QUARTERLY MARKET REPORT

Q2 2023

SYS Group

Sophisticated Yet Simple

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TABLE 1: MARKET DEVELOPMENTS

- Most asset classes performed well in the second quarter, in spite of a challenging background of persistent inflation and monetary tightening. Global equities gained 5.7% in euro terms, with a smaller return of 2.7% from the Eurozone. In sector terms, Technology was the standout leader. The MSCI World Technology index rose by 15% in Q2, and was up more than 34% for the first six months. AI-related excitement was certainly a factor in the sector's rally, but it has pushed it to a point which looks extended by historical standards. On a forward P/E ratio of 27.0, the S&P500 Technology index is now at a valuation premium to the overall US market which has not been surpassed since the early 2000s.

- Technology was also the principal driver of the outperformance of growth against value equities. The MSCI World Growth index gained 10.0% in Q2, as against 2.6% for its value counterpart.

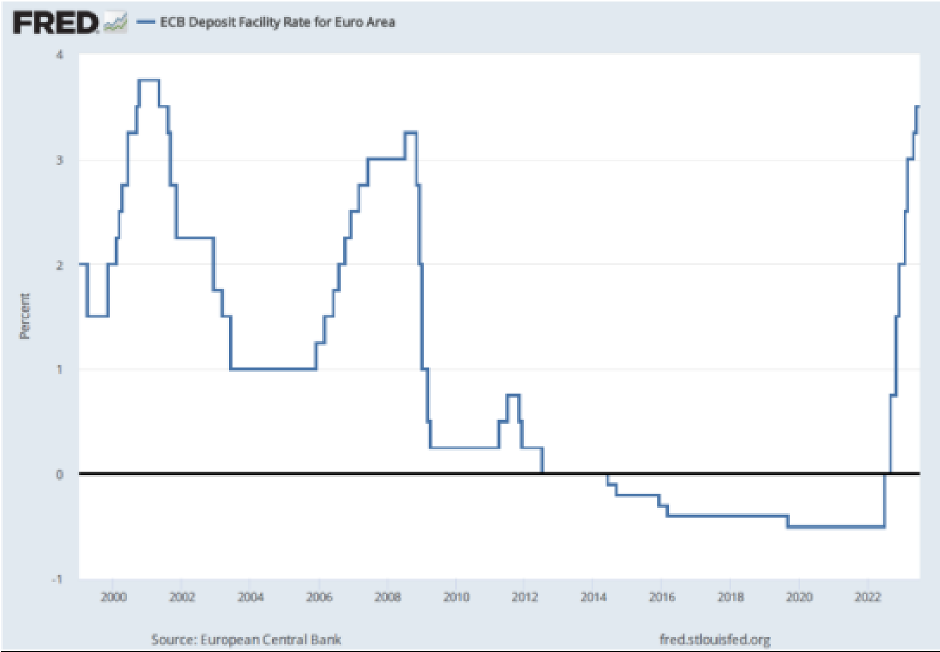
- Emerging market equities were a laggard in Q2, rising just 0.5%. China was the principal negative factor; the MSCI Emerging Markets ex-China index gained 5.6% in Q2, in line with the global trend. Investor expectations for a surge in the Chinese economy after the abandonment of zero-Covid policies have not been met. Consumers remain cautious, and the Beijing market is down some 15% from its January high.

- The first quarter ended with widespread fears of a banking crisis in the wake of three regional bank failures in the US along with the collapse of Credit Suisse. Equilibrium of sorts returned during Q2, and there is little evidence so far of a more widespread problem. None the less, the episode will almost certainly have prompted many banks to tighten lending standards, adding to the monetary squeeze on western economies. Meanwhile central banks stuck to their hawkish policy course; the Fed hiked by one quarter-point in May to bring the Fed Funds target rate to 5.0%-5.25%, while the ECB staged two quarter point hikes to bring the Deposit Facility rate to 3.5%. As the chart below illustrates, the scale and speed of the past twelve months of policy tightening is unprecedented in the 25- year history of the euro.

TABLE 1: MARKET RETURNS

Asset Class	Index/Proxy	Net Return in EUR	
		2023 Q2	2023 YTD
Global Equities	MSCI World Net	5.7%	11.5%
Eurozone Equities	MSCI EMU Net	2.7%	15.3%
Emerging Market Equities	MSCI Emerging Markets Net	0.5%	2.6%
Eurozone Government Bonds	ICE BofA ML Euro Sovereign > 5 Yr	0.4%	3.1%
Eurozone Inflation-Linked Bonds	Barclays Euro Govt Inflation-Linked	0.5%	3.7%
Eurozone Corporate Bonds	iBoxx Euro Corporates	0.7%	2%
Emerging Market Local Currency Bonds	J.P. Morgan GBI-EM Global Diversified	2.6%	5.8%
Irish Property	Irish Life Exempt Property Fund	-3.7%	-4.9%
Commodities	Bloomberg Commodity Index Total Return	-2.6%	-9.5%
EUR vs USD		-0.1%	1.9%

Chart 1 **ECB DEPOSIT FACILITY RATE 1999 - 2003**



- There was little drama in euro bond markets. Yields for the most part edged up a little, but the movement was small enough to allow small positive total returns on the major sovereign, inflation-linked and corporate indices. Elsewhere, yields saw a sharper rise; the US 10-year note went from 3.3% to 3.8%, bringing it close to the highs reached in late 2022.

- Inflation is the critical element in the macro backdrop, and there has been little cause for cheer on this front. The latest Eurozone inflation print is down to 6.1% having peaked at more than 10% last year, thanks to the softening of energy and food prices. But core inflation is the more important indicator of underlying trends, and it has remained above 5% since last October. Thus far it shows no sign of a response to the cumulative 4.0% rise in interest rates, and tight labour markets are probably the main explanatory factor in this.

- Commodity prices continued on the downward trend in place since mid-2022. The Bloomberg broad commodities index was down 2.6% in Q2, with weakness coming in both the energy and non-energy segments.

- Irish commercial property extended its downward grind. The Irish Life Exempt Property Fund – the closest to a real-time benchmark for the sector – declined by 3.7%. The decline in Ireland echoes the broader international trend, with the S&P Eurozone Property index down by 8.5% for H1 2023.

- Chart 2 overleaf shows the aggregate price-earnings ratio of global equities lying roughly in the middle of its 33-year range. It suggests that the prospective long-term return for the patient investor should be reasonable. And, after the rise in yields of the past two years, bonds are offering returns more attractive than they have been for a long time.

- However, the risk of a severe global slowdown or outright recession is high in the near term. Many indicators are pointing in this direction, including purchasing managers' survey data and the inversion of yield curves, and the delayed impact of cumulative interest rate increases is likely to further retard economic activity. Consensus profit forecasts suggest that stock markets are not priced for a recession, and they will undoubtedly suffer renewed volatility if it comes to pass.

Chart 2 **Global Stock Market Valuation 1990 - 2023**

Source: JP Morgan Asset Management

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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