Irish Life

Life | Pensions | **Investments**

January 2023 in review
Summit Mutual Funds

Helping people build better futures

MARKET REVIEW

Equities and bonds enjoyed a strong start to the year, boosted by rising hopes of an economic 'soft landing', whereby inflation continues to decline while recession is avoided.

The global growth outlook improved, spurred by China's economic reopening and the continued recovery of European sentiment and economic activity. The eurozone appears to have avoided a recession, with modestly positive growth recorded in the fourth quarter.

Central banks are likely to pause interest rate rises later this year, though they are still planning some further increases and pushing back against investors' expectations of rate cuts in the second half.

MARKET ROUND-UP

Equities

The MSCI AC World equity index rose 6.5% (5.3% in euros) over January.

European equities outperformed, rising 7.9% (7.5% in euros) as the growth outlook improved amid falling gas prices, rising sentiment and activity levels, and China's reopening, which should benefit Europe.

Emerging market (EM) equities rose 6.6% (6.0% in euros) as growth forecasts for China were revised higher on the back of the full reopening of the economy and ongoing support measures for the property sector.

The UK lagged, rising 4.1% (4.7% in euros). Increasing wage pressures in a tight labour market suggested further policy tightening is required, despite the soft economic backdrop where consumption has disappointed and the housing market remains very weak.

Japan also lagged, rising 4.7% (4.4% in euros) as the yen strengthened on the back of tighter policy and higher bond yields following the widening of the trading range for 10-year yields. The stronger yen is negative for exporters. Further tightening of policy is anticipated in coming months, during which a new Bank of Japan Governor will be appointed.

Bonds

The Eurozone >5 year bond index rose 3.0%. Having reached an 11-year high at year-end, the German 10-year yield fell to 2.29% as eurozone inflation fell to 9.2% y/y. While ECB rhetoric remained hawkish, investors seemed more sanguine and discounted a less aggressive tightening path than suggested by ECB commentary. The German 10-year yield hit a low of 1.97% during the month but then rose as the ECB pushed back against some of the more dovish expectations in relation to the pace and scale of tightening. Peripheral spreads narrowed, with Italian 10-year spreads against Germany falling to 186bps, while Spanish 10-year spreads declined to 99bps.

European investment grade corporate bonds rose 2.0% as yields fell 27bps to 3.91%. Spreads were down 15bps to 146bps as the economic outlook improved. High-yield corporate bonds rose 3.5% as yields fell 67bps to 7.31%, while spreads were down 44bps to 370bps.

EM local debt rose 2.7% as yields fell 28bps to 6.64%. EM currencies were slightly stronger against the euro, which also supported performance. EM hard currency debt was up 2.9% with yields down 42bps to 7.38%; spreads fell 8bps as sentiment towards EMs improved, with a recovery in Chinese growth expected following the full reopening of the economy.

Currencies and commodities

The euro rose 1.5% against the dollar to end the month at 1.0865. The euro benefited from improving sentiment around European growth and the likelihood of more rate rises from the ECB in coming months, compared to the Fed which is closer to a peak in rates.

Commodities were marginally lower by -0.1% (-1.8% in euros). Brent oil was volatile, ending the month down -1.7%, having fallen by -9.4% at its lowest point. An improving outlook for oil demand – driven by China's reopening – was offset by excess supply during the month, as Russian oil remains on the global market and is diverted to Asia. European gas prices fell -21.4% on the back of warmer weather and higher-than-expected storage levels across Europe.

Metals were firmer on an expected recovery in Chinese growth, with aluminium up 11.2% and copper 10.2%. Gold rose 5.8%, boosted by a weaker US dollar and lower US real yields.

MARKET SNAPSHOT

Market returns (EUR)

Equity Markets (EUR)	MTD Return (%)	YTD Return (%)	2022 Return (%)
MSCI Ireland	11.2	11.2	-21.1
MSCI United Kingdom	4.7	4.7	1.4
MSCI Europe ex UK	7.5	7.5	-11.9
MSCI North America	4.9	4.9	-13.8
MSCI Japan	4.4	4.4	-10.8
MSCI EM (Emerging Markets)	6.0	6.0	-14.5
MSCI AC World	5.3	5.3	-12.6
10-Year Yields	**Yield Last Month (%)**	**2022 Yield (%)**	**2021 Yield (%)**
US	3.51	3.87	1.51
Germany	2.29	2.57	-0.18
UK	3.33	3.67	0.97
Japan	0.50	0.42	0.07
Ireland	2.74	3.13	0.24
Italy	4.15	4.70	1.17
Greece	4.30	4.62	1.34
Portugal	3.19	3.59	0.47
Spain	3.28	3.66	0.57
FX Rates	**End last month**	**2022 Rates**	**2021 Rates**
U.S. Dollar per Euro	1.09	1.07	1.14
British Pounds per Euro	0.88	0.89	0.84
U.S. Dollar per British Pounds	1.23	1.21	1.35
Commodities (USD)	**MTD Return (%)**	**YTD Return (%)**	**2022 Return (%)**
Oil (Brent)	-1.7	-1.7	6.7
Gold (Oz)	5.8	5.8	-0.3
S&P Goldman Sachs Commodity Index	-0.1	-0.1	26.0

Source: ILIM, Bloomberg. Data is accurate as at 1 February 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 and geopolitical issues such as the Russia/Ukraine crisis.

Equities struggled in 2022 amid slower growth and tighter monetary policy; higher bond yields also undermined the relative attractiveness of equities.

While the scale of monetary tightening and sharp rise in bond yields now seem discounted by equity markets, the lingering growth- and earnings-related uncertainty may not yet be fully discounted. Indeed, although equities are expected to generate positive returns for the year as a whole, a better buying opportunity might present itself in the early part of the 2023 as a slowing growth environment with risk of earnings downgrades could lead to further losses before a trough is reached in equity markets.

A significant risk to equities relates to the potential for further downgrades to earnings forecasts in a slower growth/recessionary environment. Consensus forecasts currently expect earnings growth of 1.5% in 2023, which could be too high if the US and global economy enter a recession. Potential downgrades to earnings estimates in early 2023 could lead to renewed weakness in equity markets.

A potential offset to the risk of another leg down in equities would be evidence that the Fed and other central banks are achieving a 'soft landing', whereby they successfully lower inflation and manage to avoid a recession. 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, and with the possibility of rate cuts at some point in 2023 – would be supportive of equity markets.

Even though one more leg down in equities in early 2023 is possible, we believe equities can end the year higher. Equity markets are forward-looking and discount ahead. With an eventual recovery in growth expected by the end of 2023/beginning of 2024, equities should begin to recover before mid-year. With returns in the initial recovery stage generally tending to be relatively strong, equities can generate positive returns for the year, even if they struggle somewhat in the early part of 2023.

Navigating equity markets is difficult even in a benign environment, but it has become more arduous against the current backdrop with heightened uncertainty on many issues. As a result, the increased volatility evident in 2022 is likely to continue.

Outlook dependent on economic and earnings growth. Uncertainty on growth due to policy tightening, squeeze on real incomes, weaker business and consumer sentiment.

Global growth slowed to an estimated 3.0% in 2022. Growth is forecast to slow further to 2.2% in 2023 with slower growth in DM and an improvement in EM as China reopens. Increasing hopes for a 'soft landing' have caused recession fears to ease but not disappear.

Russia/Ukraine, monetary policy tightening, fiscal stimulus, inflation developments, energy prices, supply chain issues and China reopening 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 higher than the long-term average of 16.0x. Equities' relative undervaluation against bonds has been removed with the rise in bond yields

Following the downgrades to growth forecasts, expected downward revisions to earnings and the rise in bond yields YTD, equity markets are still vulnerable to short term downside before finding a trough and potentially recovering in H2.

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

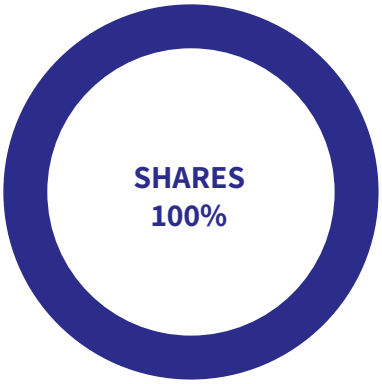
SUMMIT GLOBAL LEADERS FUND

The Summit Global Leaders Fund invests in stocks with large market capitalisations. From July 2014, equity management has been sub-advised to Setanta Asset Management.

Fund update for January

The Summit Global Leaders Fund returned +5.9%, net of fund management fee, in January. Leading performers included electronic vehicle manufacturer Tesla (+41.5% in US$) and semiconductor company NVIDIA (+31.8% in US$). The former reversed most of its decline in December as CEO Elon Musk made reassuring noises about demand and said the company could deliver as many as two million cars in 2023. On the latter, the market sees scope for strong earnings growth as NVIDIA's cloud-based AI software is adopted for use in data centres and automotive applications. Healthcare names were relatively weak in the month. Pfizer fell -13.0% (US$) in the period. The company forecast a sharp fall in sales in 2023 due to the easing of the pandemic and reduced contributions from its Covid-19 vaccine and antiviral medicine. Earnings guidance was well below market expectations. Abbvie declined -7.7% (US$) in January. Its blockbuster anti-inflammatory drug Humira will face competition for the first time in the US from Amgen's biosimilar version.

Asset allocation

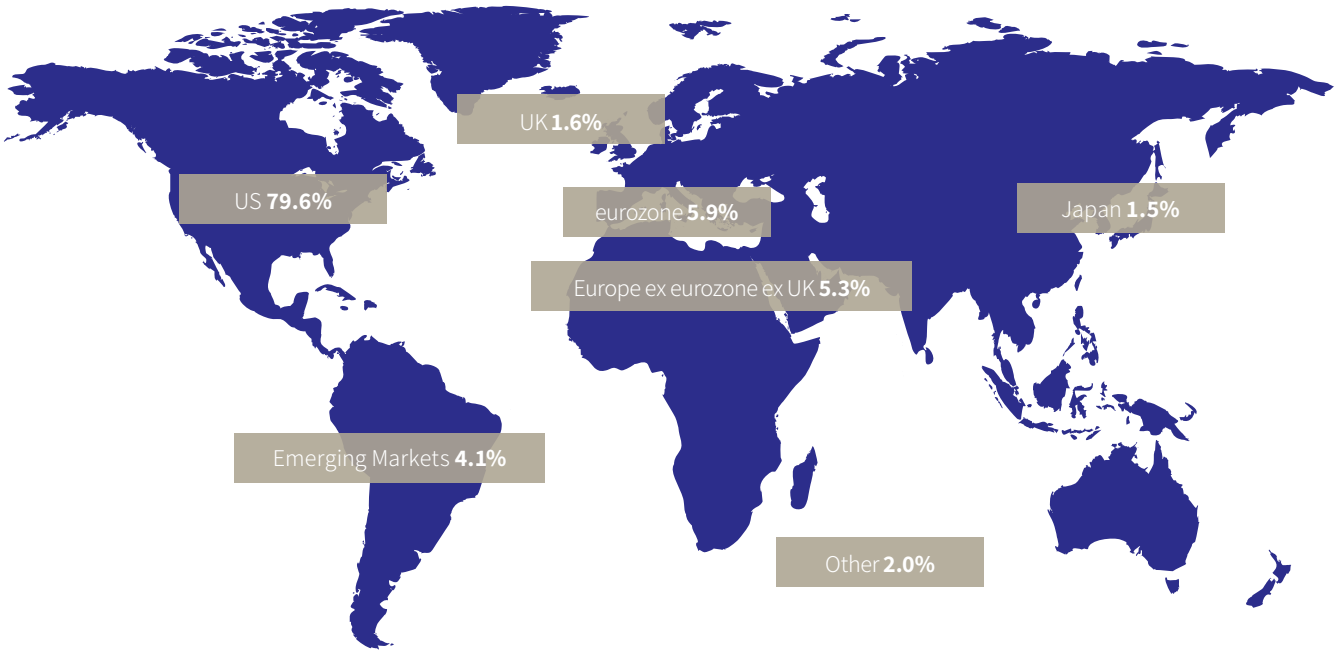


Top Ten Share Holdings

Stock name	% of fund
Alphabet	8.3
Apple	8.1
Microsoft	7.9
Amazon.com	5.9
Exxon Mobil	3.2
Nvidia	3.2
United Health	3.0
Tesla	3.0
Johnson & Johnson	2.7
JP Morgan Chase	2.7

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

Share regional distribution



Information is correct at 31 January 2022

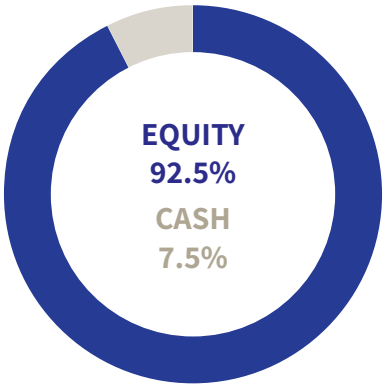
SUMMIT GROWTH FUND

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 January

The Summit Growth Fund returned +4.2%, net of fund management fee, over January. From a sector perspective, Materials, Communication Services and Consumer Discretionary were the best performers. The Healthcare, Utilities and Financials sectors lagged over the month. The stocks contributing most to the fund's return were Booking Holdings, Taiwan Semiconductor and Costco Wholesale. The stocks that detracted the most were Johnson & Johnson, UnitedHealth Group and Tryg.

Asset allocation

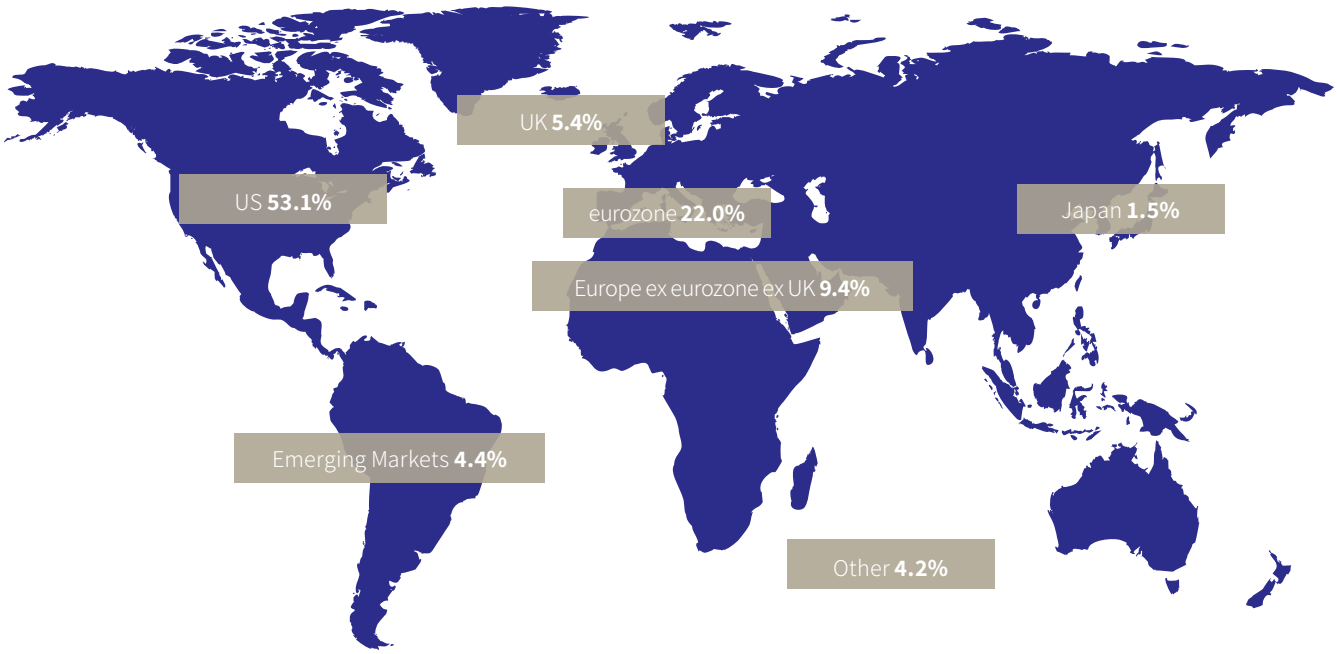


Top Ten Share Holdings

Stock name	% of fund
Microsoft	4.1
Berkshire Hathaway	3.6
Oracle	3.2
Costco Wholesale	2.7
Nike	2.6
McDonald's	2.6
Johnson Controls International	2.6
Alphabet	2.5
Johnson & Johnson	2.4
Booking Holdings	2.4

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

Share regional distribution



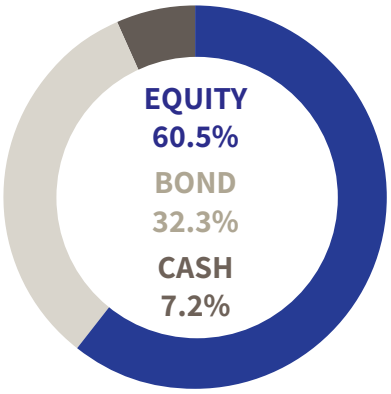
SUMMIT BALANCED FUND

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 January

The Summit Balanced Fund returned +3.5%, net of fund management fee, in January. From a sector perspective, Materials, Communication Services and Consumer Discretionary were the best performers. The Healthcare, Utilities and Financials sectors lagged over the month. Both equities and bonds enjoyed a strong start to the year, boosted by increasing hopes for an economic 'soft landing' whereby inflation continues to moderate towards central banks' targets while a recession is avoided. The growth outlook brightened as China reopened, while European sentiment and activity data continued to improve.

Asset allocation

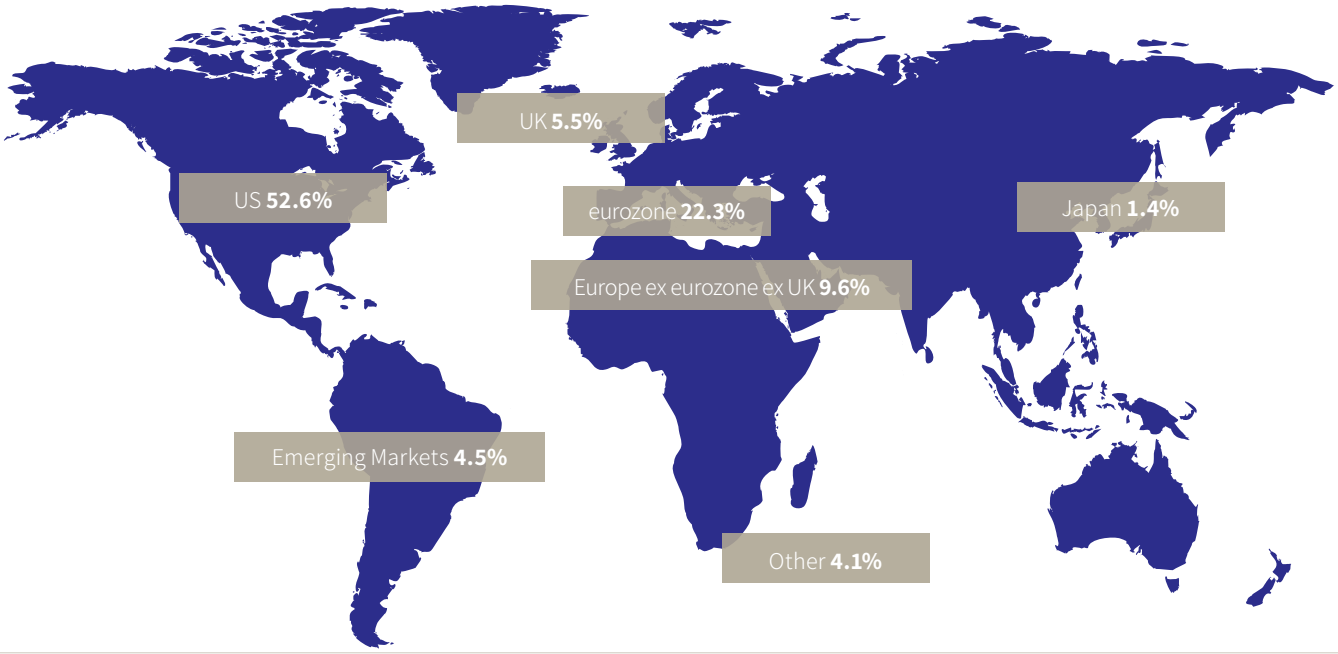


Top Ten Share Holdings

Stock name	% of fund
Microsoft	3.9
Berkshire Hathaway	3.5
Oracle	3.1
Costco Wholesale	2.7
Nike	2.7
McDonald's	2.5
Alphabet	2.5
Johnson Controls International	2.4
Samsung	2.4
Johnson & Johnson	2.3

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

Share regional distribution



SUMMIT FUND PERFORMANCE

At 31 January 2023

Fund returns after fund management fee	Balanced	Growth	Global Leaders
1 Month	3.51%	4.20%	5.85%
QTD	3.51%	4.20%	5.85%
3 Month	0.73%	1.85%	-3.46%
YTD	3.51%	4.20%	5.85%
1 Year	-7.50%	-2.69%	-14.10%
2 Years pa	2.77%	10.43%	4.38%
3 Years pa	1.20%	5.85%	5.77%
5 Years pa	2.52%	5.64%	9.54%
10 Years pa	5.42%	8.63%	10.96%

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) is recognised internationally for its expertise, innovation and track record:

European Pensions AWARDS 2019
WINNER
Passive Manager of the Year

GRESB
2022

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

Irish Pensions AWARDS 2022
WINNER
Investment Manager of the Year

Summit Mutual Funds plc is managed by Summit Asset Managers Limited. The Investment Manager is Irish Life Investment Managers Limited. Summit Asset Managers Limited and Irish Life Investment Managers Limited are both part of the Great-West Lifeco group of companies, global leaders in financial services.

Irish Life