Investor Newsletter

January 2024

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Provest Private Clients Limited t/a Provest Private Clients & Provest Pension Consultants
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A Warm Welcome.

May I commence by wishing you and your families a very Happy New Year, which, hopefully, will be a good one for all.

In terms of investment performance after a very shaky start last year (primarily due to bond markets) over the first few months, global stock markets finished on a high note. The positive rally in the last quarter of 2023 was largely based on Interest rates appearing to have plateaued. Comments made by Christine Lagarde (President of the European Central Bank) reaffirmed this view when she stated that the "worst part is behind us" in the fight against inflation. The move in equities was supported by strong gains in bond markets, with sovereign and investment grade investment vehicles delivering solid returns.

Despite the economic and geopolitical uncertainty, equity markets, generally, had a great year and delivered the best performance since 2019. The MSCI World Index ended the year up 22 %; the S&P was up 24.3 %; the German DAX was up by 20.2 %; the French CAC was up by 16.6%; the ISEQ was up by 23.2%; the FTSE 100 up 3.8%. However, the NASDAQ gained 53.8 % with Amazon up by 85.7%; Google up by 63%; Meta up by 206%; and Apple up by 52.7 %. Particularly strong gains were delivered in the final quarter as the markets fundamentally reassessed the outlook for interest rates following a series of better-than-expected inflation readings in many countries.

Over 40 countries across the globe will have elections this year, something we highlighted in an Irish Times article last October. The first of these elections was decided on January 12th this year in Taiwan with new president Lai Ching-te at the helm. Early November 2024 will determine the last major election, the U.S Presidential election.

Challenges remain however in terms of "New House builds". Mortgage holders who are about to come off fixed 3- and 5-year rates are not, so far, being presented by lenders with alternatives that are reflective of the current Irish economic position. Additionally, "warehoused Covid debt", increased VAT rates for the hospitality sector along with the introduction of the Pension Auto enrolment in 2025, add additional costs to employers, some of whom are struggling presently-so a cautionary note for now.

Changes to the State Pension benefit, which will present people with a choice to work up to age 70 in exchange for a higher state pension, came into effect on January 1st last. Further details are provided in the body of this Newsletter.

May I conclude by hoping that the various conflicts around the world and the human toll that has occurred will cease, being mindful that *"you can't go back and change the beginning, but you can start where you are and change the ending"* (CS Lewis)

We sincerely hope that you enjoy reading our first newsletter of 2024.

Mark O'Sullivan
Managing Director

State Pension Changes

Changes to the State Pension which came into effect on 1st January 2024 will allow people the choice to work up until age 70 in exchange for a higher state pension. The State Pension age will remain at 66.

This new system allows people entitled to claim the State pension to defer and receive an adjusted higher payment rate for up to four years.

The table below includes maximum rates based on January 2024 rates of State Pension (Contributory).

It is important to note that if you defer claiming the State Pension, you continue to pay PRSI on earnings and investment income after 66, until you do claim the pension.

Deferring the State Pension beyond 66 involves an annual loss of the Pension you could have claimed at 66, currently a maximum of €14,470 pa. The payback period, i.e. the period for which you need to receive the increased Pension to make up the loss of income incurred during deferral is long, approximately 20 years. *Below we have outlined the length of time it may take to justify deferral.*

Age when you start to claim	Maximum rate	Increase for qualified adult *(under 66)*	Increase for qualified adult *(66 and over)*
66	€277.30	€184.70	€248.60
67	€290.30	€193.40	€260.30
68	€304.80	€203.00	€273.20
69	€320.30	€213.30	€287.10
70	€337.20	€224.60	€302.30

Age when you start to claim	Maximum rate	Loss of gross income if deferred	Payback period in years
66	€277.30	-	-
67	€290.30	€14,470	21.3
68	€304.80	€28,939	20.2
69	€320.30	€43,409	19.3
70	€337.20	€57,878	18.5

It is likely that many workers who are entitled to a full State Pension at 66 will not favour the odds of deferring. It is likely that those who will opt to defer the State Pension beyond 66 are likely to be those who want to improve their PRSI record and hence State Pension by doing so.

Market Update

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Markets staged a strong rally in Quarter four 2023, with both equities and bonds posting high returns particularly in November and December. Inflation has dropped to levels not far from the central banks' 2% target in both Europe and the US. Inflation is expected to fall further over the next 12 months, and it is likely that interest rates have peaked, with rate cuts expected from the US Federal Reserve (Fed) and ECB in 2024. Lower interest rates were increasingly priced in and a conviction there will be a soft landing for the economy - but no recession, all contributed to a sharp rise in Global asset markets. Data from the US does however show signs of slowing in their economy.

WHAT ARE THE FIVE BIG FACTORS THAT ARE GOING TO IMPACT ON MARKETS IN 2024?

01

Interest Rates

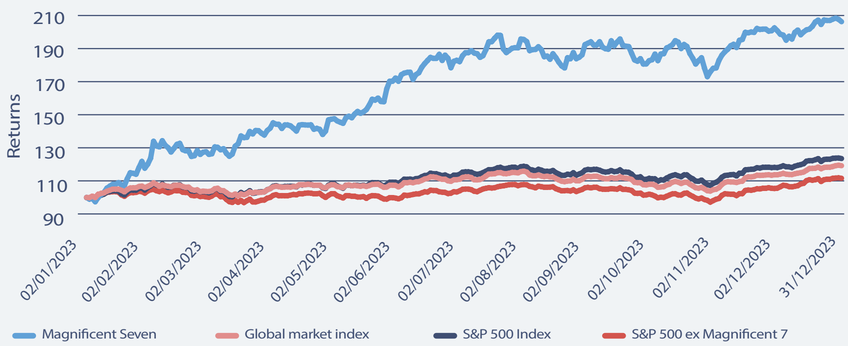
Inflation certainly appears to be easing and central banks are now looking towards rate cuts with bond yields expected to decline over the next 12 - 18 months. From a peak in the eurozone of 9.2% in October 2022, inflation reached 2.4% by November 2023. It's likely that in 2024 most regions will see interest rate cuts. In the case of the US, the Federal Reserve are expected in some quarters to commence their rate cutting exercise as early as March 2024 with up to 5 interest rate cuts expected before the year end. Markets now expect to see aggressive interest rate cuts by many major central banks in 2024. This has led to a strong rally in both equities and bonds in November and December 2023, but it does however leave room for disappointment in Quarter 1 2024 as both asset classes may have over performed in Quarter 4 2024.

02

The Magnificent Seven

In 2023, the Magnificent 7 stocks logged an impressive average return of 111%, compared to a 24% return for the broader S&P 500.The group is made up of mega-cap stocks Apple, Alphabet, Microsoft, Tesla, Amazon, Nvidia and Meta.
The market believes that these US mega-cap technology firms are likely to benefit from the boom in artificial intelligence (AI). A big question for 2024 is are we going to continue to see them dominate the market? Past experience tells us that one has to be cautious when anything doubles in value in such a short space of time. Over the past few years we've seen how these large tech companies can quickly grow to justify large valuations and high earnings expectations. For 2023, the outperformance from these companies has been one of the most striking features. It has also led to concerns that markets have become far too concentrated, and that the dominance of these companies creates a fragility similar to the 1999/2000 period.

The Magnificent Seven 2023 returns compared



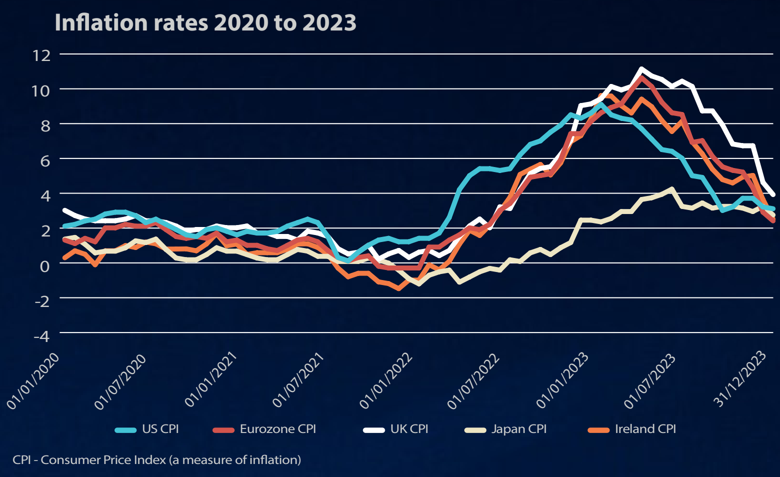
Source: Bloomberg 05.01.24

03 Recession

Will we see a recession in 2024?

Globally many economists now see a recession in 2024 unlikely and the consensus view is that even if certain regions do slip into recession, it won't be a particularly deep one.

The labour market in Europe and the US remains robust. It is likely that the Global Economy will slow in 2024 the recession which was feared in 2023 looks likely to be avoided.



Source: Bloomberg 05.01.24

04 China

Confidence remains weak in most areas across China. The property market is still in depression and dealing with a very large debt hangover. The country's second largest property developer Evergrande published large losses in July which caused uncertainty in an already struggling real estate market. China will continue to grow but probably at a slower pace – Chinese households did not have backstop of pandemic-era savings and government support was more modest, so their recovery has been weaker.

05 Elections

Election headlines look set to dominate the media in 2024. Next year will bring 40 national elections across the globe, representing more than 40% of the world's population. Kicking off with Taiwan in January, the wave of races will culminate with the U.S. presidential election in November. The US presidential election is the most important known political event in 2024. Barring illness, accident, or legal proceedings, this will almost certainly be fought by incumbent Joe Biden and Donal Trump.

Closer to home the recent UK Cabinet reshuffle saw David Cameron reintroduced as Foreign Secretary after an absence of seven years from Cabinet. This will give renewed optimism to the Conservative Party although a change to a Labour Government is very likely to emerge in 2024. One of the most important Elections in 2024 could be Taiwan. Not only does Taiwan hold a vital geostrategic position, it's also a thriving hub for international trade. Campaigning in the election has focused on the major parties differing views regarding Taiwan's future vis-à-vis mainland China. There might be some short-term volatility on foot of the US General Election in 2024.

RISKS

From a risk perspective, inflation data and subsequent interest rate expectations is the dominant topic. Numerous rate cuts are anticipated from both the Federal Reserve and the European Central Bank throughout 2024. If these cuts, in either number or magnitude, do not materialise, risk assets and market sentiment may suffer. Also, if rate cuts do materialise or indeed go deeper than forecast, it may be as a result of slower than expected economic growth or a faster than expected fall in the rate of inflation. Any global growth slowdown could also be exacerbated by a policy misstep and a further slowdown within China. Finally, as has been made explicitly evident over the last several years, geopolitical events can have a material impact on investment markets. The US Presidential election in November of this year will also move sharply into focus in the coming months.

Global equities performed well in 2023 as recession fears receded and a peak in central bank policy rates has likely been reached.

Equity Markets (EUR)	QTD Return (%)	YTD Return (%)	2022 Return (%)
MSCI AC World	6.5	18.6	-12.6
MSCI Europe ex UK	7.7	18.5	-11.9
MSCI North America	7.3	22.3	-13.8
10-Year Yields	**Yield last month (%)**	**2022 Yield (%)**	**2021 Yield (%)**
US	3.88	3.87	1.51
Germany	2.02	2.57	-0.18
FX Rates	**End last month**	**2022 Rates**	**2021 Rates**
U.S. Dollar per Euro	1.10	1.07	1.14
British Pounds per Euro	0.87	0.89	0.84
U.S. Dollar per British Pounds	1.27	1.21	1.35
Commodities (USD)	**QTD Return (%)**	**YTD Return (%)**	**2022 Return (%)**
Oil (Brent)	-19.2	-10.3	10.5
Gold (Oz)	11.6	13.1	-0.3

Source: ILIM, Bloomberg. Data is accurate as at 1 January 2023.

2024 – the year of the election

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Concerns about Biden's age and capacity persist although the same can often be said of Trump. The likely candidates will have a combined age of 159 years by the time the US electorate cast their votes next November. The election will be extremely divisive on social issues. Trump has repeatedly defied expectations.

A second Biden administration would provide continuity, a second Trump administration would be unpredictable with policy positions largely unarticulated and subject to change. A Trump administration would probably seek to reverse some of Biden's reforms, lowering clean energy incentives, and focusing less on environmental issues.

Regional tension in the Middle East and conflict in Ukraine will come into focus. Trump could scale back US support for Ukraine. A tough stance on China is welcome by Republicans and Democrats – a Republican administration could ratchet this up further. The erosion of international norms and institutions seems likely to continue, especially under Trump.

Closer to home the recent UK Cabinet reshuffle saw David Cameron reintroduced as Foreign Secretary after an absence of seven years from Cabinet. This will give renewed optimism to the Conservative Party although a change to a Labour Government is very likely to emerge in 2024.

One of the most important Elections in 2024 could be Taiwan. Not only does Taiwan hold a vital geostrategic position, it's also a thriving hub for international trade. Campaigning in the election has focused on the major parties differing views regarding Taiwan's future vis-à-vis mainland China.

With every US election, there is some impact to the stock market as investors consider how the elected officials will affect economic policies.

The year leading up to a US election typically shows lower returns as investors cope with uncertainty. However, in the 12 months after an election, the market's performance tends to be stronger than usual, regardless of which party is in office.

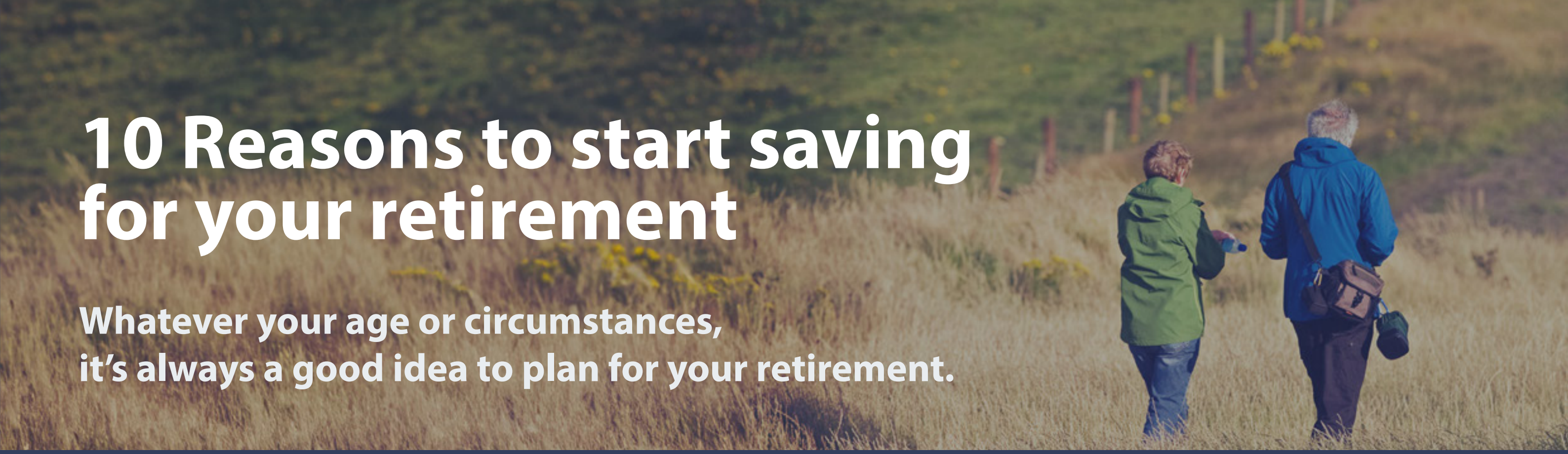
According to Global Research Provider - JP Morgan going back to 1980, stocks have rallied in the year following an election, on average. So, while volatility may pick up with the unknown heading into a US election, markets tend to forge ahead as uncertainty fades.

As elections approach, people tend to overestimate the impact of elections on how they think the equity markets and asset values are going to perform.

Like no US president before him, Donald Trump tied the success of the stock market to his economic policies, arguing that sharp gains were a vindication of his stewardship. During his Presidency from January 2017 until January 2021 the Dow Jones Industrial Average (Dow) gained approximately 56% which comes out as an annualized return of an impressive 11.8%.

Previous Presidents shied away from tying their success too closely to the stock market. If you take credit for its rise, you're likely to get only more blame if it falls. The Dow which groups together the prices of 30 of the most traded stocks on the New York Stock Exchange (NYSE) and the technology heavy Nasdaq gained 15.9% on an annualized basis under Bill Clintons (226% in total) administration and 12.1% on an annualized basis under Barak Obama (149% in total) presidency. It must be remembered that Clinton and Obama's administration lasted for 8 years whereas Trump was not re-elected after his four-year term in office.

Historically, Elections can have significant implications for the country's direction. But elections tend not to have a significant impact for the long term on equity markets. The results matter more for policy continuity. Regardless of how next year's election plays out investors should continue to focus on their long-term investment goals. Do not react to the media and news headlines. Negative news can trigger fear. "Time in" the market generally beats "timing" the market because many of the best days occur during or immediately following downturns.



10 Reasons to start saving for your retirement

Whatever your age or circumstances, it's always a good idea to plan for your retirement.

01
Save Tax

- On pension contributions, higher rate taxpayers can potentially benefit from up to 40% in tax relief on every €1 saved. A €100 contribution only costs you €60! If you pay tax at the standard rate, you can benefit from 20% tax relief
- On investment growth
- On income in your retirement (within limits)

02
Reduce your drop in income after retirement

Your income could drop by over 70% in retirement as the maximum State Pension (Contributory) is €13,171.60* a year but the average wage is €45,779** a year.

**Annual State Pension Contributory September 2022, www.welfare.ie*
***CSO, Average earnings in Q1 2022, Earning and Labour Costs*

03
Your retirement may last 30 years or more

You may need an income for up to 30 years or more when you retire. This could amount to as much as a third of your life, so it makes sense to save now.

04
State Pension age

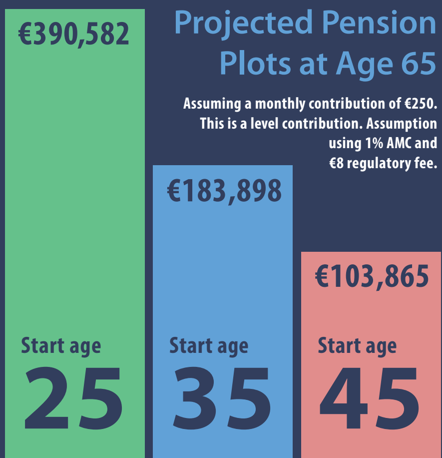
The State Pension (Contributory) is currently payable at age 66 however there are proposals to allow people to choose to delay the payment of the State Pension in return for an increased rate. Starting a pension now can bridge this gap.

05
Your employer will contribute to your pension

You can contribute a percentage of your pay and your employer will also make a contribution to your pension.

06
Starting early can make things easier

It's never too early to join. Starting earlier means you may be able to start to save with a smaller amount which makes providing for your retirement easier.



07
It's never too late to start

I's never too late to join. You can still reduce your tax bill and benefit from contributions. It is also a way to have additional retirement savings on top of the State Pension or other retirement savings you may have.

08
Investment growth

A pension can give you a great opportunity for growth over the longer term. Unlike a normal investment any investment growth will accumulate free of exit tax. You can choose from a range of investment funds from global investment specialists.

09
A lump sum at retirement

At retirement, you may be able to take a retirement lump sum, tax free, subject to a limit of €200,000.

10
Start now

The sooner you start the better. Even if you're older it's not too late. You can claim tax relief on a higher percentage of your earnings, so there is still time to catch up!

Source: New Ireland

At Provest Private Clients Limited we realise that supporting our community is an opportunity for our business to give back to those who need assistance.

Here are pictures from some of the initiatives we supported in 2023.

Breakthrough Cancer Research

Cork Constitution

Run In The Dark

Cork Chamber of Commerce

Cork Constitution –
Player of the Match award

Sailability

UCC Bursary

Provest

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