Life \ Pensions \ **Investments**

End of Quarter Reflection
April 2022

At the start of 2022, we reported that equity markets had ended the previous year strongly and were hitting new highs in early January. Easing concerns on the impact of Omicron and a firm economic backdrop were the key drivers. However, as the quarter progressed investors were faced with new challenges around the unfolding crisis in the Ukraine, stubbornly high inflation and a tougher stance adopted by the US Federal Reserve to rein in inflation expectations. Here, we present our reflections on the implications of this new investment landscape for investors and how we have responded in our portfolios.

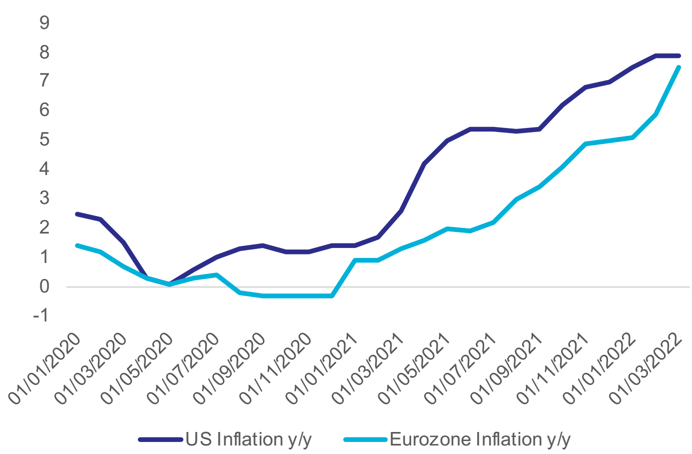
Anthony MacGuinness
Chief Investment Officer
Irish Life Investment Managers (ILIM)

So, what has changed?

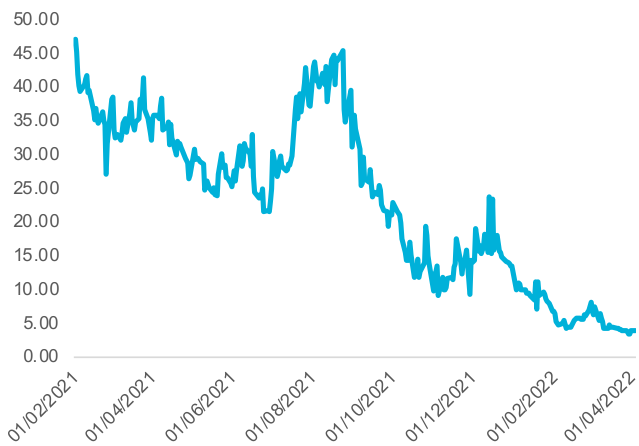
From a macroeconomic perspective, underlying inflation pressures have been greater than expected; February headline inflation hit +7.9% in the US and, during March, inflation hit +7.5% in the Eurozone. Since the Russian invasion of the Ukraine, commodity prices have soared by 33.1% through Q1 with Brent oil +38.7%, European gas +84.2% and wheat +29.9%. Not surprisingly, these moves have added materially to inflation pressures, with global forecasts for 2022 rising by over 2% during the first quarter of the year alone.

In response, central banks have adopted a tougher stance with a renewed focus on reigning in inflation and re-anchoring inflation expectations. With this has come a meaningful shift in Central Bank guidance towards a faster pace of interest rate hikes going forward. Expectations for the US Fed funds rate in December 2022 have now risen from 0.75% to 2.25%. Meanwhile, in the Eurozone, the market is forecasting a deposit rate of 0.60% in 12 months' time, up from -0.50% currently.

Inflation



Forecast (in months) to the first ECB rate increase



Source: ILIM.

> "In contrast to bonds, global equity markets, although volatile, have proven relatively resilient through Q1."

This higher inflation backdrop and inclination to raise rates from the US Federal Reserve and European Central Bank has seen bond yields move sharply higher over the quarter. US 10-year yields have risen from 1.51% in December 2021 to 2.34% currently. At the same time, the German 10-year yield is up from -0.18% to 0.55% and investment grade corporate bonds fell 5.3%. Were it not for the downward revision to global growth forecasts due to the Russia/Ukraine crisis, yields could be even higher. Indeed, this higher interest rate environment may be an opportunity for DB pension schemes to review their risk management and hedging strategies to ensure they are appropriately positioned. We feel this higher rate environment may present opportunities for schemes to consider de-risking by increasing duration and improve the matching of liabilities.

In contrast to bonds, global equity markets, although volatile, have proven relatively resilient through Q1 and are only down -4.6% in local currency terms as of 31st March. Having hit a low of -12.1% in local currency terms in early March, equities have recovered as some of the worst fears around the growth and inflation impact of the Ukrainian crisis have not come to pass.

Geopolitical events are unpredictable by their nature and our primary concern is for an early and democratic outcome to the humanitarian crisis in the Ukraine. From a portfolio perspective, we recently changed our small overweight position in equities to a small underweight to reflect less attractive valuations of equities relative to bonds, growth and policy headwinds indicated by a flatter yield curve, inflation concerns and our near term expectation of continued high levels of volatility across markets. However, our longer-term view remains unchanged. We believe that by staying invested and well diversified through the short-term volatility, we can deliver better long-term outcomes. We regularly update clients on our thinking – if you have missed out or would like to catch up, please visit **www.ilim.com/market-insights** or contact your ILIM or Irish Life representative.

Anthony MacGuinness
Chief Investment Officer

Irish Life Assurance is regulated by the Central Bank of Ireland.

Irish Life Investment Managers Limited is regulated by the Central Bank of Ireland

Past performance, forecasts and simulated performance may not be a reliable guide to future performance

Investments may fall as well as rise.

Changes in currency exchange rates may have an adverse effect on the value, price or income of the product.

This material is for information only and does not constitute an offer or recommendation to buy or sell any investment and has not been prepared based on the financial needs or objectives of any particular person. It is intended for the use of institutional and other professional investors.

Contact us

Phone (01) 704 1200
Fax 01 704 1918
Website www.ilim.com
Write to Irish Life Investment Managers, Beresford Court, Beresford Place, Dublin 1

Irish Life Investment Managers is regulated by the Central Bank of Ireland. Irish Life Investment Managers Limited is registered as an Investment Adviser with the Securities and Exchange Commission (the “SEC”). Irish Life Investment Managers Limited holds an International Adviser Exemption in Manitoba and Ontario pursuant to NI 31-103. This material is for information only and does not constitute an offer or recommendation to buy or sell any investment and has not been prepared based on the financial needs or objectives of any particular person. It is intended for the use of institutional and other professional investors.