



QUARTERLY MARKET REPORT

Q1 2023



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TABLE 1: MARKET DEVELOPMENTS

- Financial assets, both bonds and equities, made good gains in the first quarter of this year. This came despite some mixed news-flow at headline level, not least the bank sector upheavals in March. For equities, the most important driver was probably the resilience of economic activity, which underpinned expectations for corporate earnings growth. The IMF's January forecast for global GDP growth in 2023 was 2.9%, revised up from the 2.7% prediction made in October.
- Markets remain hopeful that we are close to the end of the monetary tightening cycle in the US and Eurozone, and that helped bond prices to stage a modest rally. Yields for most euro sovereign and investment grade bond categories were down typically 0.1% - 0.2% during the period. The benchmark ICE BofA ML Euro Sovereign > 5 Yr index registered a return of 2.8%, and the equivalent benchmark for euro inflation-linked bonds was up 3.2%.
- The US official interest rate (upper end of target range) now stands at 5.0%, after two quarterpoint hikes since the turn of the year. The ECB also increased rates twice during the period, but in half-point increments, to bring the Deposit Facility rate to 3.0%.
- The most dramatic development of the past few months was the failure of several regional banks in the US, starting with Silicon Valley Bank. This sparked a mini-panic among investors and the sector index fell sharply, as the chart below shows.

TABLE 1: MARKET RETURNS

Asset Class	Index/Proxy	Net Return in EUR	
		2023 Q1	2022
Global Equities	MSCI World Net	5.8%	-12.8%
Eurozone Equities	MSCI EMU Net	12.2%	-12.5%
Emerging Market Equities	MSCI Emerging Markets Net	2.1%	-14.9%
Eurozone Government Bonds	ICE BofA ML Euro Sovereign > 5 Yr	2.8%	-24.4%
Eurozone Inflation-Linked Bonds	Barclays Euro Govt Inflation-Linked	3.2%	-9.7%
Eurozone Corporate Bonds	iBoxx Euro Corporates	1.3%	-14.1%
Emerging Market Local Currency Bonds	J.P. Morgan GBI-EM Global Diversified	3.1%	-5%
Irish Property	Irish Life Exempt Property Fund	-1.8%	-0.3%
Commodities	Bloomberg Commodity Index Total Return	-7.1%	23.8%
EUR vs USD		2%	-5.8%

iShares US Regional Banks ETF

- In Europe, any remaining confidence in troubled Credit Suisse evaporated when the company's largest shareholder, the Saudi National Bank, declared that they would supply no fresh capital. FINMA, the Swiss financial regulator, was obliged to arrange a hasty shotgun marriage to UBS, the bank's great domestic rival.
- While the March banking turmoil was dramatic, it seems highly unlikely that a 2008-style systemic crisis is developing. The sector is much more tightly regulated and strongly capitalised than it was 15 years ago, and the recent problems were largely idiosyncratic.
- The growth equity style recovered a large part of the ground it lost in 2022. The MSCI World Growth index gained 13.1% while its Value equivalent was down 1.0%. The Technology sector in particular enjoyed a strong rally; in the US the S&P Information Technology index was up by more than 20%. Meanwhile, the global Value index was held back by the weakness of the banks, one of the largest sectors in its universe.
- The real estate sector continued to struggle even while other asset classes recovered. The FTSE EPRA/Nareit Developed index of listed property companies was down 1.0% for the period. In Ireland, direct property funds were also down for the most part; the Irish Life Exempt Property fund showed a decline of 1.8%. The changed interest rate picture is a major challenge for the sector, along with the prospect of permanently reduced occupier demand for office space.
- In that regard, a recent newspaper report on Deloitte's selection of a new Irish HQ was instructive. The company is to occupy 160,000 square feet, having originally planned for 275,000, and the building will have just 1,450 workstations to accommodate a total of 2,500 staff.

Source: FE Analytics

MARKET OUTLOOK

- Equity market valuations are reasonable by historic standards, and that underpins our belief that money invested now should achieve a decent positive return over the long term, albeit well short of the double-digit returns enjoyed for much of the past few decades.
- The outlook over the nearer term is highly uncertain. Interest rates are the most important variable in the mix. The stresses caused in parts of the banking sector by rapid monetary tightening since last year have prompted some hope that central banks will have to ‘go easy’ in the interest of preserving financial stability. As against that, inflation is proving very sticky indeed, and further policy action is needed to rein it in. While headline Eurozone inflation has come off its late 2022 peak thanks to base effects and declining energy prices, the core inflation measure continues to rise, reaching a new high of 5.7% in March. Irrespective of how aggressive or otherwise monetary policy turns out to be over the near future, we believe that uncomfortably high inflation is not going away any time soon, and that needs to be factored into all investment decisions.

This is not investment advice nor can it take account of your own particular circumstances. If you require any advice on investments, you should contact your financial planner



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