Market Review Quarter 2 & Investment Outlook

It has been a very eventful 6 months for financial markets with volatility spiking in recent weeks following the Brexit result. Markets now seem to have digested Britain's vote to leave the European Union and the shock, as evidenced by the abrupt nosedive seen in global financial markets, in the immediate aftermath of the referendum seems to have settled.

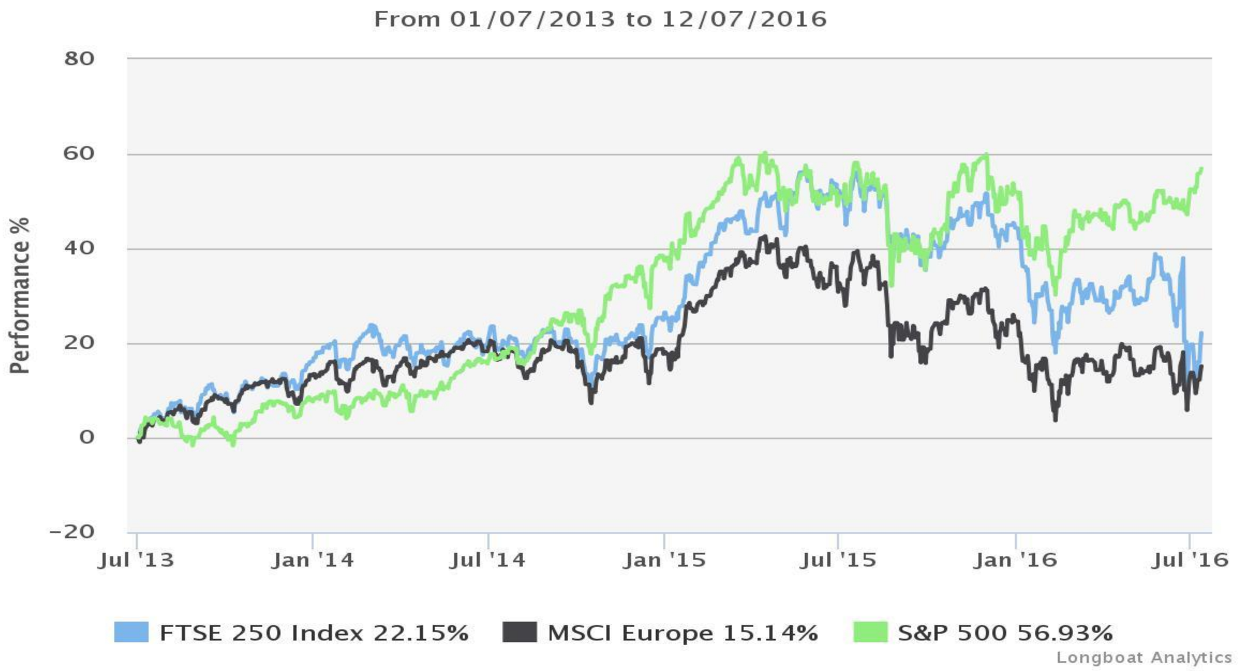
Although markets saw heavy selling in the two trading days after the vote was announced, it merely brought the index back to levels seen less than a fortnight earlier. Now two weeks after the vote ironically both the FTSE and S&P (the US Standard & Poor's index) are back towards or exceeding all-time highs. If anything it shows the fickle nature of markets and how uncertainty can cause panic.

All of the major central banks in the world have agreed to provide as much liquidity to the markets as they will need to stabilise markets and equity markets have subsequently bounced back as a result.

No one knows what effect the United Kingdom's decision to exit the European Union (EU) will have on global markets and economies in the long term but if anything the recent stock market turbulence underlines that if you have a solid diversified approach then blips like the Brexit vote should not cause you unnecessary ease.

Market movement

Markets took some re-assurance in the view that Central Banks would step up their efforts to support growth in the face of this new threat, and while it might be bad for the UK, the rest of the world can cope. Quarter 2 was positive for investment markets despite the furore of Brexit and the temporary panic that it brought, equity markets at the end of June 2016 were 3.6% higher than at the end of March 2016. Perhaps less surprising is the volatility of markets which are experiencing significant ups and downs since January. Regardless, we are now looking at all-time highs on some stock market indices but volatility is going to continue until we get greater clarity around the Brexit process. With the appointment of Therese May as UK Prime Minister this will hopefully go some way towards stabilising things. The following chart highlights the US S&P mainly upward trajectory over the last 3 years.



Commercial Property Update

The larger gains have now subsided in Irish Commercial Property and with rental yields still in excess of 6% p.a. property offers solid growth potential over the next 12 months.

UK Commercial Property has suffered in the last three weeks since Brexit although the fundamentals are still strong in the UK (for now).

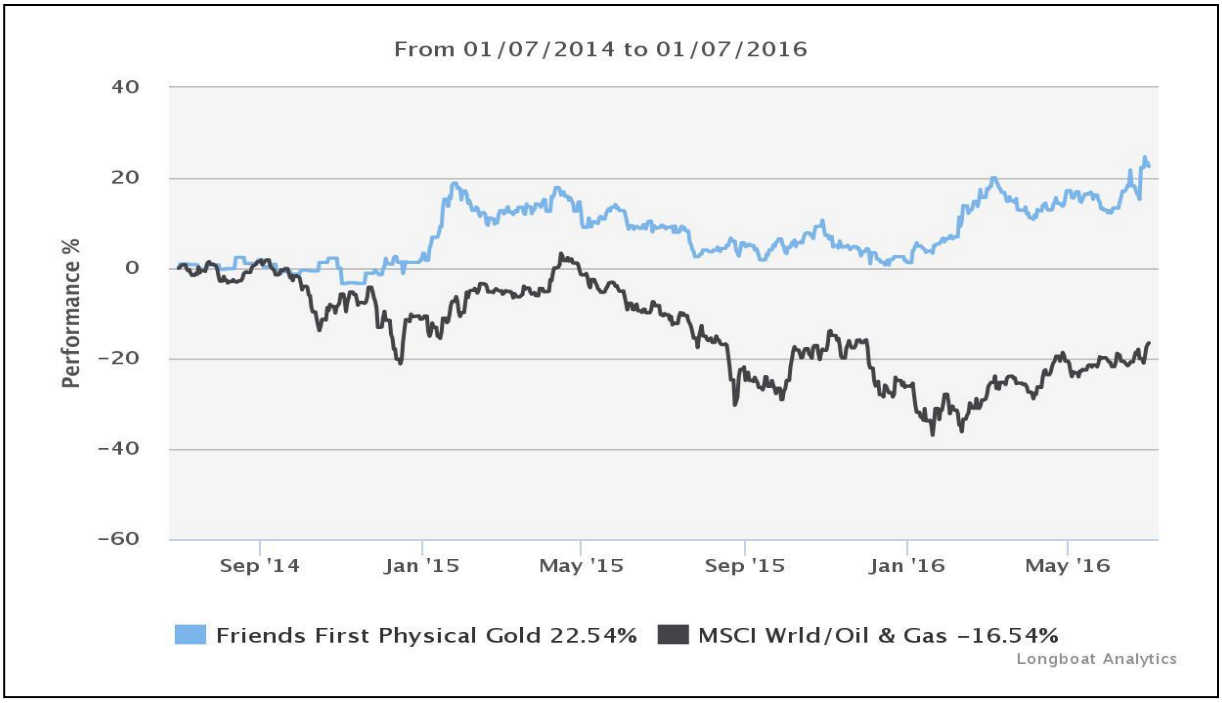
Post-Brexit, we cannot ignore that we are entering a very sensitive period for property markets and Ireland's close links to the UK is of concern from an economic perspective. It is too early to predict how Brexit will unfold and what its longer-term impact on the Irish economy will be, however there may be some wins for Ireland in the short-term. Ireland is well-positioned from an occupier perspective to benefit from some of the post-Brexit uncertainty and there is the potential to see a positive short-term bounce in demand from occupiers.

We will be issuing a more detailed note on the Commercial Property sector in the coming weeks.

Commodities

Gold is seen as a **safe haven** investment in times of uncertainty and has benefited from the Brexit fall out and is now at a 2 year high of over $1,300 an ounce with a 20% rise this year. Crude Oil prices have swung from their highs of over $100 per barrel a couple of years ago to lows of below $30 per barrel early in 2016. In early June oil prices rose above $50 a barrel and are now back to just under $47 per barrel.

Even so, the rise in oil prices from below $30 per barrel has certainly been important in supporting high yield debt markets and some emerging equity markets. However, the move in oil prices is unlikely to be the start of a major trend higher in global commodity prices – unless the Chinese economy really accelerates or the US dollar unexpectedly collapses – but gold is forecast to move higher based on the geopolitical uncertainty in markets at present.



Outlook

As mentioned in our recent Brexit update markets are fickle as outlined by a heavy Brexit sell off and then strong recovery. The fundamentals of the global economy remain weak and the Central Banks **Quantitative Easing** have helped to prop up equity prices.

Brexit was one of a number of risks that we identified at the turn of the year, along with a debt-laden Chinese economy, European instability and US politics. At this stage it's fair to say we are no further on with regard to any of these issues and bubbling away quietly is a serious liquidity issue with Italian banks (much like the Irish situation which resulted in the Troika bailout). Germany's patience with the EU project is going to be tested further with several European banking stocks under severe pressure. From an Irish context this is having a negative effect on BOI shares and also the government's hope to sell AIB.

Because of these event risks and the back drop of a sluggish global economy, a conservative approach is still recommended and for risk adverse individuals having an element of cash levels in your portfolio is not necessarily a bad option in light of market uncertainty and low inflation in the current climate.

Warning: The value of your investment may go down as well as up. You may lose some or all of the money you invest depending on the level or risk involved. Past performance is not a reliable guide to future performance. Investments denominated in a currency other than your base currency may be affected by changes in currency exchange rates.

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