Cultivating Stability: An Update on Global Markets

As we progress through 2023, and in light of client fatigue caused by the barrage of negative global news, we feel it is timely to reflect on the current markets. We will seek to understand the broader financial landscape – and where this may lead us – reflecting on current interest rates possible peaking as a reaction to positive news on the inflation front.

A Brief Look Back - 2022 Equity Market Downturn

2022 was challenging for equity markets globally. We witnessed a significant downturn, primarily driven by various macroeconomic factors centred on inflation concerns with rising interest rates, geopolitical tensions, and pandemic-related disruptions. This negative return (with global equities down over 15% from Jan to Oct) was a reminder of the short term volatility in equity markets.

Bond Market Volatility

Traditionally, bonds (loans to governments and corporates) have been seen as a stabilizing force against the volatility of equities. However, 2022 was an anomaly where both equities and bonds experienced downturns simultaneously. This rare occurrence was influenced by increased interest rates in the main, leading to a re-evaluation of the traditional equity-bond correlation. The bond market had a rough ride for what is traditionally seen as a low risk asset. Inflation's surge to 40-year highs led Central Banks globally to the most aggressive interest rate increases in modern history.

The Impact of Rising Interest Rates

Increasing interest rates act like gravity depressing the value of all assets – property, equities and government bonds alike. The table below highlights the returns from the four major asset classes since **January 2022** and year-to-date in 2023.

	2022	2023 YTD
Global Equites (MSCI World Equity Index)	-12.3%	12.0%
German 10 Year Bonds	-18.9%	-0.6%
Eu Inflation Linked Bonds	-9.7%	0.2%
Bank Deposits	0.2%	1.0%
Inflation (Eurozone)	**9.2%**	**5%**

*** YTD Year to Date - 12/11/2023**

2023 - Positive Returns Despite The Negative Narrative

Despite the most negative news circulating in the media, 2023 has seen positive returns in equity markets. As outlined in the previous table, global equity markets have returned over 12% year to date. **This is a testament to the resilience of the markets and their ability to bounce back from downturns.** It's important to remember that the media often focuses on sensational headlines, which can sometimes paint a skewed picture of the actual market performance - The Markets.

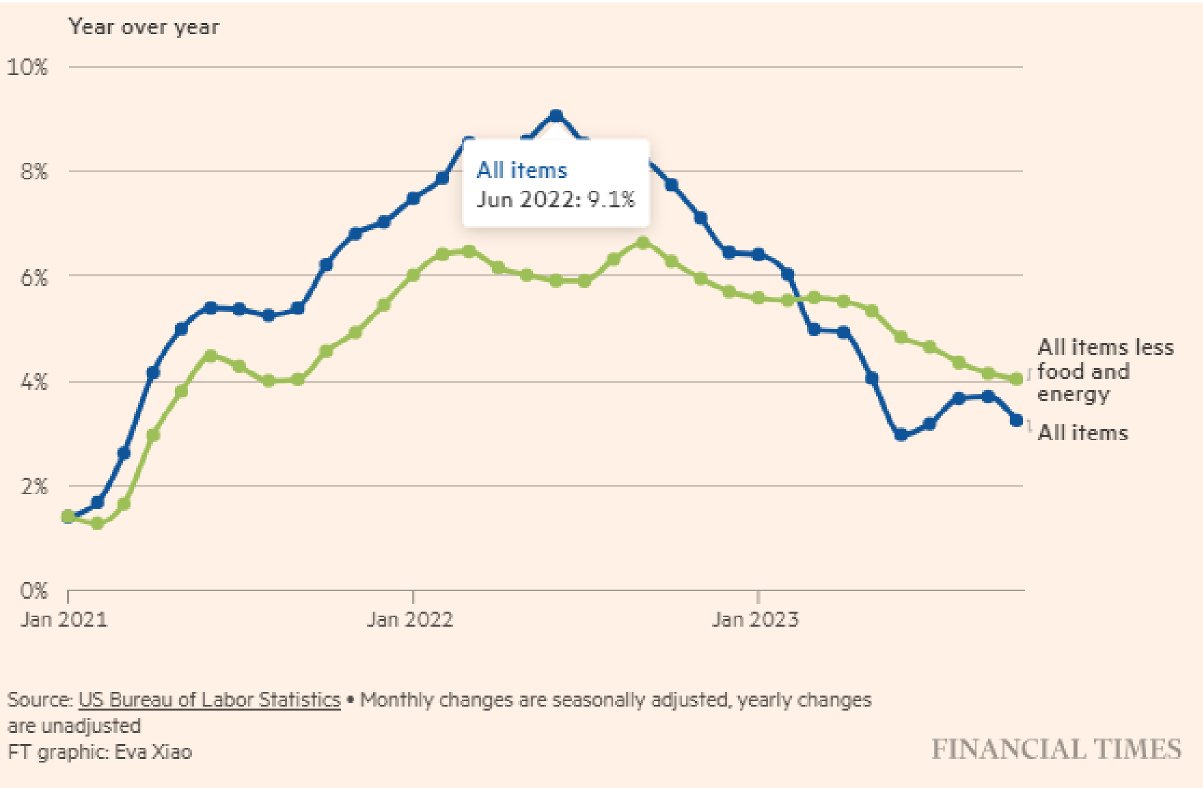
Interest Rate Hikes - Cultivating Stability

A simplified way to explain the interest rate hikes in the last year would be to use a gardening analogy. Think of the interest rate hikes by Central Banks as a kind of pruning or trimming process. Just like overgrown branches (inflation) need to be cut back to maintain the health of a plant, these rate hikes are necessary to keep the economy in balance.

However, just as excessive pruning can harm a plant, too many hikes can damage the economy's growth potential. Central Banks are closely monitoring for any signs that we are reaching this critical point. At the first indication, they'll likely reverse course to avoid harm.

Positive Signs on Inflation

The most recent inflation figures just released out of the US this week (12th Nov) indicate that these measures are working and inflation may drop quickly in the coming months. The Eurozone should follow suit – however, we are less energy independent than the US. We will more than likely see an easing of interest rates as early as Q2 2024.



Outlook for Bond Returns

After the Bond market carnage of 2022 and early 2023, some good news awaits. Unlike stocks, the outlook for bonds is based on mathematical calculations, not speculation. Every 1% cut in interest rates will lift the bond market (medium duration bonds) on average by 10% to 12%. If analysts are even close to accurate, global bond funds will rally hard, much of it upfront starting in H1 2024.

Equities: The Long-Term Outperformer

Historically, equities have proven to be a strong performer over the long term, outperforming all other asset classes. This is due to the potential for higher returns associated with the perceived higher risk of investing in equities. It is a proven fact that, over time, companies grow and profits increase, which can lead to significant capital appreciation for investors.

Resilience in the Face of Adversity

Equity markets have shown remarkable resilience in the face of major global events. They have weathered two World Wars, the Great Depression, Global Pandemics and periods of high inflation. If history is any guide, we should be able to weather the current challenges and come out stronger. After all, the markets are not just about numbers and trends, they're about human ingenuity, adaptability, and the drive to progress by the great companies of the world.

The Silver Lining After a Bad Year

Historical data shows that after a bad year for equities, the probability is for positive returns for the following 1, 3, 5, and 10-year periods. This **underscores the importance of patience and long-term investment strategies** when navigating volatile markets.

Markets Offering Value

Global equities have not suffered as much as one might have thought (with the benefit of hindsight). And we may still get this recession which has been forecast for the last 2 years. US markets still look frothy even after last year's correction, mainly because of a small number of tech stocks (Apple, Microsoft, Google owner Alphabet, Amazon, Nvidia, Tesla and Meta) driving growth. Even so, European, UK, Asia Pacific and Emerging equity markets all offer good value relative to history and relative to (still) low interest rates. So, on a medium-term view (5 year plus), the risks of poor returns from such equity markets appear low.

Alternative To Bank Deposits – customised advice is essential

Money Market Funds (MMF) are currently offering returns annual returns just short of 3% with full access to cash at any point. For short term needs, bank deposits are the appropriate asset class. However, if you want better returns and protect against inflation (to some degree) then MMF offer a solution.

Getting the balance right between each asset class is key.
And each person is different in that regard. Clients in retirement have a different risk appetite to a person still working and saving. It's why we carry out investment reviews, so that we can provide each client with customised advice, and rebalance portfolios where required.

Patience Is Required to reap the rewards of a sound investment strategy
Investing for better than bank deposit returns requires patience. Returns don't come in a straight line. Two consecutive years of losses across the major asset classes is not unusual when you examine history. It's a further reason why taking a **5-year plus view is essential if investing in equities. Getting despondent and selling at times of market volatility can lead to a permanent loss.**

Summary
Putting money into Government Bonds and Money Market Funds is not investing. It also is not risk free. **It can be viewed as a short term solution to give some level of reasonable return. However you are, to a degree, accepting a decline in the real value of your money. You are giving up longer term returns due to concerns on short-term capital loss or volatility.**

As I have said before we don't forecast global markets. Markets can be unpredictable and sometimes challenging, however history has shown us that patience, resilience, and a disciplined investment strategy, predominantly in equities, can yield positive results over the long term. Here's to a brighter financial future!

Ronan McGrath
Managing Director

14th November 2023

> **"The function of economic forecasting is to make astrology look respectable."**
>
> **JK Galbraith – American Economist**

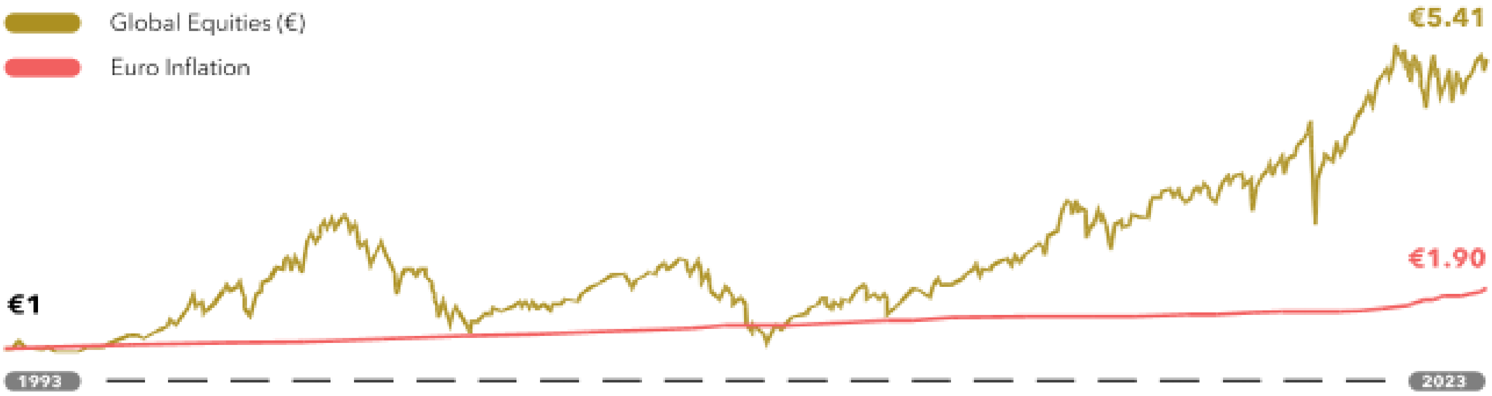
Inflation – The Real Enemy (updated October 2023)

The number one enemy of the long-term investor is inflation - the silent but steady increase of prices over time.

The only sane definition of money is purchasing power, and over the last 30 years, inflation in Europe has almost halved the value of your money.

But an investment in the global share market has consistently provided protection from this enemy. What did you have to do to earn this? Two (behavioural) things:

1. Invest and stare out of the window (much harder than it sounds).
2. Be willing to see your investment value *temporarily* decline by about -15% on average every year without being panicked into selling.



Source: FE Analytics, Humans Under Management
Returns are based on the price return of the MSCI World Index, which does not take into account dividends reinvested.

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