in place an all-encompassing cryptocurrency ban declaring both cryptocurrency mining and transactions illegal. This follows a long list of strict regulation stemming notably from 2017 when Initial coin offerings and local crypto exchanges were made illegal in the country.

Across the Pacific in the United States, there has been a plethora of special crypto laws and regulatory initiatives proposed to manage digital assets. IRS (Internal Revenue Service) scrutiny, SEC (Securities and Exchange Commission) securities law and the Bank Secrecy Act all contribute to the potential oversight of digital assets stateside.

Closer to home, the stance of the Central Bank of Ireland, and the Irish Government, on regulation has been much more muted but not entirely absent. This year Virtual Asset Providers (VASPs) will have to register with the Irish Central Bank to meet a European Union-wide anti-money laundering (AML) directive that has been transposed into Irish law.

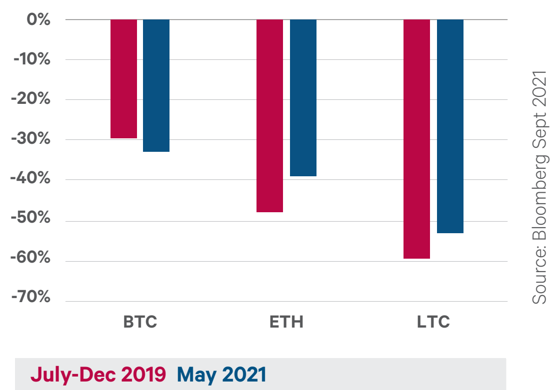
This change will remove a layer of anonymity previously associated with Irish crypto transactions, aligning them further with the checks and balances found in more traditional financial services.

Regulatory Drift?

What effect then, if any, does regulation have on digital currencies? As one might expect, an asset whose proponents and investors by and large pride themselves on their ability to stay outside of the financial status quo generally react badly to stricter regulatory controls.

A prime example of this is in 2019 when China announced a further curb on cryptocurrency exchanges. Over the course of a 4-month period around the time of the announcement, Bitcoin (BTC) lost around a third of its value. Altcoins (alternative cryptocurrencies) fared even worse. Ethereum (ETH), generally pegged as the 'number 2' cryptocurrency, saw its value almost halve over the same time, with Litecoin (LTC) losing approximately 60% simultaneously.

Figure 1: Cryptocurrency performance around major regulation announcements.

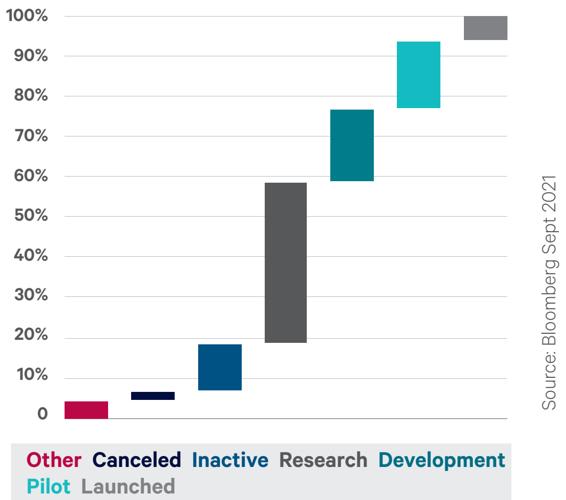


More recently in 2021, regulation plans managed to play a significant part in derailing crypto rallies once again. This came in the form of a proposed cryptocurrency ban from the Indian government, alongside another Beijing ban on banks providing cryptocurrency-related transactions. This new piece of regulation helped Bitcoin, Ethereum, and Litecoin make an average loss of 42% in the 2-week period around the Chinese announcement in May. To date, none of these coins have recovered these losses.

Back the Central Banks...

As the old saying goes 'If you want something done right, do it yourself' and so enter Central Bank Digital Currencies (CBDCs). One of the many (many) major plot-holes in the great story that current cryptocurrencies will herald in the coming era of decentralised digital payments is that central banks will likely corner, develop, and simply replace many of the altcoins out there in the crypto-sphere. It is fair to assume that this will take the form of their own regulation-friendly, centralized, manageable digital currencies as this is exactly what is already underway. As of this year, 81 countries are exploring Central Bank Digital Currencies, with China, perhaps unsurprisingly, leading the pack.

Figure 2: Current progress on CBDC development (81 Countries)



Crypto Curtain Call?

Does all this mean the beginning of the end for decentralised cryptocurrency? In our view, absolutely not. However, it is important to differentiate here between what in the future will be regulated, central bank-backed legal forms of digital tender and what will remain outside of the bracket. Different investment implications will come with both.

Warning: Past performance is not a reliable guide to future performance. The value of your investment may go down as well as up.

Michael MacGrath
Head of Global Investment Selection

China's regulatory crackdown

Since late last year, markets have been digesting a series of dramatic announcements, sanctions, and regulatory changes made by the Chinese government which has affected public stock prices, as well as investor confidence. Whilst state action goes with the territory when investing in China, the pace and focus of the interventions have taken markets by surprise, and they have only intensified as the year has unfolded.

In November 2020, Chinese regulators intervened to suspend the IPO (initial public offering) of Ant Financial (intended to be the largest public offering in history), citing issues with the company's compliance with new rules on online lending (introduced a month previously). In July 2021, Chinese ride-hailing app DiDi completed a public offer on the New York Stock Exchange but saw its shares sell off sharply just days later as regulators forced app stores in China to remove its product, referencing data security concerns. Later that month, several online education names saw significant sell-offs following the announcement of a government crackdown on for-profit tutoring. In the first week of August, China's state-run news agency also announced that it would be introducing measures to limit the amount of time and money spent by minors on online gaming and released details of a $1bn fine on food delivery leader Meituan for anticompetitive practices.

A combination of the above drove a decline in Chinese equities in July, with the H-Share market (Hong Kong listings, freely tradable by non-Chinese investors) selling off by 10.75% and the A-Share market (onshore listings, in which trading is restricted to domestic investors and a tightly regulated regime of international investors) selling off by 8.30% (both in euro terms).

When taken together, the developments can be interpreted as a clear statement by the Chinese government of its intention to retain control over these sectors of the economy and to reinforce its authority over even the largest and most global entities within its private sector. It's worth noting that the Chinese Communist Party will hold its 20th National Party Congress in 2022, so the potential for political reckoning in that election cycle is in part a catalyst for the changed approach. However, we can make a few more specific observations about the developments to date.

Firstly, the motivation for the moves so far is much more closely linked to an internal political and social agenda as opposed to international politics/trade. The focus has been on factors such as consumer protection, competitiveness, data protection, and, in the case of the education sector, alleviating pressure and cost on Chinese students and their parents.

Secondly, it is important to note the distinction between areas in which the goal is to reduce activity (e.g. education) and areas in which the government is seeking to 'level the playing field'. In the case of the former, the affected companies should be able to remedy their position through further compliance with regulatory requirements. In the latter, the regulatory shift is fundamental and is expected to impact operations on an ongoing basis. We should expect more developments in this space, especially in sectors trading in public goods or with a direct B2C (business to customer) model – healthcare, for example.

Finally, Chinese regulators are likely to continue their preference for having businesses list in China (A shares or H shares) where more data must be shared with the domestic regulator as opposed to listing in the US. This also has the impact of increasing domestic, as opposed to international, share of capital and likely bolsters the long-term status of the Chinese listed markets.

These new developments are still in the process of unfolding, and we do not think that public markets necessarily correctly price the impact of any changes as they are announced. Our view is that China, still expected to become the world's largest economy within the next decade and with an unparalleled pathway for growth, continues to offer significant potential for investors. However, like many developing market economies, these opportunities come with heightened risk – including political risk – and this is not a new feature of investment in the country. This demands prudent positioning within an investor's portfolio and more often than not, an active and selective approach towards investment in the region.

When speaking with our third-party managers on both the public and private side, the consensus has been that while the measures have been harsher than expected, there is no case for abandoning Chinese exposure and that the country and its companies remain a compelling opportunity. Most managers are approaching this most recent challenge through their underwriting – that is to say that the threshold of the risk-adjusted return for acquiring Chinese companies, in general, has moved higher. We also believe that periods of volatility like this are when managers with more established programmes of investment in China will significantly outperform those who trade it more tactically and perhaps have less conviction in the region.

Current focal points

Caroline Kelly
Financial Planning Specialist

Invest your time in the things you can control

After a turbulent 18 months, we are thankfully slowly starting to see life return to 'normal' as restrictions ease, travel resumes, and schools and offices begin to fill. For many, this time has been an unsettling period and the thought of moving towards pre-pandemic normalcy seems frightening. This fear is common, however, the best advice is to try to overcome these feelings and be prepared.

We have all become accustomed to the additional requirements needed for a simple visit to the shops or a trip away such as masks, hand sanitiser and vaccination certificates. A similar planning approach should be taken with your finances. Many of you will have heard the following phrase before "fail to prepare, prepare to fail". A financial plan will instigate and drive all the right decisions with respect to the structures and investment portfolio to suit your needs in a timely manner. The plan will provide a platform for all the heavy lifting on your behalf so you can focus your time on the items that really matter to you.

1. Define your goals

A financial plan aims to do just that! It begins with defining what you can control such as your financial goals. This can be a difficult process and is often based on your best guess as to what things you would like to do in the future. A trade-off exists between aspiration and reality. A financial plan will help you to set out and prioritise your goals by developing a roadmap to achieve them.

2. Devise your investment approach

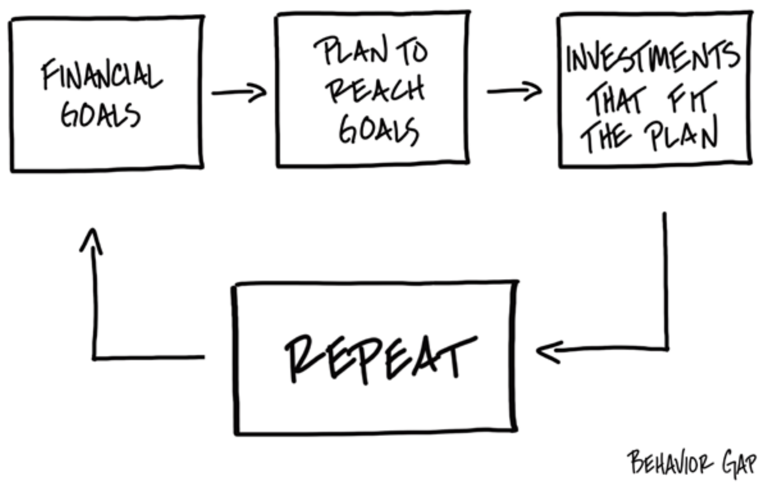
Once you have defined your goals and have a plan in place to reach them, the next important step is to assign you with a suitable investment approach. For example, cash and bonds might be suitable for short-term goals while for longer-term goals, growth assets are more appropriate to develop and protect the real value of your portfolio. One of the main benefits of taking the time to devise a suitable investment approach, is that it allows you to dismiss any day-to-day noise with the knowledge that you will only have market exposure to meet longer-term needs. If markets do fall, you can rest easy in the comfort that you will have time for your assets to recover before you need to draw on them.

For many, financial goals have changed following the disruption of the last 18 months. The havoc caused by COVID-19 was unprecedented, impacting many areas of our lives significantly. Many of us have had to shift and alter the plans we made for retirement and future expenditure. However, your financial plan is a living document, so any changes impacting you and your lifestyle can be easily incorporated to ensure any adjustments are reflected, and you remain on track. Your Adviser will review and monitor the situation with you on a regular basis.

3. Putting the right structures in place

While investment returns are important, having the right structures in place can be just as, if not more, valuable in the long term. Pensions are a perfect example of this as there are multiple benefits to funding a pension. Such benefits include receiving tax relief on your contributions, tax-free investment growth, a tax-free lump sum, and an income stream in retirement. For almost every client that we work with, whether they are a business owner, self-employed or a professional, pensions can be a tax-efficient way to extract excess cash from a company. Pensions are, however, often underutilised. This can be seen in our case study meaning many are missing out on a very effective source of returns.

Figure 1: Goals Plans Investments Repeat



Source: Carl Richards

Case Study

Joe and Mark are two business owners who are both aged 40 running their own independent companies. Both companies have had a successful year and have made a profit of €200,000 each. Joe has a young family and hasn't had the time to start finding a pension company. He is now researching to see what the benefit of making an employer contribution with his company profits to an Executive Pension would be for when he plans to retire at aged 60. Mark, who also has a young family and other financial commitments is considering taking a dividend of €200,000 from his company and investing it in a personal portfolio.

We compare the €200,000 Joe is considering investing in a pension versus Mark taking taxable funds now and investing in a personal capacity over a 20-year time period, both earning 5% annual investment returns. As can be seen in Table 1, the results are stark.

As Mark's dividend is initially hit with income tax and investment growth within the personal fund is taxed (we assume exit tax of 41%), the investment portfolio is projected to be only €178,865 in 20 years' time. On the other hand, due to tax relief on the initial contribution and tax-free investment growth in Joe's pension, it is projected to be worth c.€530,659 at aged 60.

Joe will still need to pay income tax on any distributions from his pension pot once it does retire to an ARF (Approved Retirement Fund), which will dampen the above comparison somewhat, however, the first 25% (€132,663) can be taken as a tax-free lump sum, and investment growth within the ARF will remain tax free.

Table 1: The following table highlights the key differences between Joe & Mark's financial situation at 60 - keeping in mind that Mark is taking a taxable lump sum.

	Mark's Personal Funds	Joe's Pension Funds
Net Value Today	€100,000	€200,000
Value in 20 years	€178,866	€530,659
Tax-free lump sum at retirement	No	Yes – 25% of the fund value
Tax status	Post tax	Pre-tax

Please note that the figures in the chart are for illustrative purposes only.

4. The next steps

Consolidating and reviewing your pensions to ensure they are the most suitable for your personal circumstances is a good first step to taking pensions more seriously. The next step is maximising your contributions (personally or from your employer) where possible in the most efficient way. While a frantic rush in the run up to the income tax deadline is commonplace, regular contributions could avoid this last-minute hassle while you would also avail of the investment benefit and phased market entry through spreading your contributions over a 12-month period.

Where valuations may be higher in recent times, you may find your accumulated pensions are approaching the Standard Fund Threshold of €2 million or your Personal Fund Threshold. At Davy, our team of financial planners and specialists can help you put suitable strategies in place such as early retirement or split retirement depending on your circumstances to help manage any potential excess tax that may apply.

A conversation with your Davy adviser can provide enough information for them to begin to draft or update your financial plan. You may be required to start making regular pension contributions and the adviser may give you the option of reviewing your pension investment strategy at various intervals, ensuring it fits with your retirement objectives.

However, pensions are just one of the many tax-efficient structures that may form a key part of your plan. Our financial plans ensure holistic financial planning and wealth management advice is provided to enable you to meet all your goals.

Warning: The value of your investment may go down as well as up.

Warning: The information in this article does not purport to be financial advice and does not consider the investment objectives, knowledge and experience or financial situation of any particular person. You should seek advice in the context of your own personal circumstances prior to making any financial or investment decision from your own adviser. There are risks associated with putting a financial life plan in place. There is no guarantee that by having a financial life plan in place, you will meet your objective. The tax information contained in this article is based on Davy's current understanding of the tax legislation in Ireland and the Revenue interpretation thereof. It is provided by way of general guidance only and is neither exhaustive nor definitive and is subject to change without notice. It is not a substitute for professional advice. You should consult your tax adviser about the rules that apply in your individual circumstances.

James Costello
Head of Global Portfolio Strategies

Introduction to Strategic Asset Allocation

Strategic Asset Allocation (SAA) is the long-term target allocation to investment asset classes within an investor's portfolio. It provides the anchor for your portfolio from which all subsequent investment decisions are made. It is based upon three key factors: return objectives, risk tolerance, and time horizon.

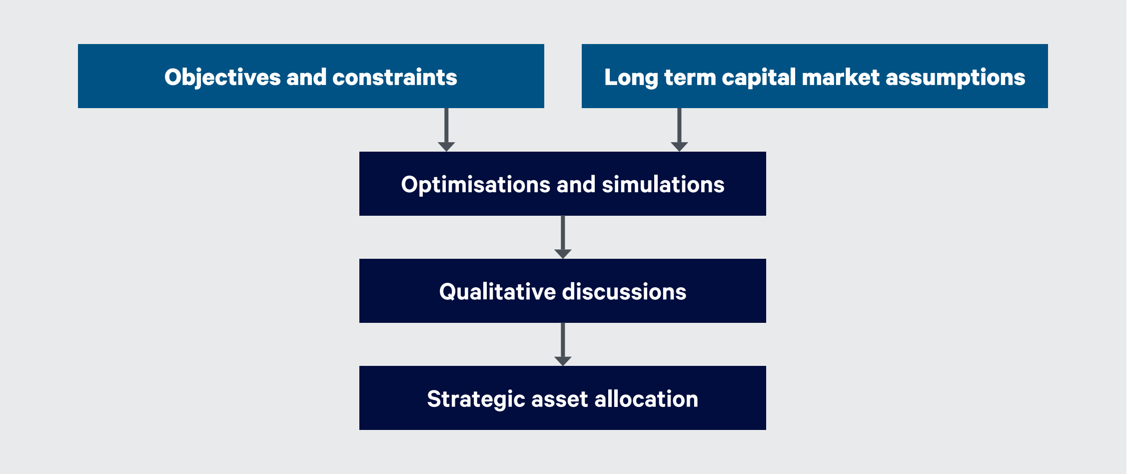
Given an investor's return objectives, the most difficult aspect to deciding on an appropriate SAA is assessing what the future path of returns will be. While increased uncertainty around future returns may have led to a few more grey hairs for investors, it has also had two notable benefits. Firstly, it has led asset managers to revisit what they believe is the appropriate mix of investments to be included in multi-asset solutions. The second key benefit is that many clients are now assessing their own risk tolerance with a view to potentially increasing the amount of capital they hold in risk assets. This is typically termed risk profiling. The amount of risk a client deems appropriate is very important and our advisers go through a detailed process with clients in determining this.

The process used to determine appropriate SAA is often opaque. What follows is a summary of the Davy process, which we believe clients should be privy to.

Process is key

It has been well documented that SAA is the single most important determinant of long-term risk-and-return for portfolios. It provides a framework for an investor's portfolio by properly aligning their asset mix with their long-term investment goals and objectives.

1. The **first step** in determining an appropriate investment strategy is to decide on your universe of potential investments. In Davy, we offer portfolios that cater to clients with many different preferences. As a simple example, the inclusion of property or hedge funds can have a notable impact on the risk and return of a portfolio but also a notable impact on charges. We try to cater for all types of client preferences, including sensitivity to cost.



To the extent that there are client preferences that create an investment constraint, e.g. preference for specific tax treatment or low-cost investments, we work with our in-house specialists to create the most efficient solutions that take these constraints into account.

2. Once the asset classes are selected, the **second step** in the process is to allocate to them in an attempt to maximise returns under a defined level of risk. This process incorporates our expectations for future returns and risk of the various asset classes and importantly how these asset classes interact with each other (this is termed correlation). These assumptions tend to be over long time periods. While forecasting over any time period is inherently difficult, the longer the time period the easier it is to anticipate how asset classes will perform and interact with each other.

3. This process is quite quantitative and data intensive and while we have many proprietary analytical systems in Davy, we also leverage third party analysis tools. Critically though, the output of this process is used as simply a starting point for the **final step** of engaging in qualitative discussions and potentially revising our results. Throughout the qualitative process we consider criteria such as:

   a. The cost of gaining exposure to these asset classes

   b. Active manager choice within each asset class to ensure we won't be too constrained

   c. Assessments of stressed scenarios or what might happen if our expectations around risk and return are wrong

Strategic Asset Allocation needs to be reviewed every so often to ensure it remains consistent with our client's objectives. Maintaining an appropriate SAA is what keeps investors pointed in the right direction for the long-term. We are currently in the process of one of these reviews and will be communicating with clients in the coming months on any recommended changes.

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Eileen Rowsome
Senior Investment Analyst

Proofing your portfolio for a greener future

In August, as Europe was experiencing its hottest summer on record, the release of the Intergovernmental Panel on Climate Change (IPCC) latest climate report gave plenty for the world to ponder. With so much news on the topic of climate change, it can be hard to grasp what the impact is to investments and how to consider the climate when investing.

The IPCC published the report on 'Climate Change 2021 The Physical Science Basis' in August. Formed in the late 1980s, the IPCC provides policy makers in 195 member countries with regular science-based assessments on climate change.

One of the opening statements sets the tone for the report where it states, 'It is unequivocal that human influence has warmed the atmosphere ocean and land', while the findings were dubbed by the UN Secretary General António Guterres as a 'code red for humanity'.

What does it say?

The report sets out an understanding of the current state of the climate, possible future climates and what is needed to limit future climate change. It looks at carbon dioxide concentrations, temperature levels, sea ice areas as well as sea level changes. Its key findings include:

- Each of the last four decades have been successively warmer than any that preceded since 1850
- Human activities have caused increases in greenhouse gas concentrations since 1750
- Incidence of extreme weather, such as heatwaves, heavy precipitation in some regions and droughts in others, have become more frequent
- Global temperature rises until at least mid-century are unavoidable while limiting global warming to 1.5 degrees Celsius to 2 degree Celsius will only be achieved with deep reductions in carbon dioxide and other greenhouse gas emissions

This report is one of many that the IPCC are publishing in this reporting cycle. Next year should see the IPCC publish 'Climate Change 2022 Impacts, Adaptations and Vulnerability' as well as a report on Climate Mitigation. While the IPCC can set out what is needed, ultimately the policies to adapt to and mitigate climate change are up to policymakers.

Ireland's policy

In July this year the President signed into law the Climate Action and Low Carbon Development (Amendment) Act 2021 which looks to set Ireland on a path to net zero emissions by 2050 and cut emissions by 51% by 2030.

> "
> *Net zero emissions means that greenhouse gases going into the atmosphere are in balance with the removal of greenhouse gases from of the atmosphere*

The Act will ensure the publication of carbon budgets, sectoral emission ceilings as well as a climate action plan. As a precursor to the budget, we have already seen Minister for the Environment, Climate and Communications of Ireland, Eamon Ryan announce new standards for domestic solid fuels which will be brought in within a year.

On the world stage

Irish delegates will join those from around the world at the United Nations Climate Change Conference, COP26 as they come together to discuss what more can be done to address climate change. The conference was last held in Paris in 2015, which saw commitments to limit global warming to 1.5 degrees Celsius to 2 degrees Celsius by 2050 and progress on this aim will be assessed.

The rhetoric in the US has changed under the new administration to focus more on what Joe Biden dubs the "Climate Emergency" while the EU published proposals to transform the economy under its Green Deal earlier this year.

What implications does this have for investments and investors?

The message is very clear, policy needs to and will shift towards more climate friendly initiatives. Governments, with the knock-on effect to industry, will be impacted by this new greener path and it will need to be considered in their attractiveness as an investment opportunity.

There are risks and opportunities across industries and one could approach investing in a "greener" portfolio by simply excluding certain carbon intensive sectors, or countries, but is that far enough? How about also rewarding companies within other sectors that have industry leading environmental practices?

This investment universe is expanding with a range of products to cover multiple approaches. Some investment houses are running dedicated "Climate Change" products by investing in companies that are set to benefit from climate change adaptation and mitigation. While other managers continue to take a whole of market approach but are focused on companies that will be able to sustain profits during the shift to a lower carbon economy.

A key factor for investors to bear in mind is how to measure how "green" an investment product really is. There is a lack of industry standard, but we have seen legislation from the EU this year in the form of the Sustainable Finance Disclosure Regulations (SFDR). SFDR look to help investors understand whether an investment product has a sustainable investment focus.

As we await the roll out of Ireland's own carbon budget, COP26 and the publication of the next set of IPCC reports we may have a short window of reprieve from the headlines, yet it is undeniable that the policy trajectory has shifted to a greener future.

Anna Heaney
Investment Associate

The roaring 20 twenties?

After a series of prior catastrophic events, in the 1920's lifestyles improved significantly. Post war and post Spanish flu pandemic, prosperity prevailed and metropolitan centres of the world enjoyed fortunes, freedoms and a general sense of positivity. A century later, after vaccine rollouts in the western world, some have begun to ponder whether the same could be repeated for the 2020s.

Marked by opulence, freedom, consumerism, culture, and individualism – the 1920s burned bright, only to end with the Great Depression. As we sit on the precipice of the same freedom pendulum, are we ready for similar reckless abandon, or, because of much ingrained scars of the past, are we more cautious as we move forward? After a post war economic dip in 1920, major world economies such as the United States, the UK and Canada began to grow again from 1921. As we head into the end of 2021, we look at the potential for another roaring 20's in our time and whether we even want one.

Initial indications

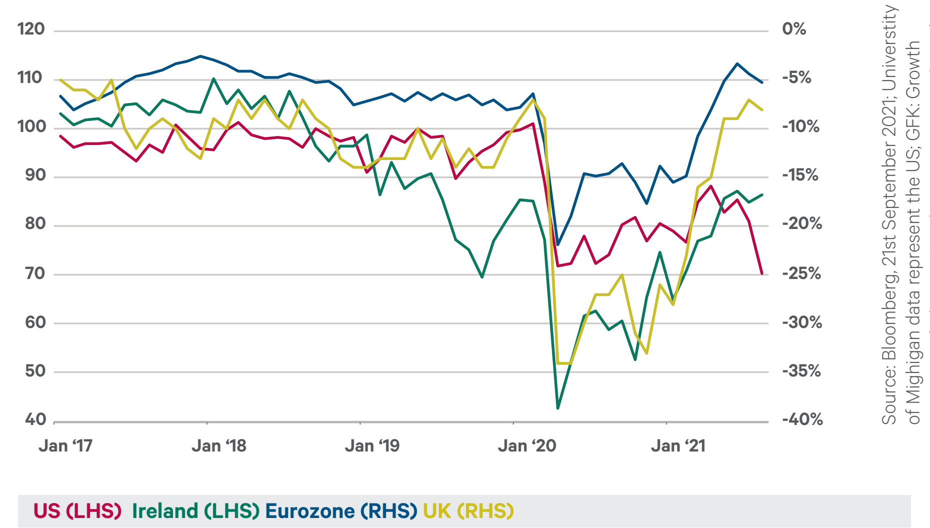
As the summer months unfolded, freedom of movement and thus spending increased and the recovery took shape. In the Eurozone, strong consumer activity was particularly evident, and based on Google mobility data, the Delta variant didn't deter. Irish and US retail sales on the other hand dipped slightly in July, though recovered most of that in August. The UK data was more muted, with declines in retail sales in both July and August. With the effects of COVID-19 still present, it's hard to say whether recent data is an indication of what's to come in the full reopening – consumer sentiment data can help us assess what individuals perceive the future economic prospects to be.

Hey big US spender

It is often said that the health of the global economy is tightly linked to the sentiment and behaviour of the US consumer. It makes sense when you consider that although Americans constitute less than 5% of the global population, they generate and earn more than 20% of the world's income. We watch them closest to identify when this cohort are positive on their future, as it has such a knock-on effect.

With that in mind, alarm bells sounded when sentiment showed a large strain in August. The US Conference Board's consumer confidence data came in at a six month low, well below expectations.
The University of Michigan's index also plummeted in August to its lowest level since 2011, yet has since normalised for September. Giving too much focus to this reading is ill-advised though, especially when you consider that US retail sales in fact increased in the same month. Interestingly, in the Irish context, sentiment data improved in August, whilst declines in confidence were also evident across Euro area and UK. The question of sentiment and what's hurting and helping it as we re-enter the world is an interesting one. Inflation looms and Delta variant concerns are still omnipresent, thus optimism in the re-normalisation isn't exactly the boost we perhaps expected or needed.

Figure 1: Consumer sentiment in various regions



Source: Bloomberg, 21st September 2021; Universtity of Mighigan data represent the US; GFK: Growth From Knowledge; LHS: Index; RHS: Percent (Month on Month Changes)

Scars of the past

The potential for a comparable roaring decade will be held back by many factors; the productivity growth witnessed a century ago amid a technological revolution is not expected again today. Also, with price pressures dampening optimism, due to supply issues, inflation has become a drag on sentiment for the future. The Central Bank has been playing a huge role in the recovery, yet the control factor must be central so that our growth prospects aren't built on more leverage and indeed prevent us from a repeat of 1970s stagflation (where rising prices accompanied job losses), or an early 2000's property bubble. Caution in this area is now embedded in our DNA post the Global Financial Crisis (GFC), particularly in the Irish context. Sentiment across regions may also be stunted by the prolonged changing of goal posts in terms of restrictions, leading to a reluctance to plan and book ahead.

Consumerist culture evolving

The consumerist culture which was in vogue across the western world in the 1920s, and since, is something that we have been forced to review. Climate change and its effects are now the most effective advertising campaign out there, with impacts felt globally and painfully. We are living in the new world where the sustainable impact must be at the forefront, and we are duty-bound to meet the scale, scope, and speed of the crisis. Political and moral awareness is now becoming embedded, thus splurging on the same level as a century ago just doesn't fit.

Hard correction

The 'next normal' will likely be one of more caution where we continue to carry the scars of our recent past and noise of the present. From Brexit to the pandemic, inflation, climate change and to the not-so-distant but deeply embedded GFC, there's always some existential thing to worry about. In contrast, the 1920s had its own challenges, but they didn't have the same access to information and many of their crises were more local in nature. Although we may be eager to get spending and living freely and using some of the pent-up savings acquired – our inhibitions have been kept intact to date. On the one hand a fun and roaring decade would be welcomed with open arms, on the other, perhaps we'd prefer something that whispers...

Market data

Total Return (%) in local currency	2016	2017	2018	2019	2020	YTD
Equities (local currency)						
MSCI World	6.8	16.3	-9.1	24.8	11.7	18.1
MSCI USA	9.2	19.5	-6.3	29.1	19.2	19.9
MSCI EMU Index (European Economic and Monetary Union)	1.8	10.1	-14.7	22.3	-2.7	17.9
MSCI USA Small Cap	17.8	15.6	-11.4	25.2	17.1	17.9
Russell 2000	19.5	13.2	-12.2	23.7	18.3	15.1
NASDAQ	7.5	28.2	-3.9	35.2	43.6	18.4
NASDAQ 100	5.9	31.5	-1.0	37.9	47.6	20.9
MSCI Emerging Markets*	7.1	27.8	-12.2	15.1	16.6	2.1
FTSE Europe Ex UK	4.6	14.9	-10.4	27.8	2.2	21.1
S&P 500	12.0	21.8	-4.4	31.5	18.4	21.6
Eurostoxx 50	0.7	6.5	-14.3	24.6	-5.1	18.1
FTSE 100	19.0	11.9	-8.8	17.3	-11.6	13.2
ISEQ *	-4.0	8.0	-22.2	31.1	2.7	19.2
MSCI ACWI	5.6	21.6	-11.2	24.0	14.3	14.7
CSI 300*	-11.3	21.8	-25.3	36.1	27.2	-7.6
Nikkei Index	0.4	19.1	-12.0	18.2	16.0	2.3
MSCI Growth	1.4	26.4	-7.8	32.2	32.7	17.7
MSCI Value	9.3	14.2	-13.1	18.3	-3.6	15.6
Hang Seng	-2.8	24.6	-13.5	10.3	-3.8	-14.3
Shanghai Composite	-12.3	6.6	-24.6	22.3	13.9	2.1
Equities (EUR)						
MSCI World	8.5	5.4	-6.0	27.6	4.8	20.9
MSCI USA	12.5	4.8	-1.7	31.6	9.5	24.2
MSCI EMU Index (European Economic and Monetary Union)	1.8	10.1	-14.7	22.3	-2.7	17.9
MSCI USA Small Cap	17.8	15.5	-11.4	25.2	17.1	17.9
Russell 2000	23.1	-0.7	-7.8	26.2	8.7	19.2
NASDAQ	10.7	12.5	0.9	37.9	31.9	22.6
NASDAQ 100	9.1	15.4	3.9	40.7	35.5	25.2
MSCI Emerging Markets*	11.9	17.8	-12.5	17.7	6.4	4.8
FTSE Europe Ex UK	4.6	14.9	-10.4	27.8	2.2	21.1
S&P 500	15.3	6.9	0.4	34.1	8.8	25.9
Eurostoxx 50	0.7	6.5	-14.3	24.6	-5.1	18.1
FTSE 100	2.8	7.6	-9.7	24.5	-16.4	18.1
ISEQ *	-4.0	8.0	-22.2	31.1	2.7	19.2
MSCI ACWI	8.8	6.7	-6.7	26.5	5.0	18.8
CSI 300*	-14.6	13.9	-25.7	36.9	24.7	-3.3
Nikkei Index	7.4	8.3	-5.8	22.3	11.6	-0.1
MSCI Growth	4.4	10.9	-3.2	34.8	21.9	21.9
MSCI Value	12.6	0.2	-8.8	20.7	-11.4	19.7
Hang Seng	0.1	8.5	-9.5	13.1	-11.3	-11.5
Shanghai Composite	-15.5	-0.3	-25.0	23.1	11.6	6.9

Warning: Past performance is not a reliable guide to future performance. The value of your investment may go down as well as up. If you invest in this product you may lose some or all of the money you invest. These products may be affected by changes in currency exchange rates.

Total Return (%) in local currency	2016	2017	2018	2019	2020	YTD
Global Sectors						
MSCI World Energy	26.6	5.0	-15.8	11.4	-31.5	22.6
MSCI World Materials	22.5	28.9	-16.9	23.3	19.9	14.2
MSCI World Industrials	12.9	25.2	-14.5	27.8	11.7	15.6
MSCI World Consumer Disc	3.1	23.7	-5.5	26.6	36.6	11.5
MSCI World Consumer Staples	1.6	17.0	-10.1	22.8	7.8	7.5
MSCI World Health Care	-6.8	19.8	2.5	23.2	13.5	17.2
MSCI World Financials	12.5	22.7	-17.0	25.5	-2.8	24.9
MSCI World IT	11.5	38.2	-2.6	47.6	43.8	21.6
MSCI World Telecoms	5.7	5.8	-10.0	27.4	23.0	23.6
MSCI World Utilities	6.0	13.7	2.0	22.5	4.8	6.2
Government Bond Yields (%)						
US 10 Year	2.4	2.4	2.7	1.9	0.9	1.3
US 2 Year	1.2	1.9	2.5	1.6	0.1	0.2
Germany 10 Year	0.2	0.4	0.2	-0.2	-0.6	-0.4
Germany 2 Year	-0.8	-0.6	-0.6	-0.6	-0.7	-0.7
UK 10 Year	1.2	1.2	1.3	0.8	0.2	0.7
UK 2 Year	0.1	0.4	0.8	0.5	-0.2	0.2
Japan 10 Year	0.0	0.0	0.0	0.0	0.0	0.0
Japan 2 Year	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1
France 10 Year	0.7	0.8	0.7	0.1	-0.3	0.0
Canada 2 Year	0.7	1.7	1.9	1.7	0.2	0.4
Commodities						
Bloomberg Commodity Index	11.8	1.7	-11.2	7.7	-3.1	23.0
Brent Crude Oil	28.5	15.5	-15.3	37.7	-35.1	45.1
WTI Crude Oil	8.0	4.1	-20.5	34.1	-60.3	43.5
Natural Gas	9.5	-36.5	4.8	-32.3	-45.9	65.7
Platinum	0.8	3.0	-14.8	21.6	8.5	-6.7
Wheat	-24.3	-13.3	1.5	7.1	9.8	8.6
Corn	-9.8	-12.1	-4.6	-5.2	12.9	23.0
Silver	14.0	5.8	-10.2	13.9	42.5	-9.6
Gold	7.7	12.8	-2.8	18.0	20.9	-4.7
Iron Ore	162.5	22.0	8.2	83.1	128.5	17.7

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.

Total Return (%) in local currency	2016	2017	2018	2019	2020	YTD
Currency Rates						
EURUSD	1.1	1.2	1.1	1.1	1.2	1.2
EURGBP	0.9	0.9	0.9	0.8	0.9	0.9
EURJPY	123.0	135.3	125.8	121.8	126.2	129.9
GBPUSD	1.2	1.4	1.3	1.3	1.4	1.4
GBPEUR	1.2	1.1	1.1	1.2	1.1	1.2
USDJPY	117.0	112.7	109.7	108.6	103.3	110.0
Cryptocurrencies						
Bitcoin	952.0	14310.9	3674.2	7158.3	28996.3	47008.5
Bloomberg Galaxy Crypto Index	-	1381.4	260.6	279.0	1051.1	2778.4
Litecoin	-	-	29.5	41.3	124.1	174.9
Etherium	-	-	130.0	128.4	739.0	3484.5
Interest Rates						
Euribor 3 month	-0.3	-0.3	-0.3	-0.4	-0.5	-0.5
Libor GBP 3 month	0.4	0.5	0.9	0.8	0.0	0.1
Libor USD 3 month	1.0	1.7	2.8	1.9	0.2	0.1
Central Bank Rates						
European Central Bank	0.0	0.0	0.0	0.0	0.0	0.0
Bank of England	0.3	0.5	0.8	0.8	0.1	0.1
Federal Reserve	0.8	1.5	2.5	1.8	0.3	0.3

Source: Data is sourced from Bloomberg as at market close September 30th 2021 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.

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