DAVY SELECT

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MARKET WATCH

ECONOMIC AND INVESTMENT STRATEGY

The global economy is back on track, but most investors expect lower returns due to lofty valuations. What opportunities can the market offer? Which areas should I avoid? We try to answer some of these questions in this section.

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EDITOR’S NOTE

Welcome to the latest edition of MarketWatch.

It’s hard to believe, but June was the 10th anniversary of the start of the global financial crisis. Back then, as a young 30-something working in New York I walked past the Lehman Brothers office in Midtown every morning while my wife took the subway downtown to the Merrill Lynch building. Just over a year later those two institutions, which had survived the Great Depression, failed to make it through the financial crisis.

Thankfully today the financial system is in much better shape. For the first time in a decade we are witnessing a synchronised global economic recovery, with the European, American and Asian economies all expanding. Our assessment of this cycle is that there is still several years left to run. But stronger growth does not always correlate to the strongest investment returns. Typically the biggest returns are made in the first few years after a downturn – this cycle is proving to be no different.

Today investors face several challenges. The equity bull market is now in its ninth year, bond yields are at all-time record lows and cash deposit rates are negative in many cases. Central banks are also starting to remove their ultra-accommodative monetary policy, which will test the nerves of investors from time to time. It does not matter who you listen to, most commentators agree that public market returns - equities, bonds and cash - are likely to be lower going forward.

So what can investors do? There is no easy answer. The rule of thumb when investing is that to generate higher returns you have to accept a higher level of risk.

In this issue our team of analysts look to the global markets to identify the best investment opportunities today and which areas should be avoided.

Also in this edition, analyst Ailbhe Tobin addresses the question on everyone’s mind: Is there a housing bubble? And senior investment strategist David Hillery outlines why he believes the healthcare and biotechnology industry is one of the best places to invest in today.

As always I hope you enjoy reading this issue of MarketWatch.

Brian O’Reilly
Head of Global Investment Strategy

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COVER STORY

ECONOMIC AND INVESTMENT STRATEGY

The global economy is back on track, but most investors expect lower returns due to lofty valuations. What opportunities can the market offer? Which areas should I avoid? We try to answer some of these questions in this section.

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HEALTHCARE AND BIOTECHNOLOGY: AN INVESTMENT FOR THE AGES

David Hillery

Senior Investment Strategist

"The world is getting older: by 2040 the old age dependency ratio will have risen to 20% with the majority of this aging population based in the developed world."

For the first time in history more people globally are dying from obesity-related complications than starvation. This reversal highlights the changing landscape of the healthcare sector.

The most treated illnesses are now non-communicable (cancer, diabetes) as opposed to communicable (measles, influenza) and this is where large pharmaceuticals are concentrating. A number of long-term secular trends are set to support the broader healthcare sector, ranging from the growing middle class in emerging markets to the development of new preventative measures to fight varying forms of cancer.

At the initiation of our call on the healthcare sector we believed that there were a number of catalysts that stood to benefit the sector globally in the coming years. These included the diminishing US political headwind, global demographics and immuno-oncology (I-O) innovation.

US political landscape

The US election was a major headwind for global pharmaceuticals as the debate around pricing pressure continued to weigh on the industry. As this is the largest market globally for the pharmaceuticals sector, the outcome was always likely to have a telling effect on the sector. Though Donald Trump continues to tweet about lower prices and increased competition, there appears to be no real appetite among conventional Republican leadership to pressurise the pharmaceutical industry on prices. This is a positive as it will allow for continued concentration on innovation through reinvestment of revenue in research and development.

The other major issue here is the proposal of "repeal and replace" which continues to be delayed due to a lack of buy in from the house. It now looks as though any change is likely to be an adjustment to the current Affordable Care Act (or 'Obamacare') as opposed to a replacement. If change is enacted it should free up excess funds to help stimulate the US economy but something needs to be done before midterms as Republican voters are becoming irritated with the lack of progress. Therefore, we expect further noise from Washington in the coming months.

Demographics

The world is getting older: by 2040 the old age dependency ratio will have risen to 20% with the majority of this aging population based in the developed world. This in turn transfers to greater medical spend in all areas. It is shown that there is a strong correlation historically between rising incomes and healthcare expenditure. The cost of providing healthcare for someone aged 65 and older is 3-5 times higher than for someone younger than 65. The higher percentage of people over this

age equals significantly higher spending, signalling a growth catalyst for the sector. According to Deloitte the percentage of global Gross Domestic Product (GDP) spent on healthcare is expected to expand to 10.5% by 2020 with this rise coming from emerging market countries where non-communicable illnesses are becoming more common. Worldwide governments are continuing to put further emphasis on healthcare schemes to deal with the expected burden as life expectancies continue to rise. Investment is likely to increase on preventative measures in a hope to lower the longer-term financial burden.

Outside of increased life expectancy, obesity also continues to be a massive issue globally both in developed and developing markets. In the US almost 70% of adults are considered to be overweight or obese with close to 40% considered obese. In Europe the figures aren't much better with over 50% of men and women considered overweight. With these rising figures complications related to such afflictions are also rising globally with cases of heart disease and diabetes continuing on an upward trajectory. Now China and India have the largest number of diabetes sufferers in the world, at around 110 million and 69 million respectively. Globally, the number is expected to rise from the current 415 million to 642 million by 2040.

Immuno-Oncology

Over the past 40 years, the 5 year survival rates for patients diagnosed with varying types of cancers have improved drastically in most areas. However, lung cancer is an outlier, primarily due to the late stage of diagnosis for many patients. Some hope has appeared in the area in recent years as new innovations in I-O are expected to support survival rates.

Four major players in the pharmaceutical industry are currently battling to be the front runner in the field. These drugs are the latest innovation in cancer therapies and use the body's own immune system to help fight cancer. The drug helps the body selectively kill cancer cells and has found success when used in the treatment of metastatic melanoma. I-O is set to continue to dominate 2017 news, with three of the four leading I-O players preparing trials that are expected to extend survival rates. AstraZeneca, Merck and Roche will have the most significant data from competing combinations for lung cancer. The focus is on AstraZeneca's Mystic trial of Imfinzi and tremelimumab in first-line lung cancer, due before the end of the year. Mystic impacts longer-term growth of cells. The belief is that this continued innovation should support the sector.

Fundamentals remain attractive

Part of the original rationale for opening our call on the sector was valuations, which still look attractive on a relative basis despite the rally year to date. The sector had de-rated since 2015 on expectations that Hillary Clinton would be the next commander in chief of the United States and would put pressure on drug prices. However, with this possible barrier removed we have seen relative multiple expansion which we expect to continue given the numerous trends that bode well for the industry. The catalysts outlined above are expected to drive the sector in the coming years, and in a world where valuations are stretched it is the areas of the market that can deliver sustainable growth that offer the most attractive investment opportunities.

"In the US almost 70% of adults are considered to be overweight or obese with close to 40% considered obese."

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WARNING:
These figures are estimates only. They are not a reliable guide to the future performance of this investment.

CAUTION: RECKLESS STUDENT DRIVERS AHEAD

Brian O'Reilly

Head of Global Investment Strategy

"In the seven years from 2009 to 2016, car loans skyrocketed from $700 billion to almost $1.2 trillion."

There has been an explosion of car finance and student loans in America since the global financial crisis. So much so that the Federal Reserve Bank of New York has sounded the alarm. And some commentators have heralded it as the start of the next subprime crisis. But is it?

Car loans on the rise

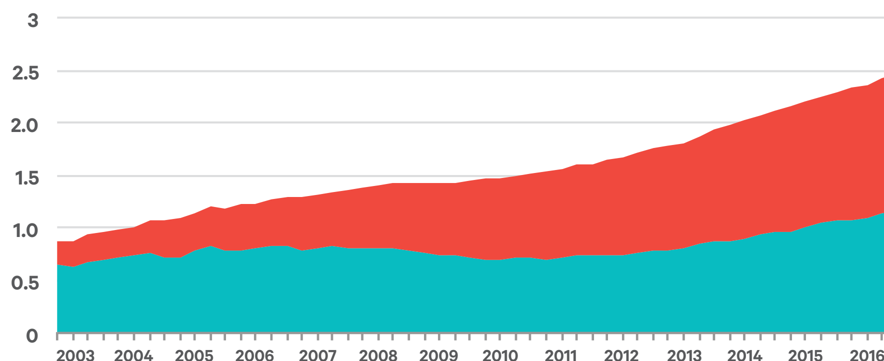
As sales of new cars plummeted in the aftermath of the financial crisis car manufacturers, including General Motors and Ford, had to find ways to stimulate demand. Auto companies used their balance sheets to extend credit to prospective buyers and specialist auto finance companies started to emerge.

Government-backed initiatives, such as the "cash for clunkers" scheme, helped resuscitate demand in the car industry.

It worked. Last year auto sales hit a pre-crisis high of 18 million vehicles in the US. But many customers borrowed to fund their purchases and have overextended themselves with repayments.

In the seven years from 2009 to 2016, car loans skyrocketed from $700 billion to almost $1.2 trillion. Subprime borrowers, considered borrowers with the highest risk, with credit scores of under 620 - FICO[1] - make up $220 billion of that figure.

Figure 1: Auto and student debt has risen to more than $2.5 trillion



CAR LOANS STUDENT LOANS

1 The Fair Isaac Corporation (FICO) produces consumer credit scores that financial institutions use in deciding whether to lend money or issue credit. A higher FICO score means a better credit rating. A score below 620 is typically defined as sub-prime.

The same level of detail is not available for Europe but there has been a similar trend with the emergence of Personal Contract Plans (PCP). According to the Finance and Leasing Association in the UK, British households borrowed a record £31.6 billion in 2016 to buy cars, up 12% on 2015. 9 out of 10 private car buyers are now using PCP and the Bank of England warned that consumer credit, including car loans, was close to levels not seen since the 2008 financial crash.

The education bubble

It is not just car loans that are causing concern, student loans have experienced an even bigger increase. The surge in the number of people in education in the US is creating an education bubble. In the aftermath of the financial crisis, many young people found it difficult to get a job and opted instead to take out a student loan and go to college.

US student debt is now $1.3 trillion and in 2010 it overtook credit cards to become the largest source of American household debt other than mortgages. 44 million Americans now have student debt and many find themselves overqualified for the jobs available and struggle to command a salary high enough to justify their expensive tuition fees.

Delinquencies are rising

Combined loans for cars and education amount to $2.5 trillion, accounting for 20% of all household debt, and have contributed to 83% of the growth in consumer debt since the end of 2011. And delinquency rates are rising. The delinquency rate on student debt is above 10%, higher than the default rate on mortgages in 2009. 8 million students are now in default and have stopped paying over $137 billion in debt. Auto loan delinquency rates of more than 90 days in arrears are also on the rise, up from just over 3% to 3.75% at the end of last year.

Is this the next subprime crisis?

As we know, credit has the capacity to pull forward future demand and amplify the magnitude of economic cycles. So is this the start of the next sub-prime crisis? Probably not, but it is alarming.

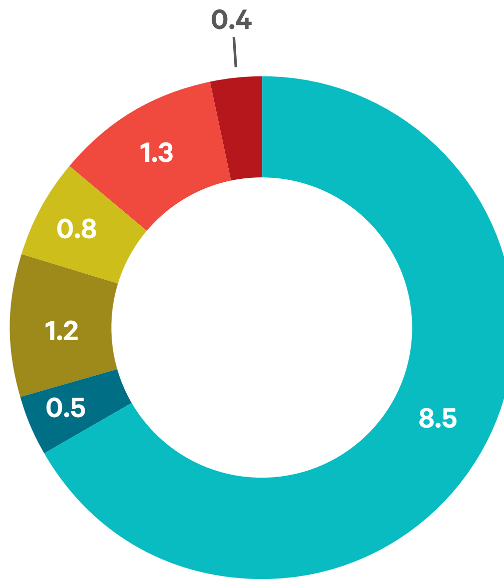
Firstly, even combined, auto and student loans do not come anywhere close to the mortgage problem in 2008. To put it into perspective, household debt in the US stands at almost $13 trillion. Mortgage debt is just under €9 trillion, which is over three times as large as auto and student loans. Secondly, there are no signs that people are starting to default on their mortgages and credit cards, and overall delinquency rates remain at cyclical lows. Finally, although some of this debt will have been securitised or repackaged in the financial system, it is nowhere near the levels of subprime mortgages before the crisis.

"British households borrowed a record £31.6 billion in 2016 to buy cars, up 12% on 2015."

CAUTION: RECKLESS STUDENT DRIVERS AHEAD

"...it is more likely that this is just part of the normal credit cycle of expansion and contraction."

Figure 2: Breakdown of US household debt in $trillions



Source: Federal Reserve Bank of New York

MORTGAGE HOME EQUITY REVOLVING AUTO LOAN CREDIT CARD STUDENT LOAN OTHER

So rather than this being the start of the next subprime crisis that threatens to take down the entire global financial system, it is more likely that this is just part of the normal credit cycle of expansion and contraction. There is no doubt there will be some casualties from rising delinquencies, particularly in the high-yield credit space.

However, the current situation does not imply that another subprime crisis is on the way. Instead, it should serve as a lesson that the role of credit in the economy needs to be managed, as if left unchecked, credit institutions will lend to people who cannot afford it and people will overextend themselves with debt time and time again.

SRI: IT PAYS TO BE A RESPONSIBLE INVESTOR

Keith Williamson

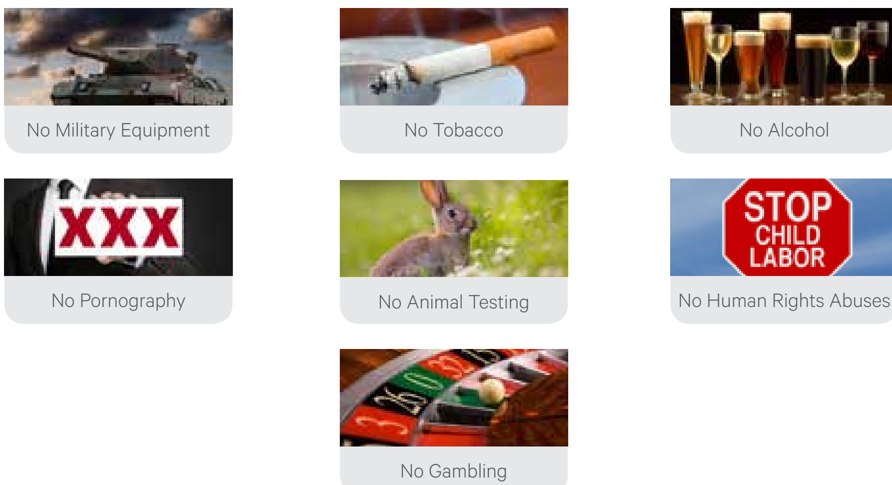
Investment Analyst

Socially Responsible Investing (SRI) is not a new phenomenon. As far back as 1758, the Religious Society of Friends (Quakers) outlawed its members from investing in the slave trade. Various investors have been applying similar investment principles ever since.

What is SRI?

Ethical investing gained significant traction throughout the latter part of the 20th century. It was largely driven by the demands of large university endowments and faith-based institutions not to invest in companies with exposure to controversial industries – the so called 'sin stocks'. This would usually preclude investment in alcohol, tobacco, weapons or gambling-related businesses.

Figure 1: Typical exclusion criteria of an ethical fund



Source: Davy Asset Management

SRI: IT PAYS TO BE A RESPONSIBLE INVESTOR

> "In Europe and Australia/New Zealand more assets are now managed in SRI strategies than non-SRI."

In 2005 the establishment of the United Nation's (UN) Principles for Responsible Investing (PRI) focused on environmental, social and governance (ESG) issues such as climate change and human rights. Today, investors are increasingly evaluating companies' positive contributions under these three headings, in addition to considering the traditional negative exclusion criteria. To this end, the terms SRI and ESG investing are often used interchangeably, and investing responsibly is no longer solely the preserve of charitable bodies or religiously focused foundations.

SRI has gained in traction in recent years

The growing allure of responsible investing has seen the volume of assets invested in SRI strategies trend upwards. The most recent figures estimate the total value of investments managed responsibly to be in the region of $23 trillion.

In the last two years global SRI assets have grown by over 25%. Europe has been at the forefront of this trend and accounts for over 50% of the world's SRI, while the US comes in second with a 38% share. In Europe and Australia/New Zealand more assets are now managed in SRI strategies than non-SRI.

Table 1: Growth of SRI assets by region 2014-2016

Region	2014(bn)	2016(bn)	Growth over period(bn)	Compound annual growth rate
Europe	$10,775	$12,040	11.7%	5.7%
United States	$6.572	$8,723	32.7%	15.2%
Canada	$729	$1,086	49.0%	22.0%
Australia/New Zealand	$148	$516	247.5%	86.4%
Asia ex Japan	$45	$52	15.7%	7.6%
Japan	$7	$474	6,689.6%	724.0%
Total	**€18,276**	**€22,890**	**25.2%**	**11.9%**

Source: Global Sustainable Investment Alliance

Asia ex Japan 2014 assets are represented in US dollars based on the exchange rates at year-end 2013. All other 2014 assets, as well as all 2016 assets, are converted to US dollars based on exchange rates at year-end 2015.

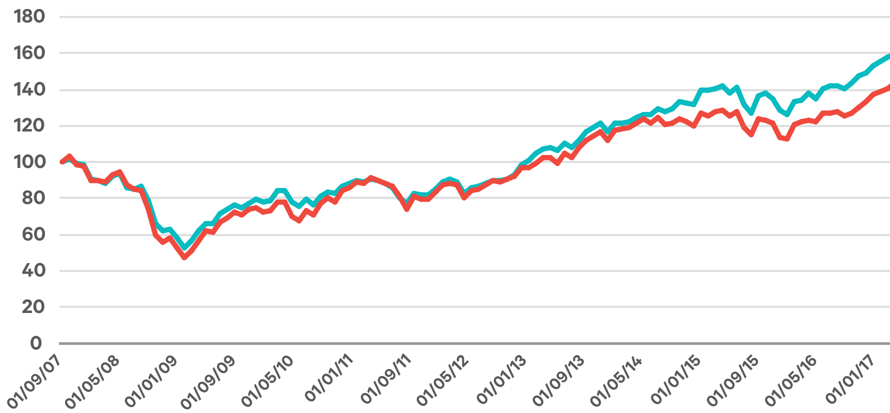
As investors are taking such a vested interest in ESG matters, more and more companies are re-assessing their corporate values. Many have shaken up their board compositions and introduced better corporate governance measures as a result of this shifting paradigm. Many large companies, including Apple, now have policies for the fair treatment of their workers. This affects the supply chain too, and the reverberations of each company's positive actions can be felt far from the source. The cumulative effect of this should not be underestimated, and as more large firms adopt ESG practices in their operations, even more will be forced to follow suit.

Recent examples of company malfeasance

Two recent examples will illustrate where a responsible approach can add value: BP's Deepwater Horizon (Macondo) oil spill in April 2010 and Volkswagen's (VW) vehicle emission scandal in September 2015.

In the two months after the Macondo oil leak BP's share price fell by over 45%, while VW's shares lost over 35% in just two weeks following news of the firm's Clean Air Act violations. Both companies were widely held across global equity portfolios, but were excluded by fund managers who give sufficient regard to ESG factors. Neither BP nor VW was a constituent of the benchmark MSCI World SRI Index at the time of their respective crises.

Figure 2: MSCI World SRI Index since inception versus MSCI World Index



Source: Bloomberg

MSCI WORLD SRI INDEX MSCI WORLD INDEX

Ethical investing can beat the broader market

One of the most common concerns around investing in sustainably managed funds is that performance may be hindered by the selective screens applied. It seems intuitive that a portfolio selected from a broader base should outperform one chosen from a limited subset of that universe. However, historical returns tell a different story.

In Figure 2 we compare the MSCI World SRI Index with the unscreened MSCI World Index. The SRI index has outperformed its parent index by almost 15% since its inception in 2007, or 1.4% annualised, and has shown less volatility too. An SRI approach appears to perform best in emerging markets where the SRI index has outperformed its parent by over 2.4% annualised since inception.

The rationale for this outperformance is threefold:

- Businesses that actively engage on ESG issues tend to have better corporate governance and risk management procedures. This enables managers to run the company and allocate capital with investors' interests at heart which leads to a more sustainable return on invested capital (ROIC) and subsequently higher shareholder returns.
- As investors continue to place increasing importance on ESG factors when evaluating stocks, the flow of capital into the better companies has grown and the stock price has appreciated accordingly.
- Empirical studies have found that stocks with socially responsible attributes exhibit higher expected returns because investors are not able to correctly value the positive effects of these ESG characteristics. Companies with strong ESG credentials are simply undervalued by the market.

SRI for the long-term investor

The growth in socially responsible investing over the last two decades shows no signs of abating. There is plenty of room left for growth in many of the world's key markets. Indeed further development in this type of investment philosophy should serve only to widen the performance differential between SRI and traditional investments.

If the benefit to the world of investing responsibly is not enough to warrant an allocation in an investor's portfolio, surely this argument alone – that investing responsibly does not impair the expected returns – should be the deciding factor. Until all companies are equally well governed and investors are able to value this important quality we believe that the case for SRI will remain.

"The SRI index has outperformed its parent index by almost 15% since its inception in 2007…"

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IS THERE A BUBBLE IN THE HOUSING MARKET?

Ailbhe Tobin

Investment Analyst

"Recent policy decisions have also had an inflationary effect on property prices."

A recent report by the Organisation for Economic Co-ordination (OECD) warned about pressures building in the Irish property market. It added that if underlying problems are not addressed there may be another property bubble.

The abundance of cranes across the Dublin skyline shows that property development is gaining momentum. And the number of real estate agent signs outside houses shows that the residential property market is heating up, following the worst property crash in the history of the state.

Widespread house price rises

According to Daft.ie, prices nationally have risen 40% from their lowest levels after the crash, which adds €66,000 to the national average asking price. Stories of people queuing overnight to secure a house in the Bishops Gate development in Kilternan, Co. Dublin indicate that there could be a problem brewing once more.

The increase in property prices is not just confined to Dublin. In the other major cities like, Waterford, Cork, Limerick and Galway, prices have experienced double-digit percentage increases over the last year. Figure 1 illustrates the average price increases across each county over the last year, with only four counties experiencing a drop in prices in 2016.

Market dynamics

According to the European Commission (EC), Irish Gross Domestic Product (GDP) is forecast to grow 4% in 2017, compared to 1.7% for the Eurozone as a whole. The property market is benefiting from the economic recovery. Property-related lending has been on the rise as there is increased appetite for property transactions. Approvals for mortgages were up a staggering 50% year on year for the first two months of 2017.

Recent policy decisions have also had an inflationary effect on property prices. The Central Bank of Ireland's decision to remove the maximum value on first-time buyer mortgages, which stood at 90% of the property value for loans up to €220,000 and 80% for loans above €220,000, and also the initiation of the help-to-buy scheme has increased buyers' ability to pay higher prices for property.

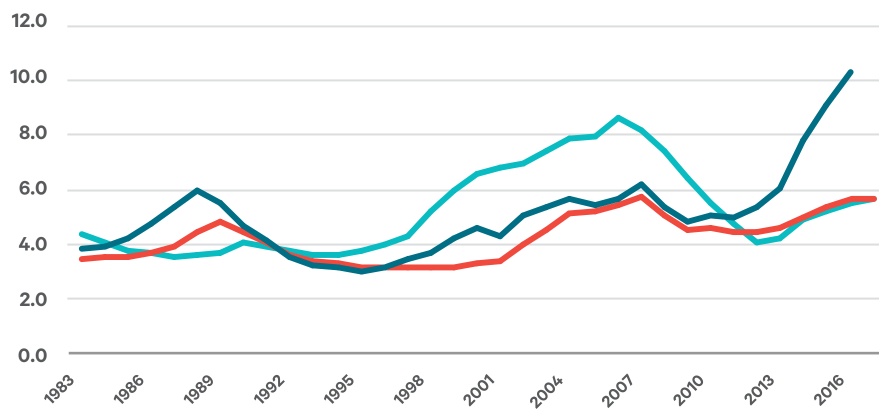
Figure 1: Year-on-year price change by county

Region	2015	2016	% change
Laois	€110,237	€142,024	28.84%
Clare	€101,628	€129,233	27.16%
Longford	€67,157	€79,138	17.84%
Carlow	€106,323	€124,985	17.55%
Louth	€123,847	€145,073	17.14%
Dublin	€319,056	€358,371	12.32%
Wexford	€117,767	€131,928	12.02%
Cavan	€86,598	€96,987	12.00%
Wicklow	€255,418	€279,739	9.52%
Kilkenny	€140,558	€153,939	9.52%
Waterford	€113,438	€123,929	9.25%
Galway	€152,260	€165,990	9.02%
Meath	€184,167	€199,794	8.49%
Cork	€169,801	€182,373	7.40%
Limerick	€121,438	€130,171	7.19%
Monaghan	€99,671	€106,825	7.18%
Kerry	€116,606	€124,865	7.08%
Westmeath	€113,842	€117,509	3.22%
Offaly	€97,374	€100,446	3.15%
Roscommon	€73,950	€75,750	2.43%
Tipperary	€104,912	€107,302	2.28%
Kildare	€229,499	€230,891	0.61%
Donegal	€95,356	€94,887	-0.49%
Mayo	€103,574	€102,037	-1.48%
Leitrim	€84,215	€81,317	-3.44%
Sligo	€108,361	€98,032	-9.53%

Source: Central Statistics Office (CSO)

IS THERE A BUBBLE IN THE HOUSING MARKET?

Figure 2: Average House Price to Average Income Ratio



IRELAND UK LONDON

"With such a shortage in the market, and population numbers in key age brackets on the rise, prices are only going to go one way."

Supply slow to build

It has been well documented that the most pressing issue for the property market is the shortage of supply. Since 2011, there has been excess demand for property, driving prices up, albeit from a very low base. MyHome.ie figures show that the number of houses for sale has dipped 10.3%, a record low, coming in at 19,430 at the start of this year. With such a shortage in the market, and population numbers in key age brackets on the rise, prices are only going to go one way.

Is there a bubble?

To address the bubble question we look at the most common measure of affordability - the house-price-to-income ratio. As Figure 2 illustrates, at its peak in 2007 the average house price was nearly 9 times the average income. Although the UK was also going through a property bubble at that time, the ratio there peaked at just under 6 times, which illustrates how extreme the Irish bubble was. Today, although affordability on this measure is still well below the heady heights reached in 2007, it is not cheap at just below 6 times the average house price to average income. This serves as another warning that if prices keep rising at the current rate we will very soon be in another bubble if were not in one just yet.

See overleaf for excerpt on the London property market.

What must be done?

To combat the supply problem in Ireland, it is estimated that 81,000 homes will need to be completed between 2016-2020. So an increase in building activity is needed. Demographics and immigration must also be considered when looking at what is driving demand.

There are indications that activity has picked up across the country. Planning permissions granted for new dwellings increased by 30% in the first quarter of this year versus the same period last year. While actual completions, which still are at historically low levels, increased 18% in 2016. But the signs in the market cannot be ignored. With prices increasing sharply across the country, we must not allow a bubble to form once more.

UK PROPERTY: LONDON'S FALLING

EXCERPT

More evidence is emerging that indicates London's property market is coming under pressure. A recent article by the Guardian even reported that estate agents are offering cars, iPads and sound systems to entice buyers, which is a worrying signal that London's property bubble is deflating.

The property bubble in London has been well documented. A bubble can be characterised by a rapid escalation of prices, not explained by underlying fundamentals. Since the recession there has been an exponential increase in prices in London versus the rest of the country.

Skyrocketing house prices in the capital

Some of this can be attributed to the low interest rate environment pushing down mortgage costs, but it does not explain the whole story. Since the global financial crisis (when house prices fell 17%), house prices have risen by close to 40% across the UK but have almost doubled in London. This has pushed the average London house price to £480,000, compared to just over £200,000 for the country as a whole.

Clearly there are a number of challenges facing London property owners. Prices are already sky high in the capital and the uncertainty surrounding Brexit negotiations is putting foreign buyers off buying a residence in the capital. Increased job insecurity, particularly among those working in financial services in the City of London as several banks look to move people overseas, has reduced activity in the property market.

London house prices fell 1.5% during the month of April. To put this into perspective, this is the largest year-on-year decline in almost eight years. In the prime segment of the market-things are much worse. According to Savills, prime real estate in London has already fallen by about 13% from the peak in 2014.

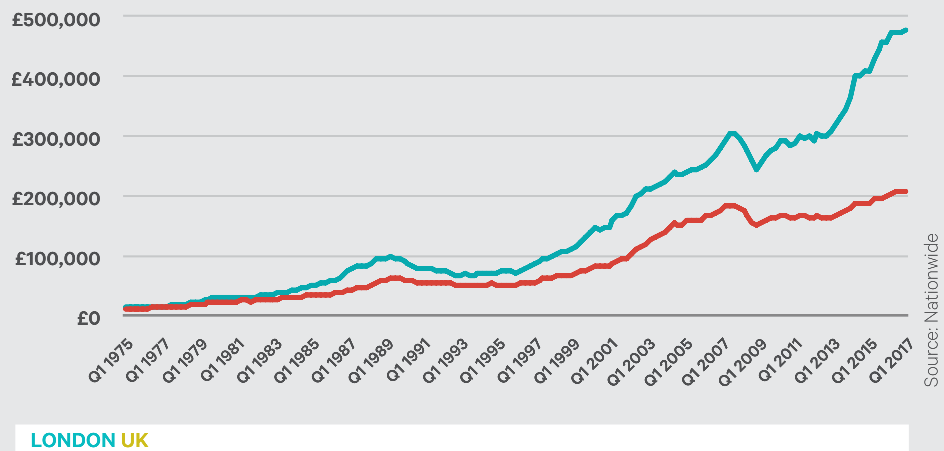
The net result is that property gains have far outstripped individual's income and priced many out of the market. As Figure 1 shows, the average price-to-earnings ratio (a measure of affordability) for first-time buyers in London has sky rocketed to historical highs. By the end of 2016, this indicator stood at 10.1 times the average income, which is in stark contrast to the average price-to-earnings ratio of 5.3 times the UK.

"Since the recession there has been an exponential increase in prices in London versus the rest of the country."

IS THERE A BUBBLE IN THE HOUSING MARKET?

"The reality is that some heat needs to be taken out of London property but even if prices fall by 20% this would still leave them looking expensive at 8 times average income."

Figure 1: House Prices in London compared to the rest of the UK



Turning south

Corrections in the UK property market are not a new phenomenon. In the last 30 years the economy has gone through two housing recessions, in 1991 and 2008. How large the correction will be this time we don't yet know, but the market is beginning to turn south. The Bank of England is likely to keep interest rates low to insulate the negative impact of Brexit on the economy, which should limit the damage in the property market. But Brexit has claimed its first casualty. The reality is that some heat needs to be taken out of London property but even if prices fall by 20% this would still leave them looking expensive at 8 times average income.

INVESTMENT THEMES...

The world is constantly changing and new challenges and opportunities are created every day. To help grasp these opportunities, we have dedicated teams of analysts who continuously monitor global markets for game changing trends they see taking place in the world today. Investing Themes provide an overview of what we believe are some of the best investment opportunities today.

IRELAND'S RECOVERY

IRELAND IS THE FASTEST GROWING ECONOMY IN EUROPE WHICH PRESENTS A RANGE OF INVESTMENT OPPORTUNITIES FROM PROPERTY TO EQUITIES.

GLOBAL HEALTHCARE

RAPID ADVANCES IN MEDICAL SCIENCE LOOKS SET TO MARK THE 21ST CENTURY AS THE BIOTECH CENTURY.

CYBER SECURITY

RECENT CYBER ATTACKS ARE ONE OF THE MAIN CHALLENGES FACING BUSINESSES TODAY.

US TECHNOLOGY

TECHNOLOGY IS TRANSFORMING THE WAY WE DO BUSINESS AND INTERACT WITH EACH OTHER. WHICH COMPANIES ARE BEHIND THIS TREND?

GLOBAL INFRASTRUCTURE

WE ARE ABOUT TO WITNESS A MASSIVE GLOBAL BUILDING BOOM. WHICH COMPANIES STAND TO BENEFIT?

THE SEARCH FOR YIELD

MANY HIGH-QUALITY BLUE CHIP COMPANIES PAY ATTRACTIVE DIVIDENDS TO INVESTORS. FIND OUT WHICH ONES.

THE EMPIRE STRIKES BACK

AS THE WORLD'S GREATEST SUPERPOWER US COMPANIES WILL ASSERT THEIR ECONOMIC AND FINANCIAL PROWESS OVER THE COMING DECADES.

SPOTLIGHT THEME...

The recent 'WannaCry' ransomware attack highlighted the importance of having a robust IT security network. Companies that can provide cyber security protection should see sales and profits grow as more companies spend on updating their security infrastructure. There are a number of specialist funds that invest in cyber security firms.

THE RISE OF THE ASIAN CONSUMER

WITH 4 BILLION PEOPLE, ASIAN CONSUMERS WILL DOMINATE GLOBAL CONSUMPTION FOR DECADES TO COME.

THE BOND ICEBERG

IT IS A COMMON MISTAKE FOR INVESTORS TO THINK OF BONDS AS BEING "RISK-FREE".

AUTO SUBPRIME

WHY YOUR NEIGHBOUR'S SHINY NEW CAR COULD BE THE START OF THE NEXT CREDIT CRISIS.

THE EURO: WILL PARITY BE A LINE IN THE SAND?

THE EURO IS SIGNIFICANTLY UNDERVALUED AGAINST THE DOLLAR.

BRANDS: PRICING POWER

A SUCCESSFUL BRAND CAN BE A POWERFUL DRIVER OF A COMPANY'S PRICING POWER AND PROFITABILITY.

IN THE NEWS

CYBER SECURITY: MAKES ME WANNACRY

The recent WannaCry cyber attack was the largest to date and hit more than 200,000 computers in over 150 countries across the world. It threatened to delete files if a ransom of just $300 was not paid. European security agency Europol called it the "largest ransomware attack observed in history". Large multinational companies including Telefónica and FedEx were affected as well as public bodies including the National Health Service (NHS) in the UK. The attack is believed to have targeted a flaw in Microsoft's software which was originally discovered by the American National Security Agency. In its defence, Microsoft has criticised government agencies for highlighting these vulnerabilities. No doubt we can expect to see CEOs (Chief Executive Officers) shoring up their technology defences and spending more on preventative measures to ensure their companies are not materially impacted from similar future attacks.

UK ELECTION: COME WHAT MAY

As if things could not get much worse in Westminster, Theresa May's decision to hold a snap election spectacularly backfired. Just like the Brexit referendum the polls failed to predict the outcome and the election ended in a hung parliament. The Conservatives (Tories) won 318 seats, 8 short of a majority, while Jeremy Corbyn's Labour Party gained 29 seats giving it 262 seats. After lengthy negotiations, the Tories and the Democratic Unionist Party (DUP) confirmed a 'supply and confidence' arrangement. As part of the agreement Arlene Foster has secured an extra £1 billion in funding for the North. Meanwhile, Brexit negotiations began on 19th June with the prime minister and the UK in a materially weakened position. The one upside is that this result could be interpreted as a vote against a hard Brexit so the prospect of a softer Brexit has increased.

VARADKAR TAKES OVER FROM ENDA

Leo Varadkar was appointed the new leader of Fine Gael, becoming the youngest Taoiseach in the history of the Irish state. Outgoing leader Enda Kenny stated that he represents a "modern, diverse and inclusive Ireland". At only 38, he is the openly gay son of an Indian immigrant which certainly goes against the traditional stereotypical politician on Kildare Street. The opposition has not lost any time in trying to label him a Tory for suggesting cuts to higher personal tax rates, plans to increase infrastructure spending and scrapping the help-to-buy housing scheme. The most pressing issues facing the new Taoiseach are Brexit, Northern Ireland and the housing crisis. Both the Irish and UK government are committed to getting the power sharing agreement up and running again soon in Northern Ireland. Next up will be ensuring there is no hard border between the North and South in Brexit negotiations, before delivering enough housing supply to deal with the housing crisis.

TRUMP PULLS OUT OF PARIS

The Paris climate accord was hailed as one of the biggest steps towards tackling global warming. More than 190 nations agreed to curb emissions to reduce global warming. But as he promised on the campaign trail, President Donald Trump wasted no time in pulling the US out of the agreement. Instead of focusing on new jobs that could be created from developing new technologies to limit emissions, Trump's preferred policy is to protect old industries, such as coal, as he wants to "represent the citizens of Pittsburgh, not Paris". The US joins the small group of Nicaragua and Syria that have not signed the deal. Some have already rebelled against his decision. California has formed its own agreement with China to tackle emissions and tech giant Apple has issued a $1 billion bond to finance clean energy and environmental projects. It is possible that this decision could motivate the private sector to reduce its impact on the environment.

AIB RE-ENTERS THE MARKET

The eagerly anticipated announcement by the Department of Finance to begin the process of selling down its 99% stake in the largest mortgage lender in Ireland came at the end of May. Following the announcement, the government floated 25% of its stake, along with an additional 3.8% known as the green shoe, on the Irish and London stock exchanges. With the Irish economy going from strength to strength, there was huge investor demand, resulting in the Initial Public Offering (IPO) being significantly oversubscribed. Approximately €3.4 billion was raised, making it the biggest flotation in Europe this year. There were many factors to take into consideration such as Brexit, the UK election and general market conditions. The Department of Finance had to time the decision carefully. What the government will do with the funds remains contentious. European Union (EU) rules insist that the capital be used to pay down some of the country's debt, while some politicians have called for the money to be invested in infrastructure.

FANG'S OUTPERFORMANCE

The FANG stocks, which comprise of Facebook, Amazon, Netflix and Google's parent company Alphabet, have dominated stock market returns year to date. Compared to the broader market, Facebook was up 33%, Amazon 34%, Netflix 33% and Alphabet 26% while the S&P was up 8.5% before a sell-off earlier in the month which saw each of these four drop 3% in one day. An expanded group which includes Facebook, Apple, Alphabet, Amazon, and Microsoft (FAAMG) accounts for only 13% of the S&P index but has contributed 40% of its returns, adding $600 billion to market capitalisation year to date. Despite each of these stocks being classified as cyclical, they have been behaving more like defensive stocks with their volatility levels not only lower than the S&P but also lower than staples and utilities.

MARKET DATA

Equities Price Return (%) in Euro	2012	2013	2014	2015	2016	YTD
MSCI World	11.2	18.8	17.3	8.3	8.5	1.3
S&P 500	11.4	24.0	26.9	10.5	12.8	0.3
Eurostoxx	15.5	20.5	1.7	8.0	1.5	7.6
FTSE 100	8.9	11.7	4.3	0.1	-1.2	-0.4
MSCI Emerging Markets	13.1	-9.1	8.7	-7.5	11.9	8.3
ISEQ	17.1	33.6	15.1	30.0	-4.0	6.2
DAX	29.1	25.5	2.7	9.6	6.9	8.4
Nikkei 225	7.8	23.0	7.0	20.4	7.4	-0.7
Equities Price Return (%) in local currency						
MSCI World	13.1	26.3	7.7	0.2	6.8	7.4
S&P 500	13.4	29.6	11.4	-0.7	9.5	8.4
Eurostoxx	15.5	20.5	1.7	8.0	1.5	7.6
FTSE 100	5.8	14.4	-2.7	-4.9	14.4	3.2
MSCI Emerging Markets	13.9	0.9	2.5	-8.0	7.1	13.8
ISEQ	17.1	33.6	15.1	30.0	-4.0	6.2
DAX	30.2	25.5	2.7	9.6	6.9	8.4
NIKKEI 225	22.9	56.7	7.1	9.1	0.4	5.1
Sectors & Stocks in local currency						
MSCI Healthcare	15.5	33.9	17.1	5.3	-9.1	13.9
MSCI SRI Index	13.5	30.0	10.1	2.0	8.5	8.2
Facebook	N/A	101.8	47.5	34.1	8.3	33.4
Amazon	44.3	56.8	-21.1	122.1	8.8	32.9
Netflix	33.6	296.4	-6.5	138.0	6.1	23.3
Alphabet	10.1	56.8	-3.6	47.6	0.3	20.0
BP	-7.8	14.3	-15.7	-13.2	43.5	-12.9
Apple	31.4	5.4	37.7	-4.6	10.0	24.3
Microsoft	2.9	31.4	24.2	19.4	12.0	10.9
Volkswagon	57.0	25.6	-8.5	-21.0	-3.9	-0.4
Bond Performance						
JPM Global Government Bonds	4.1	-0.5	8.5	-1.0	2.2	-0.3
Bloomberg Global Investment Grade	9.3	0.5	2.3	4.4	4.4	5.0
Bloomberg Global High Yield	18.6	1.5	-0.3	4.9	14.8	5.9
Government Bond Yields (%)						
US	1.8	3.0	2.2	2.3	2.4	2.4
Germany	1.3	1.9	0.5	0.6	0.2	0.5
UK	1.8	3.0	1.8	2.0	1.2	1.3
Japan	0.8	0.7	0.3	0.3	0.0	0.1
Ireland	4.5	0.7	0.3	1.2	0.8	1.0
Italy	4.5	0.7	0.3	1.6	1.8	2.3
Spain	5.3	0.7	0.3	1.8	1.4	1.7
Portugal	7.0	0.7	0.3	2.5	3.8	3.1
France	2.0	2.6	0.8	1.0	0.7	0.9

Commodities	2012	2013	2014	2015	2016	YTD
Bloomberg Commodity Index	-1.1	-9.6	-17.0	-24.7	11.4	-5.9
Gold	7.1	-28.3	-1.4	-10.4	8.1	5.8
Brent Crude Oil	3.5	-0.3	-48.3	-35.0	52.4	-17.5
WTI	-7.0	6.6	-45.2	-30.5	45.0	-17.3
Natural Gas	12.1	26.2	-31.7	-19.1	59.3	-21.3
Sugar	-16.3	-15.9	-11.5	5.0	28.0	-30.5
Platinum	10.4	-11.0	-11.9	-26.2	1.3	-0.2
Wheat	19.2	-22.2	-2.6	-20.3	-13.2	30.0
Corn	8.0	-39.6	-5.9	-9.6	-1.9	11.3
Silver	9.0	-35.8	-19.3	-11.9	15.0	-1.7
Currency rates						
EUR/USD	1.32	1.37	1.21	1.09	1.05	1.14
EUR/GBP	0.81	0.83	0.78	0.74	0.85	0.88
EUR/JPY	114.46	144.73	144.85	130.64	122.97	129.99
GBP/USD	1.63	1.66	1.56	1.47	1.23	1.29
GBP/EUR	1.23	1.20	1.29	1.36	1.17	1.13
Interest Rates						
Euribor 3 month	0.19	0.29	0.08	-0.13	-0.32	-0.33
Libor GBP 3 month	0.52	0.53	0.56	0.59	0.37	0.31
Libor USD 3 month	0.31	0.25	0.24	0.61	1.00	1.30
Central Bank Rates						
European Central Bank	0.75	0.25	0.05	0.05	0.00	0.00
Bank of England	0.50	0.50	0.50	0.50	0.25	0.25
Federal Reserve	0.25	0.25	0.25	0.50	0.75	1.25

WARNING:
Past performance is not a reliable guide to future performance. The value of investments may go down as well as up.
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Source: All data is sourced from Bloomberg as at market close 10th July 2017 and returns are based on price indices in local currency terms, unless otherwise stated.

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