Market Update – October 2024

Encouraging Signs For Investors

Following two rate cuts by the ECB since June, Wednesday 18th September the Federal Reserve (the central bank of the US) has cut its key interest rate by 0.50% to a range of 4.75-5.0%. This is the world's most important interest rate, in the world's strongest economy. The Fed's decision has been supported by moderating inflation and a softening employment market.

Strong US Market Performance

The S&P 500 (US top 500 countries) reacted well to the announcement, with a 1.7% price increase on the day. While short term movements mean very little, Global Equity markets have had a strong run in 2024, generating over 17% year-to-date return for investors – **The Markets Chart**.

With the tone around the rate cut (a more aggressive cut of -0.5% instead of leading off the cutting cycle with -0.25%), the Fed is evidently harbouring concerns about a combination of recessionary forces threatening in the near future, accompanied by sticky inflation, an environment of stagflation.

2024 Returns to 30th Sept	
Index, Currency, Bond	**Gain/Loss**
Global Equities (MSCI World) (€)	17.3%
Dow Jones Industrial Average ($)	12.27%
S&P 500 Index ($)	20.3%
FTSE 100	10.54%
Emerging Markets Index (MSCI €)	16.0%
Eurozone Equities (MSCI €)	11.7%
Irish Commercial Property	-4.8%
Gold Price ($)	27.8%
Brent Oil	-6.5%
Commodities Index (€)	11.9%
Eurozone Government Bonds	-3.1%
Eurozone Corporate Bonds	2.83%
Eurozone Inflation Linked Bonds	-0.09%
US 10 Year Bond Rate	3.75%
German 10 Year Bond Rate	2.13%
Irish 10 Year Bond Rate	2.49%
Irish Inflation (projected)*	**1.9%**

* Projected inflation figure for 2024 based on the CPI to August 2024

Good news for equities

Across the board the reduction in interest rates ought to be good news for equities. An interest rate cut will be good for corporate earnings, for two reasons - stimulating consumption and investment, and reducing the interest expense for companies.

Smaller companies, should benefit more so than most equites due to their nimble ability to respond to cheaper business credit, adding to better earnings. But the cutting cycle will lift all boats, save for those already trading on over-blown valuations, most notably technology companies with inflated share prices compared to their earnings.

The **risks this time around are less macro-economic in nature and more geopolitical**. The main threats are quite clearly coming from the risk of escalation to a NATO Russia confrontation in the expanding proxy war in Ukraine, coupled with a widening into a regional conflict in the Middle East. This could threaten vital oil routes and bring Iran more directly into the conflict with Israel. Then add in the potential for destabilisation internally in the US depending on the outcome of the forthcoming US Presidential election in November.

The enduring dollar

An attempt at De-dollarisation is underway as countries, encouraged by China and Russia, (BRICS – Brazil, Russia, India, China and South Africa), are attempting to wean off conducting foreign trade through the US Dollar. But the depth of the US Treasury market has been tested in the past and stood up. Time and again capital flees to the US Dollar as the safe haven of choice.
Lowering interest rates in the short-term will soften the Dollar but talk of the Dollars demise would seem premature. Mainly because there does not seem to be a viable alternative. Notwithstanding BRICS efforts to create a commodity backed currency trading platform, and since cryptocurrency, until it is regulated as legal tender, remains a theoretical substitute.

Gold role

It is telling that Central Banks are big buyers of Gold, they too see the vulnerabilities of paper FIAT currencies down line and are building up their reserves. In 2019, the Bank for International Settlements quietly added a new asset class to what they term Tier One assets for bank reserves. Up until which the only qualifier was US Treasuries. It also now includes Gold.

A *FIAT* currency is a national currency that is not pegged to the price of a commodity such as gold or silver. The value of *fiat* money is largely based on the public's faith in the currency's issuer. Which is normally that country's government or central bank.

The unforeseen possibilities

If the geopolitical downsides can be eased or avoided, the macro-economic outlook is set to support a long growth period helpful across most asset classes, bonds, equities, commodities, etc.

Excess debt loads should also gradually repair in a low-interest rate environment as economic growth improves. This is the best-case scenario. The worst case is a decline into regional and global conflicts. In practice, neither extreme of the bell curve of possibilities usually arises, but something in between is where we usually land, pockmarked with surprises that economic models rarely foresee.

Inflation: The Enemy That Never Retreats

For more than a decade, inflation around the world remained at low levels. Measured as the change in price of a basket of goods over 12 months, inflation was low enough that investors had forgotten about the impact that rising prices have on their money's purchasing power.

During this period, the silent but steady increase in prices went largely unnoticed by consumers and investors alike. Notwithstanding this, we believe that inflation is the number one enemy of the long-term investor. While this dragon might have been slumbering for much of the century's second decade, it was about to wake up in a foul mood.

Starting in early 2021, inflation soared due to extensive government money-printing, COVID-19 supply chain constraints, and the effects of war. In late 2022, it reached levels many investors had never experienced in their adult lives.

For close to three years, consumers had to adjust their budgets to account for meaningfully higher living expenses. Let's explore some lessons we hope will not soon be forgotten.

Temporary Respite, Permanent Scars

In response to the inflation pain, central banks around the world raised interest rates to combat the forces driving up prices. With access to money becoming more expensive, the demand for many goods and services decreased and debt became more expensive to service.

Inflation slowly started to decline and now, two years after the high-water mark, most countries have brought inflation down to "normal" levels. In addition to helping families afford the basic necessities, it will also allow central banks to start lowering interest rates.

While headlines may celebrate declining inflation rates, it's crucial to understand that the damage inflicted is often permanent. When inflation slows, prices don't magically return to their previous levels; they simply stop rising as quickly.

New baseline prices have been set, and while short-term increases are expected to be low, the scars of the last few years will remain forever.

Looking Ahead

To learn the right lessons about this period, this truth cannot be overstated: *while inflation was temporarily high, prices have adjusted forever.*

Understanding this concept is vital because it underscores the importance of proactive financial planning. The inflation we've experienced isn't a temporary inconvenience – it is a lasting change to our economic landscape.

Rather than hoping the last three years are never repeated (an unlikely scenario), every investor can apply the lessons of this period in three immediate ways.

Firstly, we can review our personal basket of consumption. Are the goods and services we buy aligned with what brings us meaning and happiness, or are we spending excessively? Are there better ways of achieving similar outcomes? ***Living within our means will always be the foundation of financial independence.***

Secondly, are our assumptions about future inflation levels reasonable and evidence-based? Are you relying on low inflation levels to make your money last, or are you positioned to withstand regular periods of higher inflation?

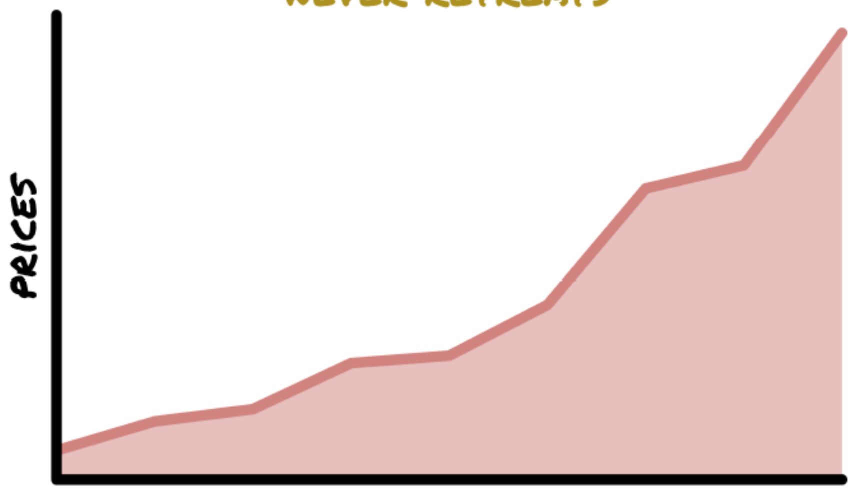
Investments That Protect Against Inflation

Finally, which investment assets are likely to best protect us from the destruction of purchasing power that inflation brings?

With money we invest for long-term income needs, we must seek investments that can outpace inflation over time. Global equities - partial ownership in publicly listed companies - **have historically proven to be one of the most effective tools in this fight**.

Well-managed companies can adapt to inflationary pressures, raising prices, improving efficiencies, and growing their value. Over the long term, this growth has typically outpaced inflation, preserving and enhancing investors' purchasing power.

INFLATION IS THE FORCE THAT NEVER RETREATS



WHEN INFLATION SLOWS DOWN, PRICES DO NOT DECLINE

Safeguard Your Purchasing Power

As we have so concretely been reminded in the last few years, the key to protecting our financial future is understanding that the true definition of money is purchasing power - **what our money can actually buy**. This is the only sane definition of money.

While inflation is a formidable foe, it's not invincible. By staying invested in assets with the potential to outpace inflation, you can protect and grow your purchasing power over time.

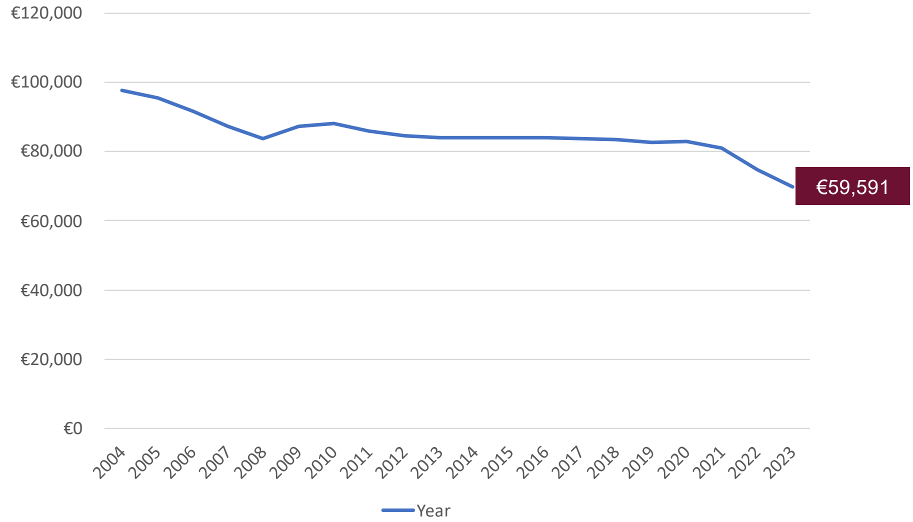
We can help you make appropriate trade-off decisions, adjust your strategy as needed, and ensure your portfolio remains positioned to combat inflation's effects.

Investment Solutions

In our tailored **Investment Portfolios** (click on the link to view) we can look back over a 25 year period to see actual real returns (net of charges) which helped protect against inflation.

The impact of inflation on your deposits

€100,000 in 2004 had a value of **€59,951** in December 2023 if left to sit in a non-interest bearing account.



Between 2004 to 2020 average the inflation rate was 1.45% p.a. For 2021 – 2023 the average inflation rate was 6.6% p.a.

Chart: Inflation data used from Jan 2004 - Dec 2023 is based on Irish CPI calendar annual change .

Our financial planning and investment process is designed to protect your assets from the impact of inflation as best possible by an evidence-based investment approach in line with your appetite for risk.

Hold your nerve

In these circumstances, as ever, the best positioning is to be diversely spread across a range of uncorrelated assets. **This requires the mindset to ride through the volatility to reach the other side.** Remaining invested in good assets through market ups and downs, without being panicked into trying to time market fluctuations is key. It is easier said than done, but better performance is the reward of the patient investor, **when often the best move, is not to make one.**

Annual Review

We would like to remind you of the importance of our annual review, which offers a valuable opportunity to assess your portfolio and ensure it aligns with your current financial needs. Life events - such as retirement, asset sales, windfalls, divorce, and significant health changes - can greatly influence your financial situation. It is important to keep us informed about any major events that may arise, so we can provide the best possible support and guidance tailored to your circumstances.

I hope you have found this update useful and we remain on hand to help with any queries.

Ronan McGrath
Managing Director
Oakwood Financial Advisors

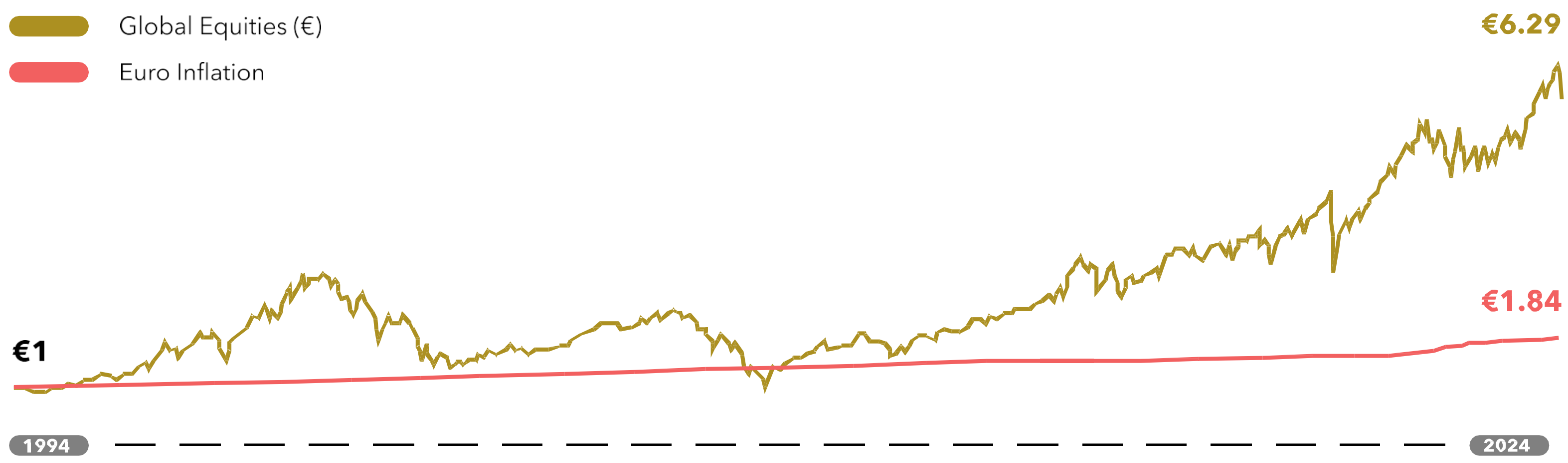
3rd Oct 2024

Inflation – The Real Enemy (updated Sept. 2024)

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

An investment in global equities has consistently provided protection from inflation. To earn this return, you had to be willing to see your investment value temporarily decline by about - 15% on average every year, without being panicked into selling. For the patient investor, the benefits of compounding of their funds have far outpaced inflation

€1 invested in 1994 grew to €6.29 by Sept 2024 – an annual average return of 7.9% with dividends reinvested.



Source: MSCI World Index from April 1994.
For illustrative purposes only.

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The funds outlined are not guaranteed.

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