Irish Life

Life | Pensions | **Investments**

July 2022 in review
Summit Investment Funds

Helping people build better futures

Summit Investment Funds plc is authorised in Ireland and regulated by the Central Bank of Ireland

MARKET REVIEW

Stocks and bonds rallied in July. A perceived policy pivot from the US Federal Reserve (Fed) led markets to lower interest rate expectations, pricing in interest rate cuts from major central banks in early 2023. This supported risk assets and allowed investors to recoup some of their heavy year-to-date losses across both equities and bonds. Across Europe, ongoing fears of an energy supply cut-off from Russia led to a further spike in European gas prices, which hit €215/megawatt-hour intra-month. The US Fed and European Central Bank (ECB) delivered 0.75% and 0.50% interest rate hikes respectively as they sought to bring inflation back to their 2% targets. The euro fell below parity against the US dollar intra-month; risks to the eurozone economy were heightened by an ongoing weaponisation of Russian energy supplies and political uncertainty in Italy.

MARKET ROUND-UP

Equities

Over the month, the MSCI AC World equity index rose 7.1% (9.7% in euros). US equities outperformed, rising 9.3% (12.1% in euros), as falling bonds yields supported equity markets. The UK underperformed following several months of outperformance, rising 3.5% (6.4% in euros), as energy and commodity stocks were relatively weak as oil and commodity prices fell over the month. Japan rose 4.0% (8.4% in euros) as weakness in the Japanese yen supported equity markets. The Pacific Basin rose 2.8% (6.5% in euros) as weakness in commodity and energy prices led the region to underperform the broader market. European equities were strong, rising 7.0% (8.0% in euros), as the ECB unveiled its new anti-fragmentation tool.

Bonds

The Eurozone >5-year bond index rose 5.9% as yields fell on intensifying growth fears and comments from the US Federal Reserve (Fed) on slowing the pace of rate hikes. The German 10-year yield fell over 0.5%, ending the month at 0.82%. High yield corporate bonds rose 5.8% as yields fell 1.12% to 6.82%.

Currencies and commodities

The euro fell -2.5% against the dollar to 1.022 as risks to the eurozone economy were heightened by an ongoing weaponisation of Russian energy supplies and political uncertainty in Italy. Commodities were flat (2.5% in euros), bringing their year-to-date return to 35.7% (51.4% in euros). A fall in oil prices and broad-based weakness across many commodities was partly offset by a very sharp rise in European gas prices. Crude oil was down -6.8% amid slowing global growth, while European gas rose 32.1% as Russia cut supplies via Nord Stream 1. Pressure on food prices eased as Russia, Ukraine, the United Nations, and Turkey signed a deal to reopen three Ukrainian Black Sea ports – which have been closed since Russia's invasion in February – for grain. Gold fell -2.4% as risk appetite returned to markets following a perceived policy pivot by the US Fed.

MARKET SNAPSHOT

Market returns (EUR)

Equity Markets (EUR)	MTD Return (%)	YTD Return (%)	2021 Return (%)
MSCI Ireland	9.8	-23.0	17.1
MSCI United Kingdom	6.4	5.5	27.5
MSCI Europe ex UK	8.0	-10.2	25.4
MSCI North America	11.9	-3.5	36.6
MSCI Japan	8.4	-5.8	9.8
MSCI EM (Emerging Markets)	2.4	-8.1	5.2
MSCI AC World	9.7	-4.5	28.1
10-Year Yields	**Yield Last Month (%)**	**2021 Yield (%)**	**2020 Yield (%)**
US	2.65	1.51	0.91
Germany	0.82	-0.18	-0.57
UK	1.86	0.97	0.20
Japan	0.19	0.07	0.02
Ireland	1.46	0.24	-0.30
Italy	3.01	1.17	0.54
Greece	2.96	1.34	0.63
Portugal	1.84	0.47	0.03
Spain	1.92	0.57	0.05
FX Rates	**End last month**	**2021 Rates**	**2020 Rates**
U.S. Dollar per Euro	1.02	1.14	1.22
British Pounds per Euro	0.84	0.84	0.90
U.S. Dollar per British Pounds	1.22	1.35	1.37
Commodities (USD)	**MTD Return (%)**	**YTD Return (%)**	**2021 Return (%)**
Oil (WTI)	-6.8	31.1	55.0
Gold (Oz)	-2.4	-3.5	-3.4
S&P Goldman Sachs Commodity Index	0.0	35.7	40.4

Source: ILIM, Bloomberg. Data is accurate as at 1 August 2022.

MARKET OUTLOOK

Irish Life Investment Managers' (ILIM's) view – looking ahead

The outlook for equity markets over the next 12 months is dependent on several factors, including central bank policy, growth, inflation (both expected and realised) and the evolution of the Russia/Ukraine crisis.

Equities have declined year-to-date as central banks have tightened policy, bond yields have risen, and growth forecasts have fallen. Post the falls, equities now look attractive on an absolute valuation basis, trading on a 12-month forward price-to-earnings (P/E) multiple of 15.0x against a long-term average of 16.0x.

If consensus economic and earnings forecasts prove to be correct and we are just in a mid-cycle slowdown, there is double-digit upside in equity markets on a one-year view. A moderation in inflation with no additional policy tightening beyond what is currently discounted in markets would also be supportive.

However, equities continue to face several headwinds. Due to the persistence of high inflation, central banks continue to tighten policy and withdraw the policy accommodation that has been supportive of equity markets in recent years. Given the significant rise in bond yields, equities are no longer cheap on a relative valuation basis and are expensive on some measures versus bonds. Earnings are at risk of being downgraded due to margin pressures from input and labour costs.

For equities to begin to recover from their year-to-date falls, investors need to believe that we are at the peak of policy tightening and that growth risks are fading. Given the risks around inflation and central banks' policy responses, potential downside in growth and earnings forecasts, the failure to find resolutions to geopolitical issues and the removal of the undervaluation of equities versus bonds in the higher yield environment, we see risks in equities as still being skewed to the downside.

Navigating equity markets is difficult, even in a benign environment, but it has become more arduous in the current backdrop with heightened uncertainty on many issues. As a result, the increased volatility evident this year is likely to continue. While our outlook for equity markets suggests limited upside in the short term, the outlook remains positive over the medium to long term, with upside of approx. 5% per year expected on a 5-10-year view.

Outlook dependent on economic and earnings growth. Uncertainty evident post Russia's invasion of Ukraine. Monetary policy support is being removed at a faster pace than expected.

Global economy contracted in 2020 by -3.6% with a rebound of 6.0% in 2021. Growth of 2.6% is expected in 2022 post recent downgrades. Rising risks of a recession in 2023 given tighter monetary policy, high inflation, falling business and consumer confidence.

Russia/Ukraine, Covid-19, monetary policy tightening, fiscal stimulus, inflation developments, energy prices and supply chain issues will all be key for growth.

Equity valuations in absolute terms have fallen below long-term averages, although, when more realistic earnings growth assumptions are used, they are closer to the long-term average of 16.0x. Equities' relative undervaluation against bonds has been reduced with the rise in bond yields YTD.

Following the downgrades to growth forecasts, expected downward revisions to earnings and the rise in bond yields YTD, equity markets appear close to fair value with limited upside. Risks appear skewed to the downside.

Volatility likely to remain a feature due to uncertainty over impact of Russia/Ukraine crisis, risks around inflation, tighter monetary policy, slower growth, Covid variants and other geopolitical risks.

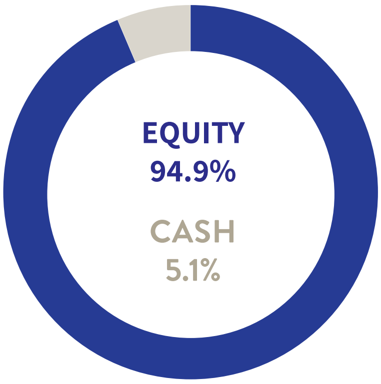
SUMMIT GROWTH FUND

The Summit Growth Fund aims to achieve growth by investing exclusively in global equities. From July 2014, equity management has been sub-advised to Setanta Asset Management. Equities are managed under the Setanta Global Equity Strategy.

Fund update for July

The Summit Growth Fund returned 5.8%, net of fund management fee, over July. From a sector perspective, Consumer Discretionary, Energy and Materials and Consumer Staples were the best performing sectors. The Infrastructure and Healthcare sectors lagged over the month. The stocks contributing most to the fund's return during the month were Costco Wholesale, Microsoft and Berkshire Hathaway. The stocks that detracted most from the fund's return were Tencent Holdings, Playtech Plc and Bank of Ireland Group.

Asset allocation

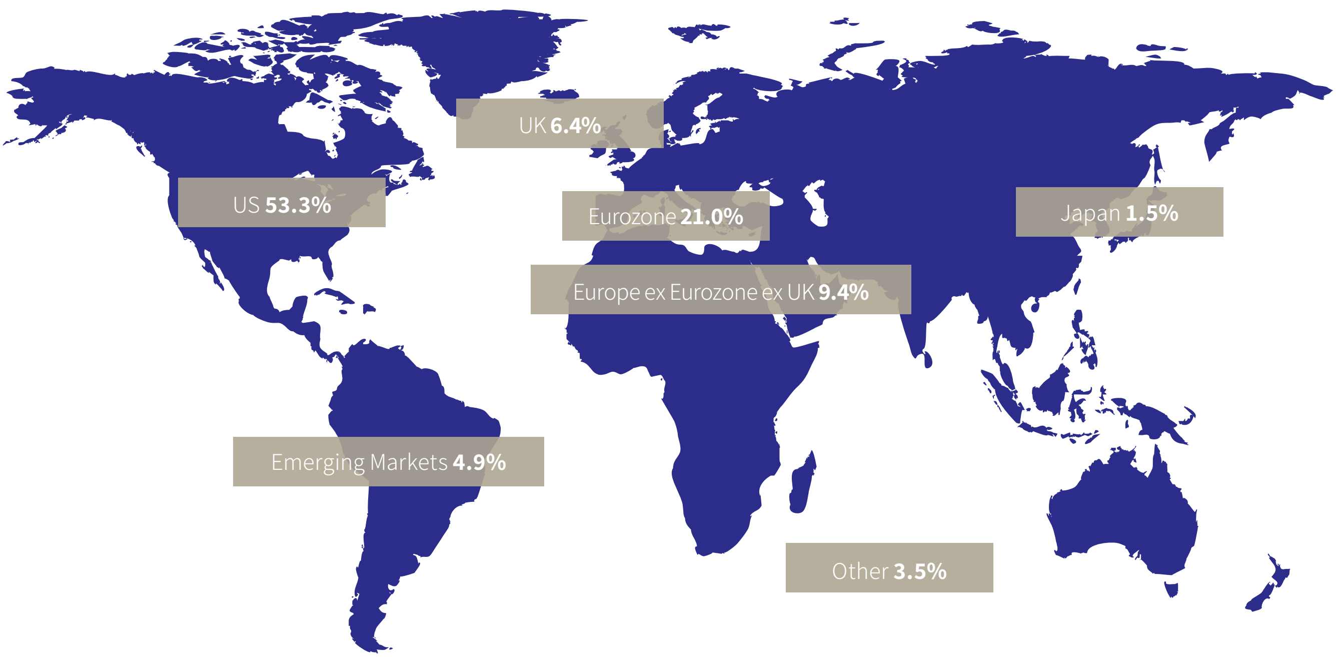


Top Ten Share Holdings

Stock name	% of fund
Microsoft	4.5
Berkshire Hathaway	3.5
McDonald's	3.1
Alphabet	3.1
Costco Wholesale	2.9
Oracle	2.8
Johnson & Johnson	2.5
Samsung Electronics	2.3
Keysight Technologies	2.1
DCC	2.1

Source: ILIM, Factset. Data is accurate as at 31 July 2022.

Share regional distribution



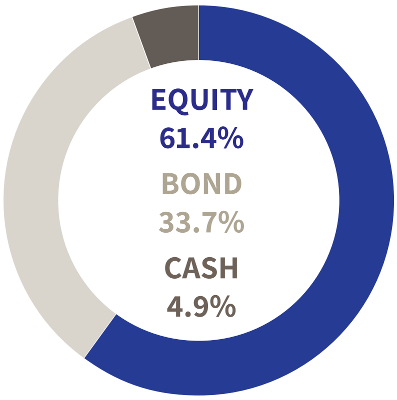
SUMMIT BALANCED FUND

The objective of the Summit Balanced Fund is to avoid excessive volatility, while still providing solid returns over the medium to long term. The Fund invests in global equities but also maintains a minimum of 33% invested in a mix of fixed income and cash. From July 2014, equity management has been sub-advised to Setanta Asset Management. Equities are managed under the Setanta Global Equity Strategy.

Fund update for July

The Summit Balanced Fund returned 4.8%, net of fund management fee, over July. From a sector perspective, Consumer Discretionary, Energy and Materials and Consumer Staples were the best performing sectors. The Infrastructure and Healthcare sectors lagged over the month.

Asset allocation



Top Ten Share Holdings

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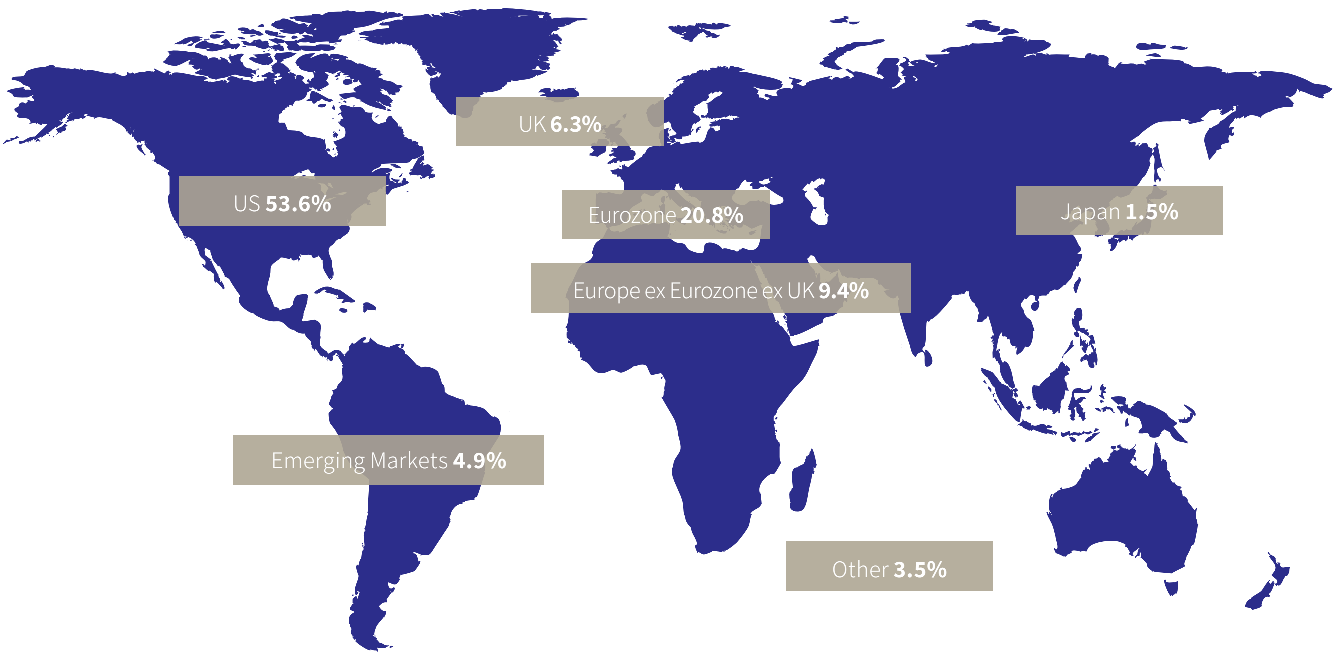
Alphabet	3.1
Costco Wholesale	2.9
Oracle	2.8
Johnson & Johnson	2.6
Samsung Electronics	2.3
Keysight Technologies	2.1
Nike	2.0

Source: ILIM, Factset. Data is accurate as at 31 July 2022.

Share regional distribution



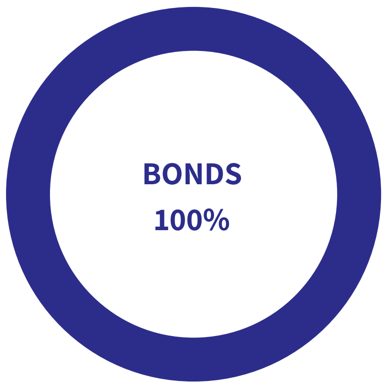
SUMMIT STABLE FUND

The Stable Fund invests in short-term eurozone government debt and cash.

Fund update for July

The Summit Stable Fund returned 0.18%, net of fund management fee, over July as core bond yields rallied from the high levels seen in the first half of the year. Worries about a recession grew in Europe following the ECB's first interest rate hike in over a decade. With inflation still high, investors are assuming that the ECB will be forced to tighten monetary policy further; at the end of July, there were expectations that the base rate would reach 1% by the end of 2022.

Asset allocation



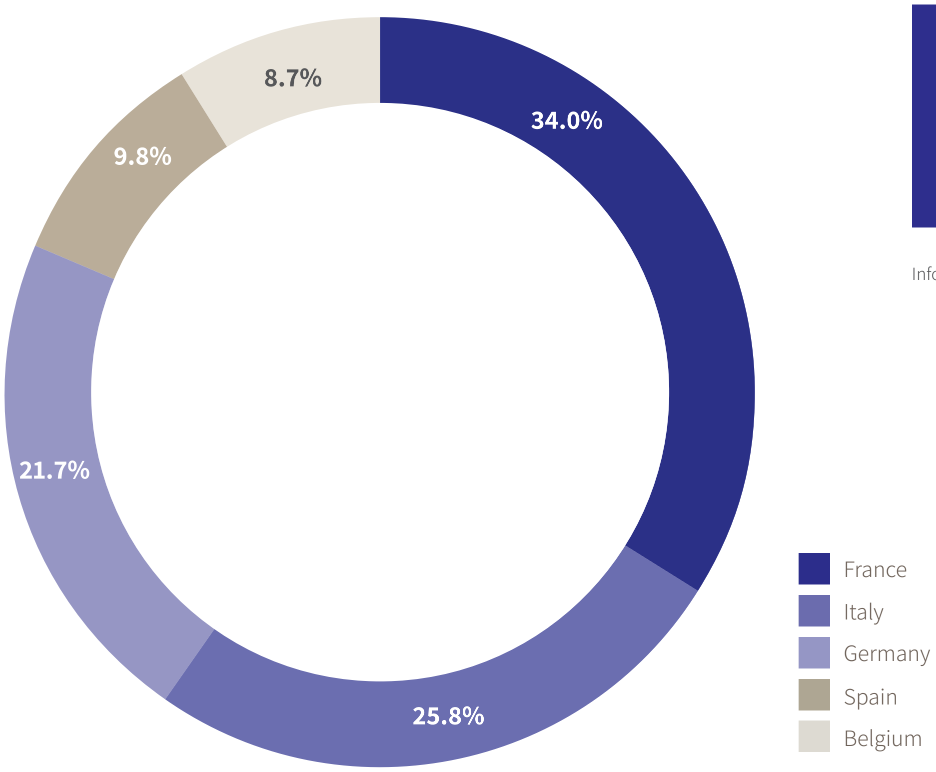
Bond portfolio credit quality

Rating / percentage of fund

Rating	Percentage of fund
AAA	21.7%
AA2	34.0%
AA3	8.7%
A3	9.8%
BBB2	25.8%

Information is correct at 31 July 2022

Bond country distribution



SUMMIT FUND PERFORMANCE

At 31 July 2022

Fund returns after fund management fee	Stable	Balanced	Growth
1 Month	0.18%	4.76%	5.79%
QTD	0.18%	4.76%	5.79%
3 Month	-0.46%	0.84%	1.15%
YTD	-2.06%	-3.29%	-2.05%
1 Year	-2.93%	0.66%	5.09%
2 Years pa	-1.96%	7.12%	13.41%
3 Years pa	-1.71%	3.14%	6.09%
5 Years pa	-1.39%	3.48%	5.81%
10 years pa	-0.66%	4.94%	7.57%

Source: ILIM Performance Team

Warning: If you invest in these funds you may lose some or all of the money you invest.

Warning: These funds may be affected by changes in currency exchange rates.

Warning: The value of your investment may go down as well as up.

Warning: Past performance is not a reliable guide to future performance.

ILIM'S CREDENTIALS

Irish Life Investment Managers (ILIM) are recognised internationally for their expertise, innovation and track record:

European Pensions AWARDS 2019
WINNER
Passive Manager of the Year

GRESB 2021

Irish Pensions AWARDS 2019
WINNER
Investment Manager of the Year

Irish Pensions AWARDS 2020
WINNER
Investment Manager of the Year

European Pensions AWARDS 2018
WINNER
Passive Manager of the Year

KPMG Irish Independent PROPERTY INDUSTRY EXCELLENCE AWARDS
2019
PROPERTY INVESTMENT/

Irish Pensions AWARDS 2021
WINNER
Risk Management Provider of the Year

This is intended as a general review of investment market conditions. It does not constitute investment advice and has not been prepared based on the financial needs or objectives of any particular person, and does not take account of the specific needs or circumstances of any person.

The author cannot make a personal recommendation for any person and you should seek personal investment advice as to the suitability of any investment decision or strategy to your own needs and circumstances. Any comments on specific stocks are intended as an objective, independent view in relation to that stock generally, and not in relation to its suitability to any specific person.

ILIM may manage investment funds which may have holdings in stocks commented on in this document. Past performance may not be a reliable guide to future performance. Investments may go down as well as up. Funds may be affected by changes in currency exchange rates. Irish Life Investment Managers Limited is regulated by the Central Bank of Ireland.

Figures referenced herein have been sourced from ILIM and Bloomberg. Forecast figures have been prepared by ILIM based on reasonable assumptions, internal data and data sourced from Bloomberg.