

October 2019

## Market Review Q3 2019

### \* Summer time gains are easy

Quarter 3 of 2019 was no environment to sit on the bench as markets trended upwards across multiple asset classes. Political risk smouldered in the background sparking sporadically due to waspish comments from influential corners of the political sphere. July saw markets press ahead with improving signs of accord between the US and China on the protracted trade negotiations. The US Federal Reserve pledged further market support and would "act as appropriate". However, markets sold off in August as market sentiment dipped with investors underwhelmed by the cryptic announcement. Markets were further agitated by China and US applying trade tariffs resulting in flailing market performance. Amidst the market uncertainty, yields on high quality government bonds fell deeper into negative territory, with the German 10-year bund yield trending at -0.71% at one point. Moving into September, global markets once again found courage to press ahead with the US Federal Reserve cutting US interest rates, in addition to further stimulus measures announced by the European Central Bank to try combat deteriorating growth and stagnating inflation.

Global equities finished the quarter up 5.0% in euro terms. This performance was driven by more accommodative central bank action, a falling Euro versus its developed currency peers and few surprises on the downside for corporate earnings results.

### \* Inverted yield curve reappears

Q3 saw the US yield curve invert, or in simple terms, the cost of short term borrowing moving higher than that of longer term borrowing. Investors have long looked to this movement as a harbinger of an impending recession, albeit

with an unknown time horizon. With wide expectations of more accommodative central bank policy, the US Federal Reserve duly delivered, cutting interest rates by 0.25%. This did little to appease the baying crowd, however, with Donald Trump's thumbs leading the keyboard rage.

Mario Draghi, in his second last quarterly announcement as President of the European Central Bank, also jumped to the sound of the crowd's beating drum cutting interest rates into further negative territory and offering additional market stimulus. With growth and inflation flat lining the shot of adrenaline was greeted with as much enthusiasm as a child getting a new school uniform, delight to be amongst peers once again but cautious of what lies ahead.

### \* Climate change stuck between a Trump and a hard place

Driven in large part by Generation Z and Generation Alpha, large rallies were held globally highlighting Environmental, Social & Governance (ESG) factors. Whilst the focus is primarily on the effects of climate change and the need to tackle its deterioration, a more subtle question raised is whether maximising shareholder value irrespective of the ultimate cost to other stakeholders remains an appropriate mandate for companies. Baby boomers, Generation X & Millennials need to take heed, Greta is watching you.

## Active Managed Fund Highlights

Average Return for Q3 **3.7%**

Best Performer for Q3 **5.6%**  
*Davy Asset Management*

Average Return 1 Year **5.9%**

Best Performer 1 Year **10.1%**  
*Davy Asset Management*

Best over 3 years **9.2% p.a.**  
*Davy Asset Management*

Best over 5 years **9.0% p.a.**  
*Davy Asset Management*

Best over 10 years **10.1% p.a.**  
*Setanta Asset Management*

## Key Market Indices – Summary of Returns to 30th September 2019 (in Euro terms)

Asset Class	Q3 %	YTD %	1 Yr %	3 Yrs % p.a.	5 Yrs % p.a.
Cash: 3 Month Euro Bank Deposit	-0.1	-0.2	-0.4	-0.4	-0.3
Government Bonds: ML EMU Gov't > 5 Year Bond Index	5.6	15.1	17.3	3.8	5.6
LT Government Bonds: ML EMU Gov't > 10 Year Bond Index	8.4	22.7	25.2	5.1	7.9
Euro Corp Bonds: ML EMU Corporate Large Cap Bond Index	1.3	6.8	6.2	2.2	2.7
Global Equity: FTSE World Index	5.0	22.9	8.7	11.6	10.6
Emerging Mkt Equity: MSCI Emerging Markets Index	0.2	11.4	4.8	7.5	5.8
Commodities: 50% GSCI + 50% GSCI Non-Energy Index	1.0	8.4	-3.0	1.2	-5.1

# Summary of Managed Fund Returns

## Active Managed Funds – Summary of Returns to 30th September 2019

Manager	Q3 %	Rank	YTD %	Rank	1 Year %	Rank	3 yrs % p.a.	Rank	5 yrs % p.a.	Rank	10 yrs % p.a.	Rank
Friends First	3.8	4	15.9	5	5.8	4	7.7	2	7.1	4	8.6	5
Merrion Investment Managers	3.0	5	17.9	2	4.1	7	5.7	7	5.9	7	7.8	7
New Ireland	2.6	6	14.5	6	4.6	5	6.9	6	6.4	6	8.2	6
Davy Asset Management	5.6	1	19.5	1	10.1	1	9.2	1	9.0	1	9.6	3
Setanta Asset Management	2.5	7	13.3	7	4.3	6	7.3	4	8.8	2	10.1	1
Aberdeen Standard Investments	4.1	3	17.5	3	5.9	3	7.1	5	6.9	5	9.7	2
Zurich Life	4.2	2	16.0	4	6.2	2	7.7	3	7.7	3	8.9	4
<b>Average</b>	<b>3.7</b>		<b>16.4</b>		<b>5.9</b>		<b>7.4</b>		<b>7.4</b>		<b>9.0</b>	

## Active Managed Funds – Percentage Asset Allocation as at 30th September 2019

Manager	Equities							Fixed Interest %	Property %	Cash %	Alternative Assets %	Total %
	Ireland %	UK %	Europe ex ROI & UK %	North America %	Japan %	Other %	Total %					
Friends First	1.1	5.5	10.2	43.5	5.1	10.4	73.5	25.2	0.0	1.5	0.0	100.0
Merrion Investment Managers	2.3	3.2	8.8	36.9	2.4	4.6	58.3	14.9	2.6	9.8	14.4	100.0
New Ireland	1.1	3.2	22.8	30.4	5.9	5.9	69.3	17.6	4.1	9.0	0.0	100.0
Davy Asset Management	0.0	4.3	13.0	46.9	5.9	2.3	72.4	15.0	10.7	1.9	0.0	100.0
Setanta Asset Management	6.6	10.0	11.7	31.9	1.1	2.4	63.7	14.6	10.4	10.4	1.0	100.0
Aberdeen Standard Investments	0.5	5.5	14.7	37.9	5.6	7.8	71.8	24.5	4.2	-0.4	0.0	100.0
Zurich Life	0.0	4.0	13.0	43.0	6.0	4.0	70.0	29.0	0.0	1.0	0.0	100.0
<b>Average</b>	<b>1.7</b>	<b>4.8</b>	<b>13.4</b>	<b>38.7</b>	<b>4.6</b>	<b>5.3</b>	<b>68.4</b>	<b>20.1</b>	<b>4.6</b>	<b>4.7</b>	<b>2.2</b>	<b>100.0</b>

**Warning: Past performance may not be a reliable guide to future performance. While every care has been taken in collecting this data from investment managers, it has not been audited or verified for accuracy.**

## Active Managed Funds – Yearly Performance Figures

	2018		2017		2016		2015		2014
Davy	-2.0%	Aberdeen Standard	9.3%	Setanta	12.2%	Merrion	13.6%	Setanta	17.8%
Setanta	-2.7%	Friends First	8.2%	New Ireland	9.6%	Aberdeen Standard	10.7%	Merrion	16.7%
Zurich Life	-3.7%	New Ireland	7.6%	Zurich Life	6.6%	Davy	10.4%	Davy	16.2%
Friends First	-4.6%	Setanta	6.8%	Davy	6.3%	Zurich Life	9.8%	Aviva	16.2%
Aberdeen Standard	-6.9%	Davy	6.4%	Friends First/F&C	5.2%	Setanta	7.9%	Friends First/F&C	15.1%
New Ireland	-7.1%	Zurich Life	6.1%	Aberdeen Standard	1.1%	Friends First/F&C	7.4%	Aberdeen Standard	15.1%
Merrion	-8.9%	Merrion	4.4%	Merrion	-0.7%	New Ireland	6.6%	Zurich Life	15.1%
						Kleinwort Benson	6.4%	Kleinwort Benson	14.5%
						Aviva	6.3%	New Ireland	11.9%
<b>Average</b>	<b>-5.1%</b>	<b>Average</b>	<b>7.0%</b>	<b>Average</b>	<b>5.8%</b>	<b>Average</b>	<b>8.8%</b>	<b>Average</b>	<b>15.4%</b>

## Consensus Funds – Summary of Returns to 30th September 2019

Fund Name	Q3 %	YTD %	1 Year %	3 Yrs % p.a.	5 Yrs % p.a.	10 Yrs % p.a.
Friends First/F&C	2.3	15.1	5.0	7.2	7.4	9.3
Irish Life Investment Managers	3.9	17.3	7.5	8.2	8.0	9.3
<b>Average</b>	<b>3.1</b>	<b>16.2</b>	<b>6.3</b>	<b>7.7</b>	<b>7.7</b>	<b>9.3</b>

## Representative Fund Performance

### Summary of Returns to 30th September 2019

Fund Name	Type of Fund	Q3 %	YTD %	1 Yr %	3 Yrs % p.a.	5 Yrs % p.a.	10 Yrs % p.a.
Davy Global Equity	Global Equity	6.1	24.4	10.3	12.2	10.2	10.4
Friends First/F&C International Equity	Global Equity	4.7	19.5	6.4	10.6	9.2	11.0
ILIM Dynamic Global Value	Global Equity (Traditional Value Style)	2.9	16.6	3.9	8.9	10.2	11.5
KBI GI Dividend Plus Global Equity	High Yield Global Equity	4.4	16.6	1.6	7.4	7.3	11.5
KBI GI Innovator	Alternative Investment Themes/Trends	3.5	19.5	9.2	7.5	4.3	5.2
Merrion Global Equity	Global Equity	3.4	21.7	3.3	7.1	6.9	9.2
Merrion High Alpha	Concentrated Absolute Return Fund	0.1	4.6	-4.4	-1.5	1.5	2.4
New Ireland Consensus IRIS 2022+	Target Date Lifestyle Fund	1.7	9.1	4.4	4.5	4.8	7.6
Setanta Dividend Fund	High Yield Equity	4.1	16.2	8.9	8.8	8.9	11.0
Setanta Global Focus Fund	Concentrated Global Equity	-0.1	8.6	-7.0	6.0	7.7	11.2
Aberdeen Standard Investment GARS	Absolute Return Fund	1.3	5.9	3.3	0.7	0.2	3.5
Aberdeen Standard Global Equities	Global Equity	7.6	28.0	9.8	7.8	6.8	10.8
Zurich Life 5*5 Global Equity	Concentrated Global Equity	3.5	20.4	5.0	11.3	9.0	9.7
Zurich Life International Equity	Global Equity (Rotational Style)	4.8	21.8	7.1	10.7	9.9	11.2

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# Market Outlook

*Briefly outlined below are some key considerations with respect to the outlook for the economy over the remaining quarter of 2019 with a specific focus on drivers of global growth and political sentiment. Also included is a snippet from the latest edition of the Invesco Education Series.*

\* **Markets yearning for an Indian summer**

Global markets have benefitted from a two-fold support, on one side positive economic and corporate data helping support markets higher, the other being accommodative central bank policy when data disclosures have been below expectations (and not even negative) in turn pushing markets yet again, higher. This has forced government bond yields to record lows and global markets to historic highs. Whilst monetary policy intervention can continue to support this type of market environment, the gains come at an increasing cost. Increasing debt levels and a seemingly limitless ability for central banks to intervene in markets can ultimately only go so far. At a certain point in time unprofitable companies cannot continue to generate growth no matter how much debt they take on. Fiscal reform, removal of trade barriers and even allowing highly unprofitable companies to fold is needed to maintain long term stability of markets. For now, however, the evening sky remains a warming shade of crimson, with the curtains remaining closed until the sun has risen fully the next day.

\* **Environmental, Social & Governance (ESG) – Take the nudge**

ESG has been in focus more and more over recent quarters. The corporate view of ESG has grown from looking to appease a small cohort of activists to the conversation moving to a more fundamental overview of the drivers of corporate profitability. Whilst there is a range of engagement amongst companies on ESG factors, greenwashing through clever marketing material has led to the demand for action rather than mere commentary. Whilst ESG is not being taken seriously across all political circles, companies are well aware of how changes in consumer sentiment can impact their balance sheets. Implementing a full ESG approach to their business model may ultimately prove the better opportunity cost to a company's viability in the long run.

\* **Invesco Education Series – Investing in a Low Interest Rate Environment**

As part of our Q3 2019 Invesco Education Series we have provided a focused insight into the current low interest rate environment for fixed income and its impact for pension schemes. If you would like to learn more about this topic and some of the conclusions we came to - please contact your Investment Consultant. We would be happy to forward on the recently completed paper on the topic.

\* **For further information please contact:**

Neil O'Reilly ([noreilly@invesco.ie](mailto:noreilly@invesco.ie))

Finian O'Driscoll ([fodriscoll@invesco.ie](mailto:fodriscoll@invesco.ie))

Dublin 2 Sandyford Business Centre, Burtonhall Road, Sandyford, Dublin 18, Ireland  
tel +353 1 294 7600 fax +353 1 294 7635

Cork No. 6 Lapp's Quay, Cork, Ireland  
tel +353 21 480 8041 fax +353 21 451 0550

web [www.invesco.ie](http://www.invesco.ie) email [info@invesco.ie](mailto:info@invesco.ie)

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