Irish Life

Life | Pensions | **Investments**

September 2022 in review
Summit Mutual Funds

Helping people build better futures

MARKET REVIEW

The third quarter began with a strong rally for equities and bonds on the back of falling commodity prices and expectations of a possible US Federal Reserve (Fed) policy pivot and interest rate cuts in 2023. However, from mid-August, this mood gave way to acceptance of tighter monetary policy for some time to come; the Fed and other central banks stressed that policy tightening would continue until inflation is clearly falling back towards the banks' 2% targets. The commitment to continue raising rates caused global bond yields to rise to their highest levels in 10-12 years. Contagion from the surge in UK gilt yields, following the announcement of a large, unfunded fiscal package, also contributed to the rise in yields. Weak global economic data and several profit warnings from large corporates added to the pressure on equities, as did fears over an escalation of the Russia/Ukraine conflict. By quarter end, global equities and bonds had fallen to new year-to-date lows.

MARKET ROUND-UP

Equities

Over the quarter, the MSCI AC World equity benchmark fell -4.7% (-0.4% in euros) as centrals banks reaffirmed their commitment to tighten monetary policy, bond yields rose to multi-year highs and concerns over the global growth outlook increased.

The US fell -4.7% (+1.7% in euros) as expectations for the peak in the federal funds rate rose on more hawkish commentary and guidance from the Fed. Technology stocks underperformed given the continued rise in bond yields.

The UK outperformed, falling -2.9% (-4.8% in euros) as the weakness in sterling supported overseas earners. A higher relative weight in defensive sectors, such as pharmaceuticals and staples, also supported the UK.

Japan also outperformed, falling -1.5% (-1.3% in euros), with the weaker yen supporting exporters as the Bank of Japan, in contrast to other central banks, remains committed to maintaining an accommodative monetary policy stance. An improvement in economic data, as Covid-19 restrictions were lifted, also supported the market.

Emerging market (EM) equities fell -8.0% (-5.5% in euros). The Chinese market underperformed due to difficulties in the property market and restrictions remaining in place given the country's ongoing 'zero tolerance' Covid-19 policy.

Bonds

The Eurozone >5-year bond index fell -5.4%. Yields rose to their highest since 2011 with the German 10-year yield rising to 2.35% before ending the month at 2.11%. The first ever 75 basis point (bps) rise in interest rates by the European Central Bank (ECB), combined with more aggressive guidance which suggested further rate rises in upcoming meetings, contributed to the rise in yields as did some contagion from developments in the UK gilt market. The difference between Italian 10 year yields versus Germany increased slightly to 240bps on fears over additional interest rate rises and uncertainty surrounding the election. European investment grade corporate bonds fell -3.5% as yields rose 85bps to 4.13%. High yield corporate bonds fell -3.9% as yields rose 114bps to 8.56%.

Currencies and commodities

The euro fell below parity to 0.9802 against the US dollar. The euro weakened as concerns rose over the outlook for European growth amid the continued deterioration in economic data and the surge in natural gas prices; Russia significantly reduced supplies to Europe over the quarter, ahead of the suspected sabotage of the Nord Stream pipelines in September. The US dollar benefited from the more hawkish guidance from the Fed and its 'safe haven' status in the risk-off environment.

Commodities fell -10.3% (-4.3% in euros). Increasing concerns over the outlook for commodity demand in the slowing growth backdrop, particularly given the weakness in the Chinese economy, caused commodity prices to fall.

Brent oil fell -23.4%, despite OPEC announcing a production cut of 100,000 barrels per day.

European gas rose, although it was off the highs where it had been up 233% compared to the end of June. The rise in gas storage levels across Europe beyond targeted levels eased the pressure on prices towards quarter end.

Food prices remained firm as weather conditions impacted expected production levels, with wheat up 3.2%.

Metal prices were generally soft, with aluminium down -11.6% and copper -8.5% due to slower growth and weaker demand.

Gold fell -8.3% due to the stronger US dollar and higher US real yields.

MARKET SNAPSHOT

Market returns (EUR)

Equity Markets (EUR)	QTD Return (%)	YTD Return (%)	2021 Return (%)
MSCI Ireland	0.9	-29.2	17.1
MSCI United Kingdom	-4.8	-5.6	27.5
MSCI Europe ex UK	-3.8	-20.1	25.4
MSCI North America	1.5	-12.4	36.6
MSCI Japan	-1.3	-14.2	9.8
MSCI EM (Emerging Markets)	-5.5	-15.1	5.2
MSCI AC World	-0.4	-13.3	28.1
10-Year Yields	**Yield Last Month (%)**	**2021 Yield (%)**	**2020 Yield (%)**
US	3.83	1.51	0.91
Germany	2.11	-0.18	-0.57
UK	4.09	0.97	0.20
Japan	0.24	0.07	0.02
Ireland	2.69	0.24	-0.30
Italy	4.51	1.17	0.54
Greece	4.86	1.34	0.63
Portugal	3.18	0.47	0.03
Spain	3.29	0.57	0.05
FX Rates	**End last month**	**2021 Rates**	**2020 Rates**
U.S. Dollar per Euro	0.98	1.14	1.22
British Pounds per Euro	0.88	0.84	0.90
U.S. Dollar per British Pounds	1.12	1.35	1.37
Commodities (USD)	**QTD Return (%)**	**YTD Return (%)**	**2021 Return (%)**
Oil (Brent)	-23.4	5.7	55.0
Gold (Oz)	-8.3	-9.2	-3.4
S&P Goldman Sachs Commodity Index	-10.3	21.8	40.4

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

MARKET OUTLOOK

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

The outlook for equity markets over the next twelve months is dependent on factors including central bank policy, growth, inflation 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 multiple of 13.2x against a long-term average of 16.0x.

If 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 policy accommodation, which 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 now expensive versus bonds. Earnings are at risk of being downgraded due to margin pressures from higher input and labour costs with risks also to top-line growth in a slowing growth environment.

For equities to bottom, 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, growth and earnings forecasts, 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 against the current backdrop. 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 prospects remain positive over the medium to long term, with upside of approximately 6% p.a. expected on a 5-10 year view.

Outlook dependent on economic and earnings growth. Uncertainty evident post Russia's invasion of Ukraine. Monetary policy accommodation 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 2.8% 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, monetary policy tightening, fiscal stimulus, inflation developments, energy prices, 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 higher than the long term average of 16.0x. Equities' relative undervaluation against bonds has been removed 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 and other geopolitical risks.

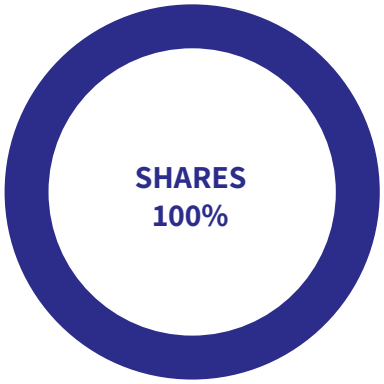
SUMMIT GLOBAL LEADERS FUND

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 September

The Summit Global Leaders Fund returned -7.31%, net of fund management fee, over September. Inflation concerns, interest rate tightening, energy supply risks and geopolitical uncertainty around Ukraine and Taiwan all contributed to negative market sentiment. Adobe was the biggest faller in the month. The market reacted negatively to the $20bn acquisition of Figma, a design software company. NVIDIA also fell significantly. The US government is imposing restrictions on sales of its high-end processors to China. There is also anxiety over data centre demand. Relative outperformers included Roche and Merck, which offered defensive appeal to investors amid the current market turmoil.

Asset allocation

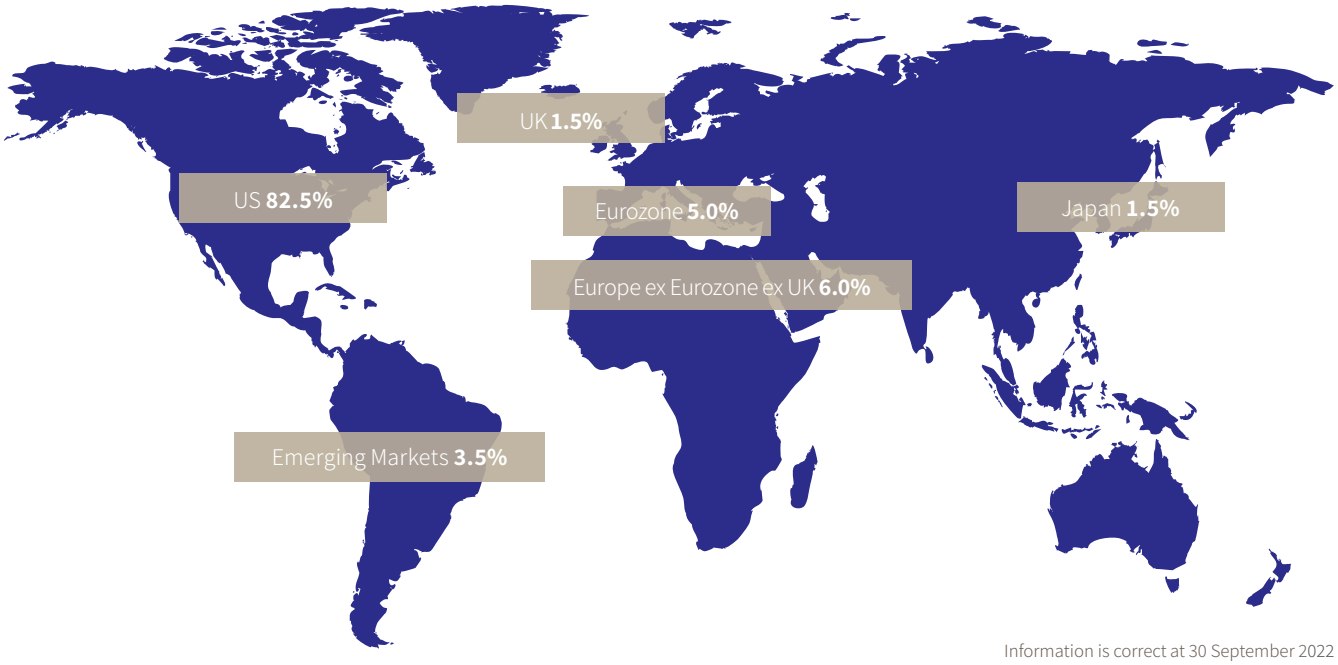


Top Ten Share Holdings

Stock name	% of fund
Apple	8.6
Microsoft	8.1
Alphabet	7.7
Amazon.com	7.6
Tesla	5.1
Johnson & Johnson	3.4
Exxon Mobil	2.9
JP Morgan Chase	2.6
Procter & Gamble	2.5
Meta Platforms	2.5

Source: ILIM, Factset. Data is accurate as at 30 September 2022.

Share regional distribution



Information is correct at 30 September 2022

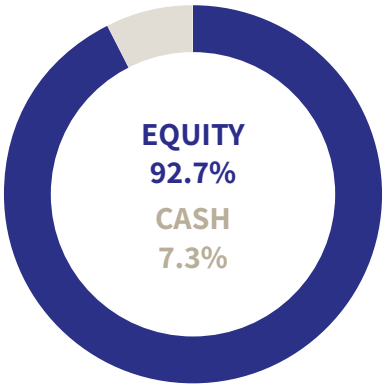
SUMMIT GROWTH FUND

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 September

The Summit Growth Fund returned -6.79%, net of fund management fee, over September. From a sector perspective, Healthcare, Energy and Materials were the best performing sectors. The Technology, Communication Services and Utilities sectors lagged over the month. The stocks contributing most to the Fund's return were Johnson & Johnson, Bank of Ireland Group and Constellation Energy. The stocks that detracted most from the Fund's return were Oracle Corp, Nike and Samsung Electronics.

Asset allocation

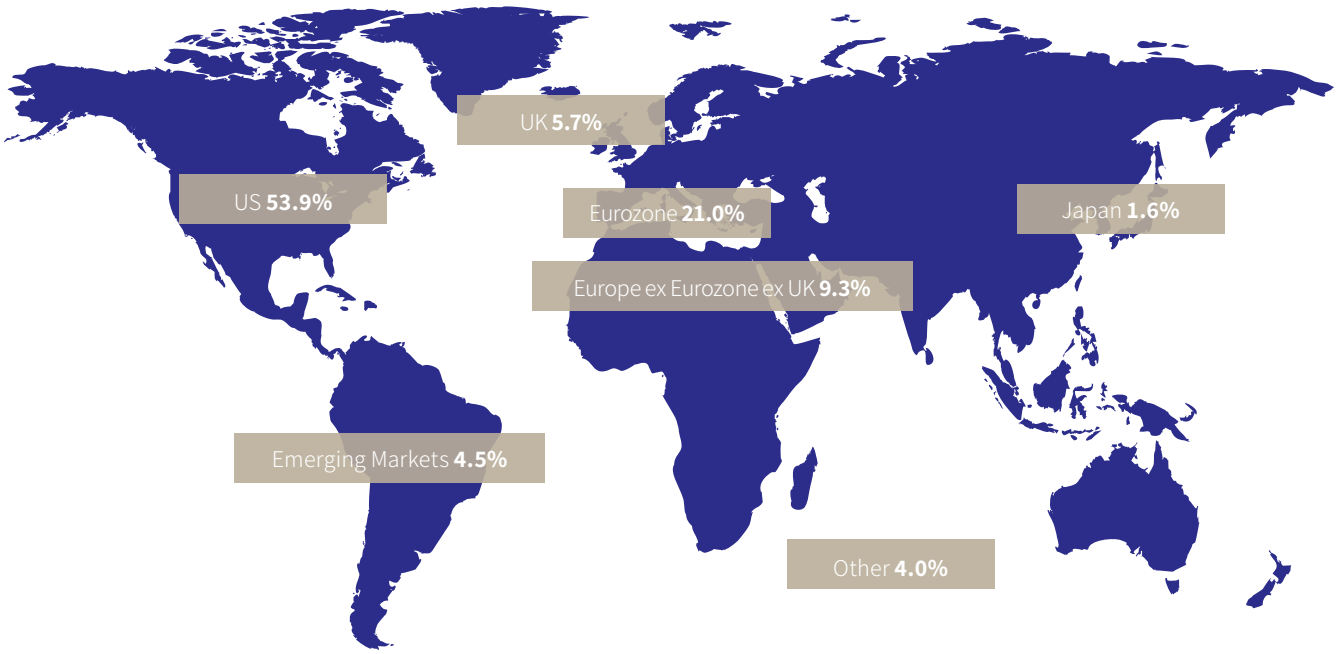


Top Ten Share Holdings

Stock name	% of fund
Microsoft	4.6
Berkshire Hathaway	3.7
McDonald's	3.3
Costco Wholesale	3.1
Alphabet	3.1
Johnson & Johnson	2.8
Oracle	2.6
Keysight Technologies	2.4
Johnson Controls International	2.2
Samsung Electronics	2.1

Source: ILIM, Factset. Data is accurate as at 30 September 2022.

Share regional distribution



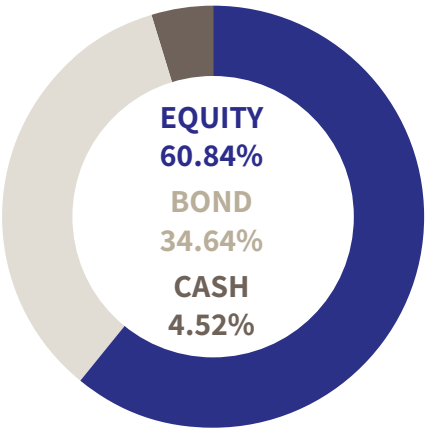
SUMMIT BALANCED FUND

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 September

The Summit Balanced Fund returned -6.01%, net of fund management fee, over September. From a sector perspective, Healthcare, Energy and Materials were the best performing sectors. The Technology, Communication Services and Utilities sectors lagged over the month. Both equities and bonds fell in September as central banks remained focused on lowering inflation, raising interest rates further while indicating policy will continue to be tightened and is likely to remain restrictive for some time. Weak global economic data and several profit warnings from large corporates also added to the pressure on equities, as did fears over an escalation of the conflict in Ukraine. The sell-off in UK gilts following the announcement of a large unfunded fiscal package also added to the pressure on global bonds.

Asset allocation

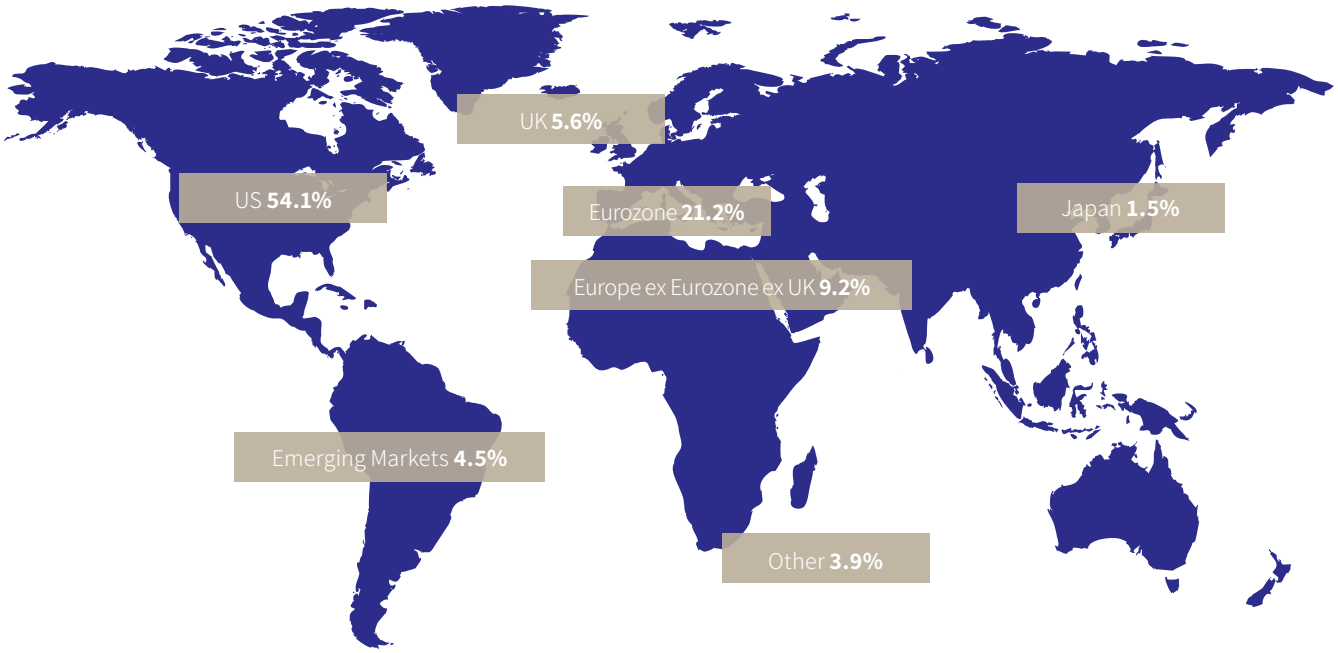


Top Ten Share Holdings

Stock name	% of fund
Microsoft	4.6
Berkshire Hathaway	3.7
McDonald's	3.3
Costco Wholesale	3.1
Alphabet	3.0
Johnson & Johnson	2.7
Oracle	2.6
Keysight Technologies	2.3
Johnson Controls International	2.1
Samsung Electronics	2.1

Source: ILIM, Factset. Data is accurate as at 30 September 2022.

Share regional distribution



SUMMIT FUND PERFORMANCE

At 30 September 2022

Fund returns after fund management fee	Balanced	Growth	Global Leaders
1 Month	-6.01%	-6.79%	-7.31%
QTD	-4.09%	-3.22%	-0.67%
3 Month	-4.09%	-3.22%	-0.67%
YTD	-14.25%	-12.86%	-17.90%
1 Year	-8.89%	-4.24%	-7.85%
2 Years pa	3.48%	11.58%	7.40%
3 Years pa	-0.32%	3.57%	8.69%
5 Years pa	1.84%	4.66%	10.72%
10 years pa	5.15%	8.17%	10.62%

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

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.

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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.