SEASPRAY PRIVATE
Wealth Management Solutions

Monthly Investment Update
September 2021

Introduction

Sept. 2021

Since we released our Half-Year Investment Review & Outlook back in July, we have seen most of the main global equity indices continue to grind higher, with some relatively small bouts of volatility along the way while keeping the general trend of the last 18 months well intact.

With the main indices either side of the Atlantic having now rallied between 15% - 20% so far this year, we acknowledge that it would be normal to see some pullbacks as we head towards year-end and into 2022.

However, while slightly smaller gains may be expected after equities' robust run of the last year and a half, we would argue that risk assets can and should still move higher in the medium-long term. We are of the belief that stocks will continue to be driven by a combination of robust earnings growth, attractive valuations relative to bonds, an ongoing return to more normalized economic activity as a higher percentage of the global population receive their vaccines, and still-accommodative central banks who will not tighten policy carelessly and stifle economic growth in the process of doing so.

Over the course of the last month or so, we have seen a range of themes with regard to financial markets, including:

- Europe's reopening and simultaneous economic recovery, with questions arising over a potentially peaking US and China.
- Ongoing concerns surrounding the now infamous Delta coronavirus variant, vaccine efficacy with regard to Delta, and renewed lockdowns in countries with low vaccination rates.
- Inflation remaining high in many developed nations, albeit broadly expected to decline in 2022.
- Timing on a tapering of the Federal Reserve's massive bond-buying programme and what this will mean for risk assets.

In addition to these core investment themes, we have seen some interesting developments worth mentioning, from concerns about a possible peak in earnings growth in the United States, to US President Joe Biden's decision to fully pull American troops out of Afghanistan, to China tightening its technology regulations and sparking the worst sell-off in Chinese stocks since 2018 as a direct result.

While there are of course risks to growth in certain regions, we are confident that consumers will continue to fuel a strong rebound in growth and still have plenty of firepower in their pockets, while policymakers around the globe continue to provide ample support, wary of making the same mistakes they did during the recovery from the financial crisis which led to the 'taper tantrum'. We acknowledge that the early phase of this recovery may now be behind us, both for the stock market and many parts of the global economy, but ultimately, we still see scope for risk assets to move higher for the remainder of the year and into next, albeit with higher volatility ahead than we have seen in recent months.

	1 Month	3 Month	YTD	1 Year
Equity Indices				
S&P 500	2.2%	7.2%	20.8%	36.1%
DAX	0.8%	1.3%	15.8%	22.5%
EuroStoxx 50	1.4%	3.6%	19.2%	29.6%
ISEQ	4.0%	6.8%	19.8%	40.4%
FTSE	0.6%	1.5%	10.9%	20.8%
Nikkei 225	7.5%	3.4%	9.0%	28.5%
Multi-Asset Funds				
Aviva Cautious (Risk 3)	0.3%	2.6%	4.8%	9.1%
Irish Life MAPS 3	0.8%	3.5%	8.5%	13.0%
New Ireland iFunds 3	0.2%	1.2%	2.8%	5.6%
New Ireland PRIME 3	0.6%	3.4%	6.9%	9.2%
Zurich Prisma 3	0.6%	3.2%	6.7%	10.1%
Aviva Strategic (Risk 4)	0.8%	3.7%	10.1%	17.5%
Irish Life MAPS 4	1.3%	4.8%	12.2%	18.3%
New Ireland iFunds 4	0.5%	2.6%	7.3%	12.0%
New Ireland PRIME 4	1.3%	5.9%	13.0%	17.6%
Zurich Prisma 4	1.2%	6.4%	13.8%	20.9%
Aviva Dynamic (Risk 5)	1.2%	4.6%	14.6%	24.5%
Irish Life MAPS 5	1.6%	5.4%	14.4%	22.8%
New Ireland iFunds 5	0.9%	4.2%	12.9%	21.0%
New Ireland PRIME 5	1.7%	7.3%	17.7%	24.6%
Zurich Prisma 5	1.7%	8.8%	19.2%	29.5%
Currencies				
EUR/USD	0.9%	-2.4%	-2.8%	0.8%
EUR/GBP	1.5%	0.1%	-3.6%	-5.1%
GBP/USD	-0.6%	-2.5%	0.9%	6.2%
USD/JPY	-0.3%	0.4%	6.5%	3.7%
Fixed Income				
US 10yr	0.06	-0.20	0.45	0.65
Bund 10yr	0.13	-0.13	0.25	0.13
Irish 10yr	0.12	-0.16	0.36	0.15
Gilt 10yr	0.12	-0.08	0.54	0.48
Commodities				
Gold	2.8%	-4.2%	-4.9%	-7.6%
WTI Crude Oil	0.3%	-1.6%	41.1%	86.3%

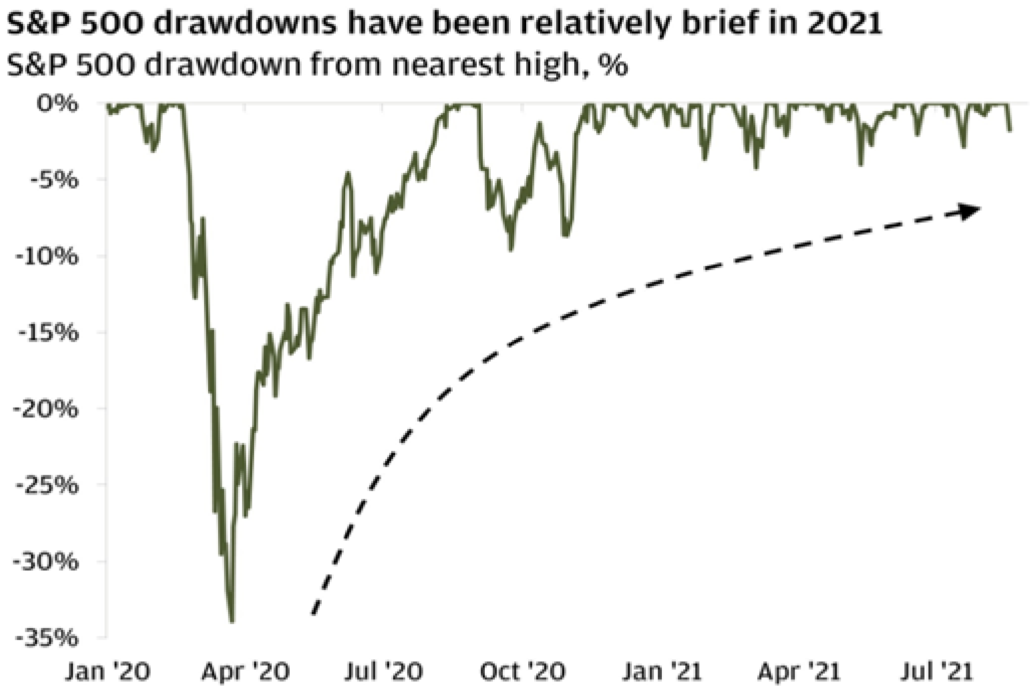
Source: Seaspray,September 2021

Equities

Equity markets have undoubtedly become expensive in absolute terms, however we would like to take this opportunity to reiterate to clients that they are still attractive in relative terms, given the low and in some cases negative yields with regard to cash and bonds.

The current low level of bond yields, in our view, justifies higher than historically average valuations in equities, and we believe global equities can trade on a 12-month forward P/E ratio of 18 to 19.5 times by the end of this year. As we alluded to during our Half-Year Investment Outlook in July, we believe that while the pace of gains should in theory slow somewhat when compared with the past 12 months, the outlook for risk assets still remains positive with upside of high single to double digits expected over the next year. This view is of course supported by attractive valuations relative to bonds, but also by robust earnings growth and forecasts, and still-accommodative central banks who will only look to pare back their highly accommodative policy if it is in a very slow and controlled manner.

If 2021 ended today, it would already be an impressive year for equities, for example the S&P 500 index is just over 20% higher year-to-date. Since 1980, the average annual return for this index has been just over 10%. We would also like to point out that the index has seen an astounding 225 trading days without a 5% pullback, which is the longest spell since 2018. Over this period, we've seen 58 new record highs, 47 of which have happened this year. This equates to roughly 1.5 new all-time highs reached per week, with the average year since 1990 having seen 19 new records.



Source: FactSet

Equities, contd…..

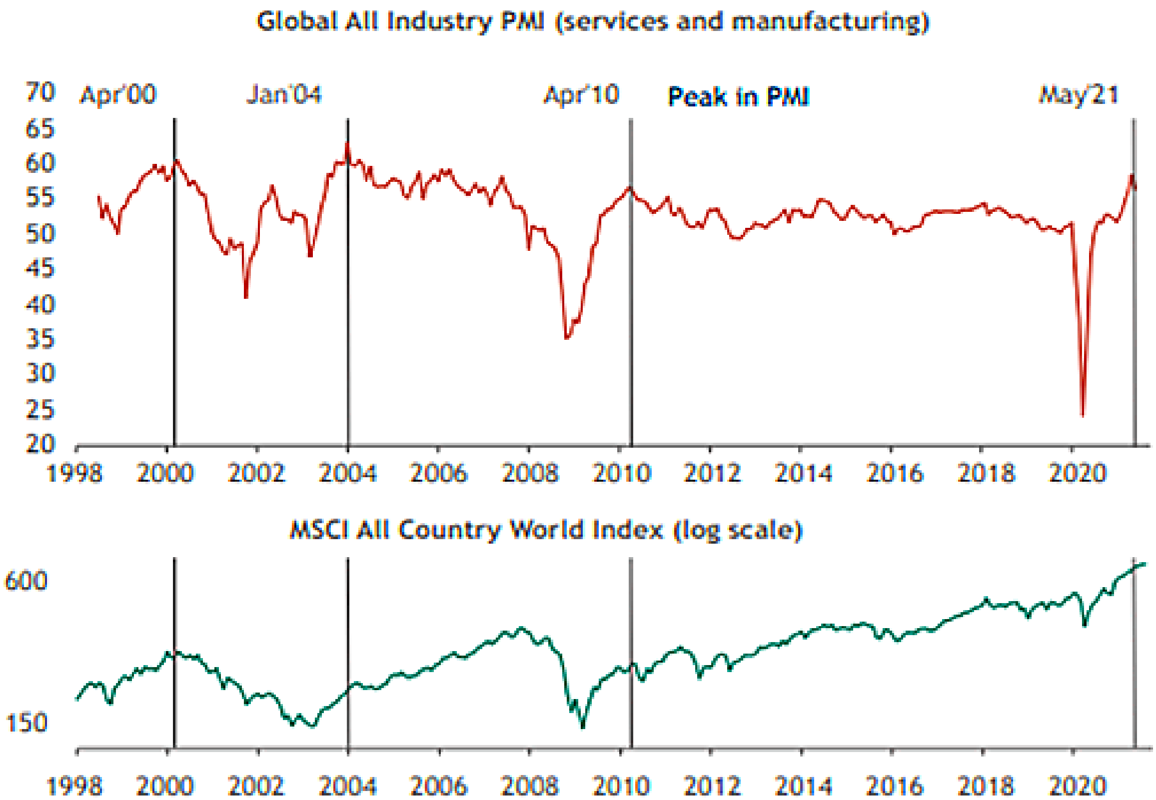
We maintain our constructive medium-longer term view on stock markets and are of the belief that the secular bull market remains intact. However, after the strong and relatively steady positive returns seen so far this year, it would not be surprising to see pullbacks at some stages throughout the remainder of 2021. Markets are expensive on an absolute basis, and we must be alert to the risks that such markets give rise to. Given our bullish stance on risk assets for the longer term, we will likely look to take advantage of any potential instances of volatility that may occur over the coming months.

As we see it, the main potential risks to the positive outlook include:

- An unexpected or early tightening of policy by one of the major central banks – likely in response to persistently high inflation.
- Significant rises in bond yields - which would diminish the relative valuation case for equities somewhat.
- A resurgence in Covid-19 cases with vaccines proving to be ineffective in treating new variants.
- Global growth failing to live up to expectations.

We see the probability of these occurring as relatively low. Given elevated valuations, volatility would be a feature of financial markets if any of these issues became a cause for concern over the next 6 to 12 months.

Even in the event that global growth does look like it has peaked and begins to turn down in the months and indeed quarters ahead, we would like to point out that in the last two business cycles, equities have still continued to rally after economic growth has peaked, as can be seen below by the Global PMI (Purchasing Managers Index) below. There is still room for equities to continue to outperform bonds if growth does slow from this point, similar to what occurred in 2004 and 2010 on the chart below.



Source: Refinitiv Datastream, Smith & Williamson Investment Management LLP

Equities, contd.....

Given the fact that we are now leaving behind the early stages of the post-Covid economic recovery, and entering a more mid-cycle type of environment, investors should move towards stocks with high-quality earnings streams in our view. We maintain our longer-term bias for high-quality companies: firms that manage their balance sheets and cash flows effectively, demonstrate strong accounting credibility and return capital to shareholders in a disciplined way.

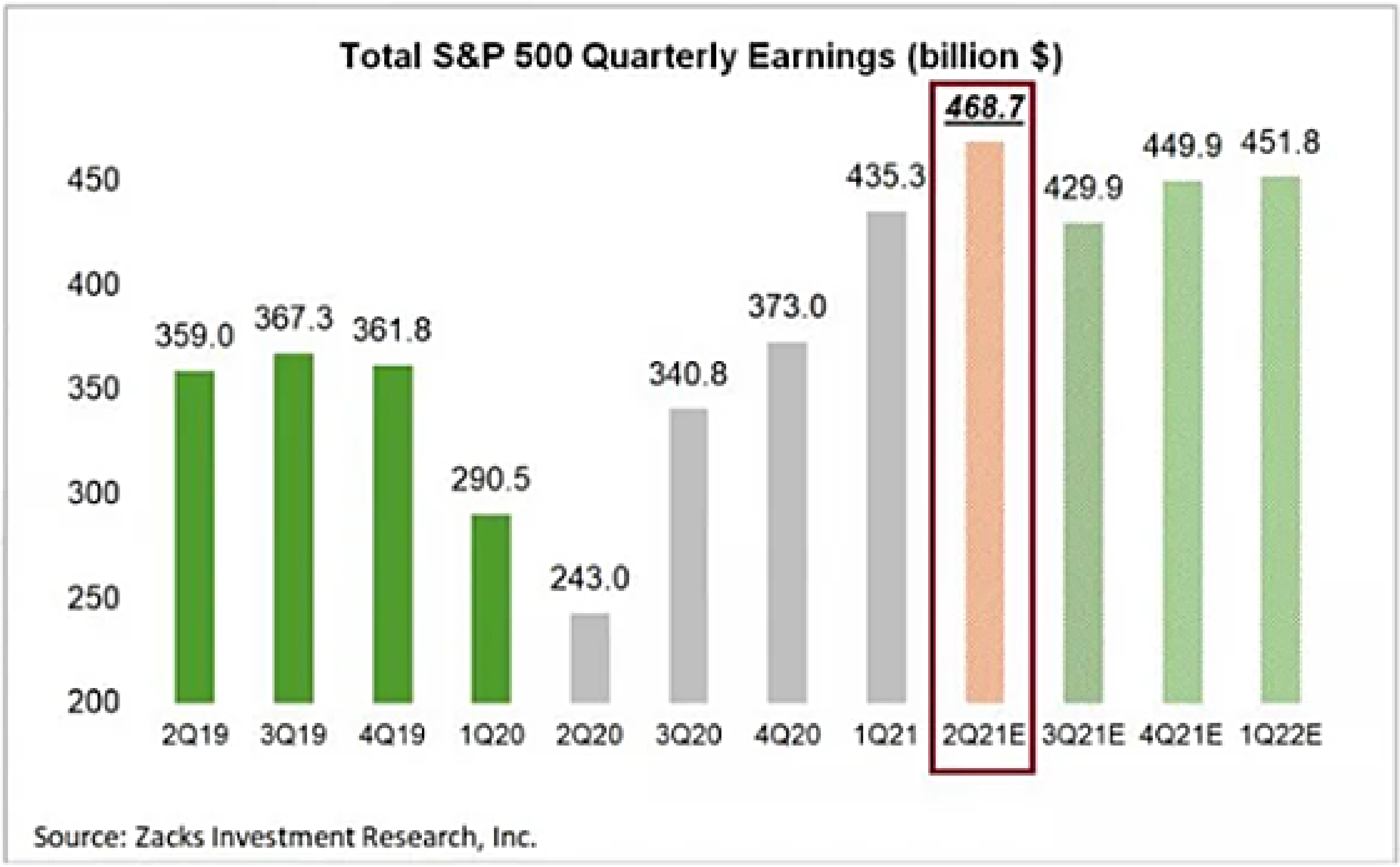
Active management becomes more important during mid-cycle environments. During early-cycle, the rising tide lifts all boats so to speak, while the market as a whole benefits from broad-based economic recovery. But as we advance into mid-cycle, broad growth slows, making themes (such as climate and ESG factors) and secular winners more important for outperformance. It is in this context that we prefer quality stocks at present, while the 'quality' equity factor also continues to see extremely strong valuation support at current levels.

We continue to see value in European equities and maintain our bias towards the region. We see a sizeable pickup in economic activity across the continent helped by accelerating vaccinations as a further boost to prices in the near-term. Valuations remain attractive relative to history and investor inflows into the region are only just starting to pick up. With regard to the United States, we are still slightly underweight, as the nation starts to see growth momentum peaking. This is an evolving situation, and we will continue to closely monitor economic data out of the US on an ongoing basis.

When we take a closer look at the Q2 earnings season just gone, we see impressive momentum on the revenue side, both in terms of growth rate, as well as the beat-of-expectation percentages. Looking at S&P 500 companies for example, earnings and revenues were up +103% and +28% y/y, respectively. The proportion of these companies beating consensus EPS and revenue estimates came in at almost 87% each. These are impressive numbers any way we look at them, but the momentum on the revenue side is particularly notable.

Equities, contd.....

The second notable feature of the Q2 earnings season relates to the magnitude of corporate profitability. The Q2 earnings growth rate has undoubtedly benefited from easy comparisons to Q2 2020 which was hit hard by the pandemic related lockdowns. But it isn't only easy comparisons, corporate profitability really is very high even though a number of sectors still have some ways to go before getting back to pre-Covid profitability levels. As you can see in the chart below, Q2 earnings reached a new all-time quarterly record, surpassing the record set only in the preceding period.

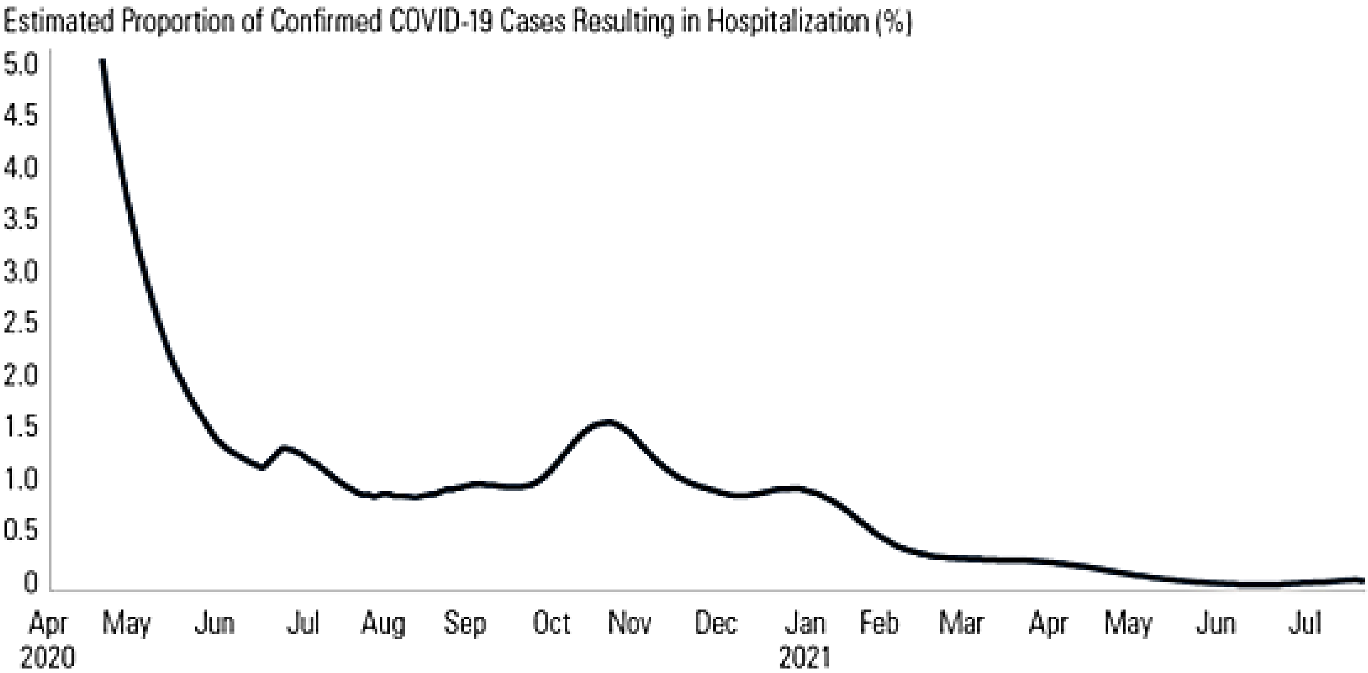


Global Economy & Inflation

Growth forecasts for the global economy have remained robust over the course of the year. In July we saw the IMF reiterate their forecasts for global growth to reach 6.0% this year, while also upgrading their forecast for 2022 to 4.9%, up from their April estimate for 4.4%. It is worth noting too that the OECD is forecasting that the global economy will grow by 5.8% this year and 4.4% in 2022, while world trade is also recovering strongly after contracting by 8.3% last year. A robust increase of 9.7% is being penciled in for trade this year by the IMF, followed by growth of 7% in 2022.

The global economic recovery and emergence from the pandemic continues this month, but some risks remain elevated still, and we are increasingly seeing investor concern that we have passed peak growth, particularly in the US. A resurgence in Covid cases and uneven vaccine rollout success have been leading to an increasingly desynchronized recovery over recent months. Some countries, notably those with relatively high vaccination rates such as the United States and Canada, the UK and parts of Europe, are learning to live with Covid but for others around the globe we cannot deny that the pandemic still remains a significant threat to economic recovery, as can be seen in Australia, Japan, and other parts of Asia.

The spread of the Delta variant in recent months poses a definite downside risk to reopening in countries with lower vaccination rates or low hospital capacities, though we see it as more of a near-term setback. We believe the recovery remains intact, supported by higher vaccination and booster shots that may help keep hospitalization rates manageable through the remainder of Q3 and into Q4. However, we note that the bar to global immunity has likely risen due to the more transmissible Delta variant, likely now requiring 80% - 90% of the population with antibodies to meaningfully reduce virus spread.

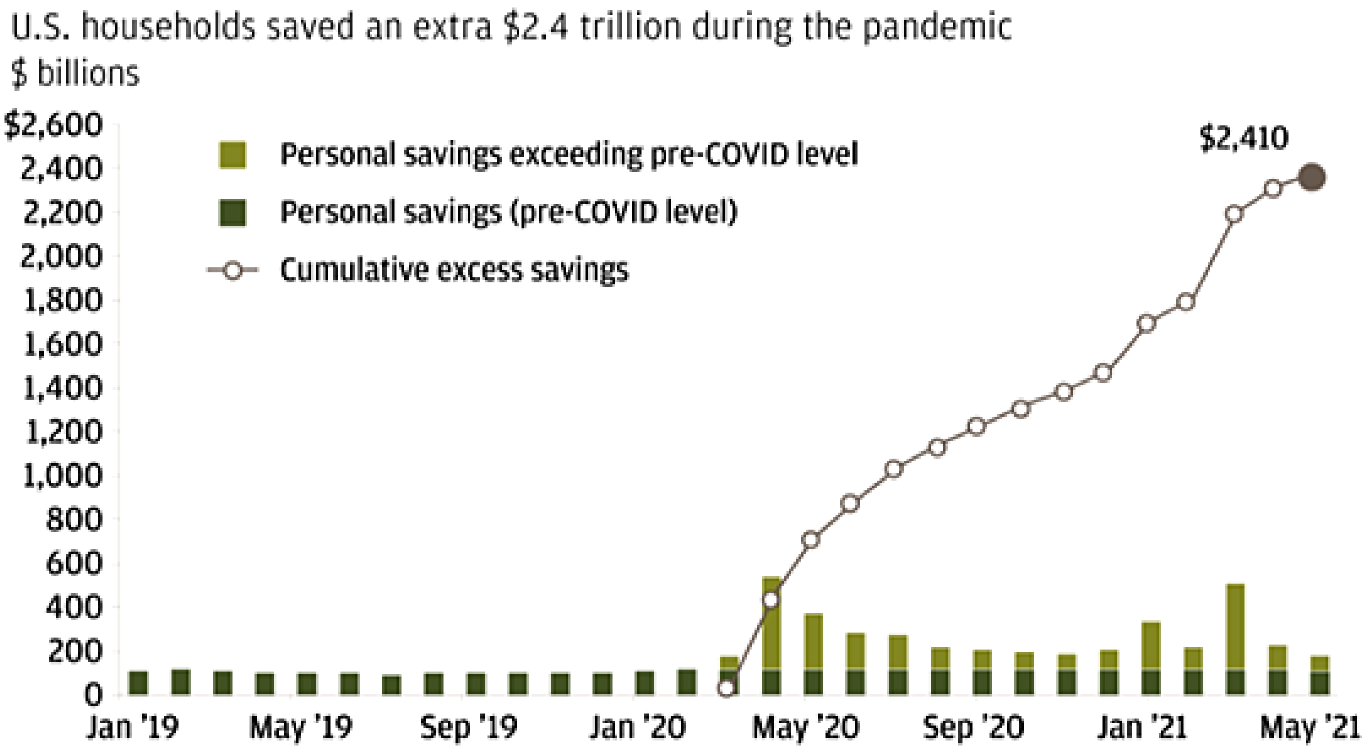


Source: Our World in Data, and Goldman Sachs Asset Management

Global Economy & Inflation, contd.....

The bottom line for investors is that as we move through time, Covid-19 will likely impact a diminishing share of the global economy. Travel stocks and oil prices, for example, will continue to react to daily and weekly new cases around the globe for the time being, and supply chains may possibly be further disrupted if factories and ports are shut down due to outbreaks. But as the virus becomes less novel and more endemic, we are of the opinion that the global economy will learn to adapt and live with it, largely because vaccines drastically reduce the risk of the most severe outcomes.

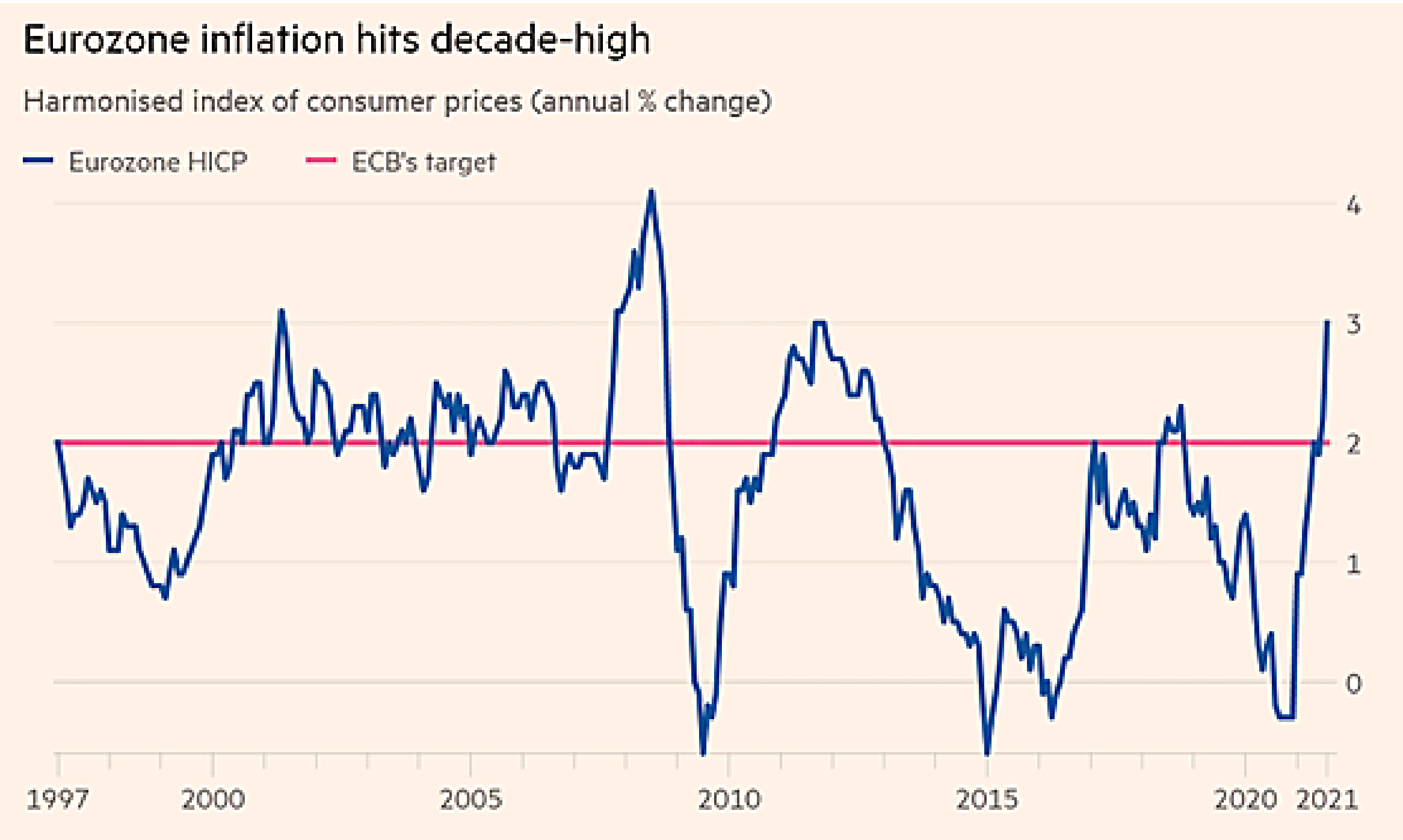
Just looking at the United States, there are reasons to believe that consumption will continue to be strong as the re-opening continues and as vaccination rates hopefully pick up further. One statistic that we recently saw is that American households have accumulated over $2.4 trillion in excess savings since the pandemic began. Surging property and stock prices also mean that wealth is generally at all-time highs, in the States along with many other developed nations. The bar chart below shows US monthly personal savings from January 2019 through to May of this year. Pre-pandemic, we can see that collective personal savings consistently lingered around the $100 billion mark, with the onset of the virus having undoubtedly sparked an increase in savings.



Source: Goldman Sachs Asset Management

Global Economy & Inflation, contd.....

Moving on to inflation, last week we saw the Eurozone's key inflation reading jump to 10-year highs, with further rises likely to come in the months ahead according to many analysts in the region. The August HICP (Harmonised Index of Consumer Prices) result came in at a robust 3.0% y/y versus estimates for 2.7% and the previous month's 2.2%, equating to decade highs for the Eurozone. This inflation result, which is well above the ECB's 2% target, will certainly catch the attention of policymakers and may begin to challenge their commitment to look past what they deem to be a temporary price increase, should it persist. Investors will now pay close attention to any communication around inflation or even a possible tapering of the ECB's Pandemic Emergency Purchase Programme (PEPP) when the central bank meets and releases its latest monetary policy report on September 9th.

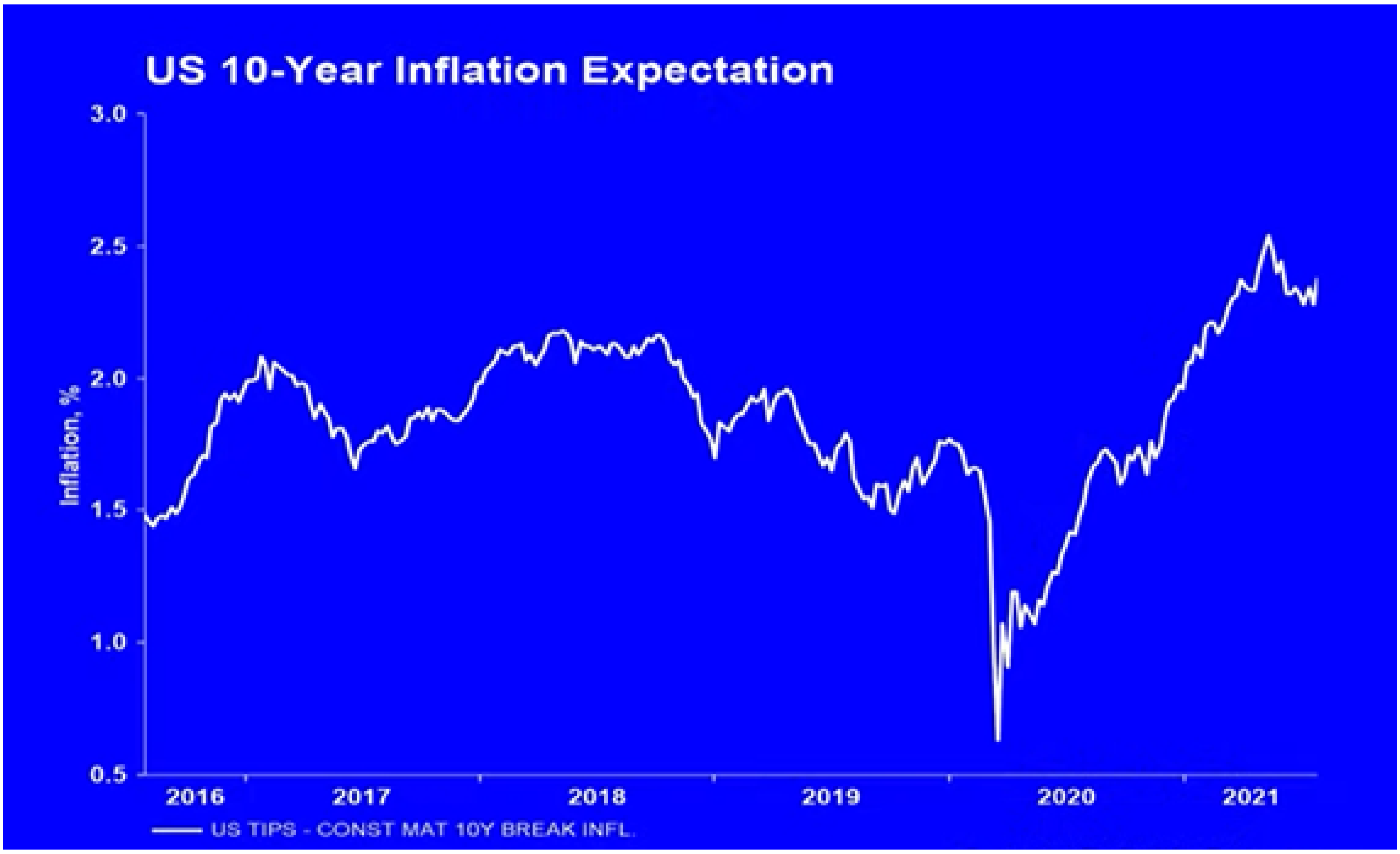


Source: Financial Times

In the US and UK, we have seen inflation results come in broadly in-line, or below expectations over the past month or so, as their economies begin to cool off slightly after the relatively early lifting of restrictions earlier this summer in both of these regions. Recent data has seen the United Kingdom's year-on-year CPI result come in at 2.0% for the month of July, versus analysts' forecasts for 2.3% and the previous month's 2.5% multi-year high figure.

Similarly Core CPI, which measures the same data minus volatile items such as food and energy) for the UK missed consensus expectations, at 1.8% y/y vs 2.0% forecasts.

The United States told a similar story over the past month, with its Core PCE reading coming in as expected at 0.3% m/m for July vs June's 0.5%. Core PCE, which is the Federal Reserve's preferred measure of inflation in the States, has now seen three consecutive lower results since its 0.7% m/m peak back in April. Looking at the result on a y/y basis, the figure came in at 3.6% when compared with the same month last year, this result was in line with forecasts and with the previous month's reading. We note that 10-year inflation expectation in the States, while they have pulled back slightly in recent months, still remain around 2.3% as can be seen on the below chart.



Source: Refinitiv Datastream

Monetary Policy

Federal Reserve

Towards the end of July we saw the Federal Reserve's latest monetary policy meeting and subsequent release, during which the central bank announced that it had made "progress" towards its twin objectives of full employment and 2% average inflation in the US, however that it was not yet sufficient to warrant any change to policy at present. The American central bank pointed to the fact that any tapering of its massive asset-purchasing programme would require additional improvements in the country's economy, with the Fed Chair Jerome Powell indicating that there was more "ground to cover" before they will act. "We expect further progress, and we expect that if things go well then we will reach that goal" he stated, "And when we reach it, and the committee is comfortable that we have reached it, then we'll taper at that point". We note that July's meeting came at a time of conflicting signals from the US economy, with inflation running hot in the region but the spread of the Delta variant also renewing concerns about the US' labour market and growth.

Following the Fed's July meeting, markets began to turn their attention to the Jackson Hole Symposium, usually held in Wyoming but mostly conducted virtually this year, and in particular to Jerome Powell's speech on the Friday of the three-day event. Expectations had initially built with investors predicting some specific announcement on the timing of a formal announcement on the commencement of tapering of the current $120 billion per month asset purchasing programme. In advance of Powell's speech, a number of non-voting members of the Federal Reserve had publicly called for the tapering of asset purchases, which only served to further increase the focus on Powell's speech. In the end, the Fed Chair's update gave little by way of clear messaging on the timing of any tapering announcement and that the Fed would continue to evaluate the incoming economic data and the possible economic impact of the rising Delta variant cases in the US before making a final decision on the matter.

While the minutes from the Fed's July meeting did point out that many policymakers at the central bank would be open to beginning asset-purchase tapering before the end of the year, we see the pace of tapering as being relatively slow which will mean monetary policy accommodation will remain in place for some time to come and that in any event the first rate hike in the US will likely not occur until well into 2022 or possibly 2023. As a result, we see it as likely that favourable conditions will remain in place for risk assets for the rest of the year and into next.

European Central Bank

The ECB released its latest monetary policy report and rate decision on July 22nd, during which the central bank's president Christine Lagarde and her policy committee opted to leave the ECB deposit rate unchanged at -0.50%, as was broadly expected by market participants. Aside from leaving its key interest rates unchanged, the ECB also maintained the size of its Pandemic Emergency Purchase Programme (PEPP) at €1.85 billion, Lagarde making comments that there was no discussion or debate on any changes to the programme. Markets were reassured when the central bank reiterated its guidance that it expects these asset purchases to continue "until at least the end of March 2022, and in case, until it judges that the coronavirus crisis phase is over".

As we covered in our Half-Year Investment Review, the ECB's most recent update to its macroeconomic projections were released at its previous meeting in June. It expected, at the time, that the continued progress in the European vaccination campaign would allow for a further easing of public restrictions, which in turn would help to underpin a rebound in activity over the course of the year.

It revised higher its growth expectations for 2021-22, while leaving its projection for 2023 unchanged. For 2021, the ECB is currently forecasting 4.6% GDP growth (up from the previous 4%), followed by 4.7% (up from 4.1%) next year and 2.1% in 2023.

At the central bank's next meeting, on September 9th, we will see updated economic projections for the third time this year, with one final update to come in mid-December.

A Final Word on the Climate

During the second week of August, we saw the release of the Intergovernmental Panel on Climate Change's (IPCC) sixth assessment report, which focused mainly on the physical science and consequences of climate change. A stark and frankly concerning result from the findings was that human-caused climate change is increasing temperatures on our planet at a faster rate than practically all previous IPCC scenarios considered, and rigorous emissions reductions are now vital. The report describes both the current condition of our climate and a few possible future scenarios, while also pointing to the inconvenient truth that the current frequency and intensity of severe weather events such as storms, droughts, and heatwaves have increased as both stand-alone and compound events.

In our view, the report's conclusions support an already emerging reality: the physical effects of climate change on our lives are growing, and indeed these effects will touch on many areas of our economies, societies, laws, and cultures. Increasingly, companies will need to be prepared to address climate change in an integrated fashion that considers matters such as human rights, biodiversity, energy, and environmental justice. This supports the need for varied and sophisticated solutions that consider both a company's current reality and the value it currently provides to the economy and its stakeholders.

At Seaspray we are of the opinion that we are still in the early stages of a secular bull market with regard to sustainable investing, and the full consequences of this shift to sustainability are not yet in market prices. We have had for some time, and continue to have, a strong focus on ESG investments that are likely to benefit from the transition to a low-carbon economy and which are likely to outperform core equity markets during this shift in the years and quite possibly decades to come. We see two main aspects in the inevitable climate transition: technology and policy. The tech transition has already begun in some key sectors such as utilities and autos, and as the window to achieve 'net-zero' by mid-century narrows, we expect policy levers to be pulled harder, which in turn could result in a more abrupt transition.

A Final Word on the Climate contd...

The climate conversation has moved to a net zero as a minimum - and this means that many companies across the globe will have to drastically reduce the emissions associated with their operations, products and services – regardless of their sector.

Increasingly, companies will need to be prepared to address climate change in an integrated fashion that considers matters such as human rights, biodiversity, and energy and environmental justice. As we move into Q4, a key focus for the team at Seaspray is the creation of structured investment solutions for clients, with the long-term investment theme:

Promoting best environmental practices through exposure to companies that are transitioning from a high carbon footprint to a low carbon footprint:

- A strategy based on the energy transition, aiming at a positive impact for the climate.
- A clear focus on companies in the Eurozone.
- The selection methodology based on a unique Climate rating process that takes into account:

✓ Carbon performance
✓ Environmental commitments
✓ The ability to offer products and services that are compatible with a carbon-reducing economy.

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