APT FUND UPDATE
Q2 2019

Overview of markets in Q2 2019

- Shares in developed markets gained in Q2, despite a steep fall in May due to concerns over the US-China trade war. Stock markets were supported by increasingly accommodative central banks and hopes of progress in trade tensions by the end of June.

- The US S&P 500 index achieved a new record high. The Federal Reserve (Fed) did not cut interest rates at its June meeting, but indicated that there may be rate cuts ahead. More economically-sensitive areas of the market generally performed strongly.

- Eurozone shares advanced, with a sharp drop in May sandwiched between gains in April and June. European Central Bank (ECB) President Mario Draghi hinted at further monetary policy easing if the inflation outlook fails to improve.

- UK shares performed well over the quarter, despite ongoing Brexit-related uncertainty and the resignation of Prime Minister Theresa May.

- Japanese shares performed worse than the other major developed markets. The yen strengthened, partly as a result of its reputation as a safe haven at times of geopolitical risk.

- Emerging market shares lagged their developed market counterparts. Trade uncertainty weighed on Chinese and South Korean stocks. South Africa, Indonesia, Turkey and Argentina were the best performing countries.

- Government bond yields fell markedly as prices rose. Corporate bond markets delivered positive total returns and performed better than government bonds.

Quarterly markets review – Q2 2019

US

US shares gained in Q2 and the S&P 500 set a new record high. Uncertainty surrounding the US' trade stance caused a mid-quarter market wobble. However, investors were broadly cheered by continued dovishness from the Federal Reserve and indications of progress in trade tensions by the end of June. Comments from President Trump that his administration could impose tariffs on Mexican imports, and extend the suite of goods that are taxed on import from China, caused a sharp market sell-off in May. In June, signs emerged of progress in talks with China, with Trump also "indefinitely suspending" the Mexican tariffs.

Economic data was mixed. US gross domestic product (GDP), which measures the value of all the goods and services produced by an economy, grew 3.1% (quarter-on-quarter, annualised) in Q1, revised down from 3.2%, which was as expected. Employment data remained broadly encouraging despite slowing in June. The unemployment rate remained stable at a 49-year low of 3.6% while average hourly earnings climbed 3.1% from a year earlier, below expectation of a 3.2% gain.

However, consumer and business confidence indices weakened, and survey data indicate business activity is slowing. The Fed did not cut rates at its June meeting, but the "dot plot" signals easier policy ahead. The dot plot shows what level Fed policymakers think rates will be in the future.

More cyclical areas of the market, i.e. those that are most sensitive to the economic cycle, generally performed strongly. Financials, materials and IT all generated robust gains. Healthcare remains challenged by potential changes to pricing legislation, and more defensive (ie less cyclical) areas of the market made modest gains. Energy stocks largely declined.

Eurozone

Eurozone equities (shares) advanced in Q2 with a sharp drop in May sandwiched in between gains in April and June. Top performing sectors included information technology, consumer discretionary and industrials. Sentiment towards trade-exposed areas of the market such as semiconductors and car makers ebbed and flowed over the quarter as trade tensions persisted. The lack of any further escalation in the trade wars in June helped the market to recover after May's pull-back. The real estate sector fell after Berlin's city government proposed a five-year freeze on residential property rents from 2020.

Q1 GDP growth for the eurozone was confirmed at 0.4% quarter-on-quarter. Annual inflation for June was stable compared to May at 1.2%. European Central Bank President Mario Draghi hinted that further monetary policy easing, such as new bond purchases, could be on the way if the eurozone inflation outlook fails to improve.

Forward-looking surveys painted a mixed picture. The flash composite purchasing managers' index (PMI)[1] reached a seven-month high of 52.1 in June. Any reading of the index above 50 indicates improving conditions, while readings below 50 indicate a deteriorating economic circumstance. However, the index has service and manufacturing elements, and the latter remained at a level that indicates it is shrinking.

On the political front, Spain held general elections at the end of April. These saw the incumbent Socialist Party (PSOE) emerge as the largest party. Italy's fiscal position was in focus after the European Commission (EC) cut its forecast for 2019 Italian GDP growth to 0.1% from 0.2%. This would mean the budget deficit would exceed the level previously agreed between Italy and the EC.

[1] The eurozone purchasing managers' index is produced by IHS Markit and based on survey data from around 5,000 companies based in the euro area manufacturing and service sectors. A reading above 50 indicates economic expansion.

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UK

UK shares also performed well. Areas of the market perceived to offer superior and defensible earnings growth extended the run of outperformance they have experienced since the beginning of 2019. For example, the technology sector enjoyed another quarter of strong relative performance, as did a number of large consumer goods companies, which are perceived to have dependable growth prospects. Conversely, many of the market’s domestically-focused sectors underperformed amid renewed Brexit and political uncertainty.

Theresa May resigned as leader of the Conservative Party and therefore as UK prime minister, taking a caretaker role as of 7 June. The Conservative Party began the process of selecting its new leader, who will also become prime minister. Despite a further extension of the Article 50 deadline to 31 October, there remains considerable uncertainty as to the path a new leader might wish to take.

Meanwhile, the negative impact of the original 31 March Article 50 deadline on the UK manufacturing sector became clearer. While GDP grew by 0.5% in Q1, in line with expectations, the Office for National Statistics (ONS) revealed that the economy shrank by 0.4% in April (by more than forecast) and primarily due to a sharp fall in car production related to Brexit uncertainty.

The ONS also reported widespread weakness across manufacturing, as the boost from the early completion of orders ahead of the UK’s original EU departure data faded in April. In addition, Markit’s UK manufacturing PMI for May slipped below 50, the level which separates expansion from contraction, for the first time since July 2016.

Japan

Japanese shares performed worse than the other main developed markets in the second quarter. The total return for the three months was -2.4%, primarily as a result of weakness in May. The yen strengthened against other major currencies, driven partly by its perceived safe-haven status at times of geopolitical risk, and partly as a result of changing interest rate expectations for the US.

The main development during the quarter was the continued escalation of trade issues, notably the announcement in May of sharp increases in US tariffs on imports from China. These higher levels would inevitably have a much greater impact on volumes, with repercussions throughout global supply chains. In addition, the US campaign against Huawei is already having an impact on Japanese electronic component suppliers. For most of the quarter, these negative factors exacerbated the reaction to a slowdown in corporate earnings growth, which was evident in the results for the final quarter of the fiscal year. Meanwhile, the direct bilateral trade talks between the US and Japan took a backseat and any substantive announcements seem to have been delayed until August, safely after Japan’s Upper House elections in July.

Economic data was mixed, with the largest positive surprise seen in Japan’s growth rate for Q1 2019. This showed real GDP grew at an annualised rate of 2.1% whereas consensus expectations had called for a decline. Although the detailed breakdown was not particularly encouraging for the domestic economy, it does mean that in the short term Japan is likely to avoid a technical recession, which is when an economy shrinks for two quarters in a row. The Bank of Japan left monetary policy, and the associated language, unchanged in the quarter.

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Asia (ex Japan)

Asia ex Japan shares posted modest losses in the second quarter as markets in the region recorded mixed performances. The Asian index of stock markets (the MSCI Asia ex Japan index) underperformed the global equivalent (the MSCI World index).

Trade tensions and economic risks played on the minds of investors, while global monetary policy was another key focus. In particular, the US-China trade war escalated in May after the US raised tariffs on US$200 billion worth of Chinese imports and added Chinese telecommunications group Huawei to a trade blacklist. China countered with retaliatory tariffs on US goods. Both countries subsequently agreed to a truce and will resume trade negotiations following a meeting between their leaders in June.

Against such a backdrop, stock markets from countries in ASEAN (Association of Southeast Asian Nations) outperformed. Thailand and Singapore notched the biggest gains in the region. The Philippines was helped by strong advances in communication services and consumer staples stocks. Indonesia, where President Joko Widodo was re-elected, also fared well.

In Greater China markets, Hong Kong benefited from the rally in financials stocks, while investors also cheered the suspension of a contentious extradition bill. Taiwan edged up as gains in consumer staples and industrials stocks outweighed declines in the healthcare sector. Conversely, Chinese stocks fell and were among Asia's worst performers, though losses were pared in June thanks to easing trade tensions and hopes of further stimulus measures.

Emerging markets

Emerging market shares recorded a slight gain in a volatile second quarter. US-China trade tensions were rekindled in May as talks unexpectedly broke down, and both sides implemented new tariffs. However, hopes for a resumption of talks post the G20 summit in June, and rising expectations that the US Fed will cut interest rates, proved supportive later in the period. The MSCI Emerging Markets Index gained but underperformed the MSCI World.

Those markets most sensitive to changes in global liquidity performed well, in particular Argentina where political developments also boosted sentiment. In advance of presidential elections in October, the leading candidates appeared to adopt a more centrist stance. South Africa, Indonesia and Turkey were among the best performers. In South Africa, the re-election of the African National Congress Party was positive, despite a decrease in the size of its majority.

Russia also performed better than the average country in the index, due in part to a strong rally from state-controlled oil company Gazprom. Meanwhile, the Russian central bank cut interest rates by 25 basis points (bps) to 7.25% in June, and signalled potential for further easing this year.

By contrast, China and South Korea finished in negative territory, impacted by global trade uncertainty. After trade talks broke down, the US increased tariffs on $200 billion of Chinese goods imports from 10% to 25% and blacklisted Chinese telecoms company Huawei. It also threatened to levy tariffs on the remaining $300 billion of goods imported from China. China retaliated by raising tariffs on $60 billion of US goods imports from an existing 5-10% range to a maximum of 25%. However, following the G20 Osaka summit, which took place at the end of June, further tariff hikes have been paused. The US has also eased some export controls against Huawei.

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Global bonds

It was a positive quarter for financial markets with both riskier assets and government bonds making gains. Broadly, this reflected expectations that central banks would keep monetary policy loose, including the possibility of US rate cuts. At their meetings in mid-June, comments from the Fed and ECB confirmed the growing dovishness among policymakers, with both clearing the way for further policy measures if needed.

Government bond yields fell markedly as prices rose. The 10-year US Treasury yield was over 40 basis points (bps) lower over the period and the 10-year German Bund yield over 25bps lower at -0.33%. There was a pronounced move in the Spanish 10-year yield, which fell 65bps to just above 0.40% as the April general election removed political uncertainty. The UK 10-year yield underperformed, falling by about 17bps. The yield rose in April (i.e. bond prices fell) on the announcement of an extension to the Brexit deadline and resilient economic data.

Corporate bond markets delivered positive total returns and outperformed government bonds. Credit drew support from falling yields (bond prices rise when yields fall). Higher quality bonds (ie investment grade[2]) saw better returns than high yield (HY) as they tend to benefit more from falling yields. Emerging market (EM) bonds had a positive quarter. EM debt denominated in local currencies performed particularly well as the US dollar weakened in June. Across US dollar-denominated and corporate EM bonds, IG produced stronger returns than HY.

Convertible bonds, as measured by the Thomson Reuters Global Focus index, advanced by 1.1% in US dollar terms compared to 4.0% for the MSCI World index. On balance, convertibles are fairly priced. Europe remains the most expensive region, while Japanese and Asian convertibles are trading below fair value.

Commodities

In commodities, the S&P GSCI Spot Index registered a negative return, amid increased concerns over the outlook for global growth. Industrial metals recorded the steepest falls, with zinc down 14.5% and copper losing 7.8%. Energy was also down, with Brent crude declining 4.5%, despite a rise in geopolitical tensions in the Persian Gulf. Soft commodities lost value. By contrast, precious metals recorded gains, led by gold (+9.1%).

[2] Investment grade bonds are the highest quality bonds as determined by a credit ratings agency. High yield bonds are more speculative, with a credit rating below investment grade.

Investment Market Performance Q2 2019

Total returns (net) % – to end Q2 2019

	3 months			12 months		
Equities	**USD**	**EUR**	**GBP**	**USD**	**EUR**	**GBP**
MSCI World	4.0	2.5	6.5	6.3	9.0	10.3
MSCI World Value	2.5	1.0	4.9	4.2	6.9	8.1
MSCI World Growth	5.5	4.0	8.0	8.4	11.2	12.5
MSCI World Smaller Companies	2.0	0.5	4.4	-2.7	-0.3	0.9
MSCI Emerging Markets	0.6	-0.8	3.0	1.2	3.8	5.0
MSCI AC Asia ex Japan	-0.7	-2.1	1.7	-0.5	2.0	3.2
S&P500	4.3	2.8	6.8	10.4	13.2	14.5
MSCI EMU	5.5	4.0	8.0	-0.5	2.0	3.2
FTSE Europe ex UK	6.3	4.8	8.8	4.0	6.7	7.9
FTSE All-Share	0.9	-0.6	3.3	-3.1	-0.6	0.6
TOPIX*	0.3	-1.1	2.7	-5.7	-3.3	-2.1

	3 months			12 months		
Government bonds	**USD**	**EUR**	**GBP**	**USD**	**EUR**	**GBP**
JPM GBI US All Mats	3.1	1.7	5.6	7.5	10.2	11.5
JPM GBI UK All Mats	-1.0	-2.3	1.4	1.5	4.0	5.2
JPM GBI Japan All Mats**	3.9	2.5	6.4	6.2	8.9	10.2
JPM GBI Germany All Traded	3.5	2.0	5.9	2.5	5.0	6.8
Corporate bonds	**USD**	**EUR**	**GBP**	**USD**	**EUR**	**GBP**
BofA ML Global Broad Market Corporate	3.9	2.4	6.4	7.8	10.5	11.8
BofA ML US Corporate Master	4.3	2.9	6.8	10.5	13.3	14.7
BofA ML EMU Corporate ex T1 (5–10Y)	4.6	3.1	7.1	4.3	6.9	8.2
BofA ML £ Non-Gilts	-0.3	-1.7	2.0	2.1	4.7	6.0
Non-investment grade bonds	**USD**	**EUR**	**GBP**	**USD**	**EUR**	**GBP**
BofA ML Global High Yield	2.9	1.4	5.3	7.5	10.2	11.5
BofA ML Euro High Yield	3.8	2.3	6.2	3.0	5.6	6.8

Source: Thomson Reuters DataStream.

Local currency returns in Q2 2019: *-2.4%, **1.2%.

Past performance is not a guide to future performance and may not be repeated.

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Active Global Equity Funds	Q2	YTD	1yr	3yr	5yr	2018	2017	2016	2015	2014
Friends First F&C International Equity	1.2	14.1	6.0	10.6	9.6	-4.4	11.5	7.4	8.2	18.0
Irish Life Pension Active Fund (MEQ)	0.2	13.3	6.8	9.1	10.3	-4.4	8.1	15.3	8.0	19.2
Merrion Global Equity	3.0	17.7	3.5	6.5	7.7	-10.8	4.7	0.0	16.0	15.8
Canada Life (Grp) CL/Setanta Pension Equity	0.3	13.4	6.7	9.0	10.1	-4.6	7.9	15.3	8.2	19.7
Standard Life Inv Global Equity	3.3	19.4	4.7	7.9	6.5	-12.8	6.9	-1.5	14.2	15.7
Zurich Life International Equity	2.2	17.0	6.8	10.4	10.1	-5.7	9.2	9.9	10.5	17.5
Navigate High Growth Fund	2.5	16.1	6.8	9.3	9.4	-6.4	10.3	11.2	10.2	16.7
Index: MSCI World Index	**2.5**	**17.4**	**9.0**	**10.9**	**10.6**	**-4.1**	**7.5**	**10.7**	**10.4**	**19.5**

Passive Global Equity Funds	Q2	YTD	1yr	3yr	5yr	2018	2017	2016	2015	2014
Navigate Low Volatility Equity Fund	3.6	16.3	14.8	7.5	13.6	1.2	4.7	10.3	16.8	26.5
Navigate Quality Equity Fund	1.5	13.8	4.9	9.0	8.0	-7.3	6.7	14.9	6.7	17.4
ILIM Index World Equity - IWE	2.5	16.8	8.6	10.8	10.4	-4.6	8.5	11.5	9.4	18.8
SSgA World Index Fund	2.4	16.8	8.2	10.7	10.4	-4.7	8.1	10.7	10.3	18.8
Standard Life Vanguard Global Stock Index	2.4	17.1	7.3	10.7	10.1	-5.7	7.4	10.9	10.2	20.0
Index: MSCI World Index	**2.5**	**17.4**	**9.0**	**10.9**	**10.6**	**-4.1**	**7.5**	**10.7**	**10.4**	**19.5**

Active Managed Funds	Q2	YTD	1yr	3yr	5yr	2018	2017	2016	2015	2014
Acorn Life (Grp) Pension Managed Growth	2.4	14.2	5.2	8.3	7.7	-7.6	7.0	5.6	12.4	13.1
Canada Life (Grp) Setanta Pension Managed	0.9	10.4	5.6	7.0	8.3	-3.1	6.3	11.8	7.5	17.3
Friends First (Grp) Mixed	1.6	11.7	4.7	7.7	7.5	-4.6	8.2	5.2	7.4	16.9
Merrion IM (Grp) Managed	3.1	14.4	3.1	5.0	6.5	-8.9	4.4	-0.7	13.6	16.7
New Irl (Grp) Pension Managed Net	1.6	11.5	4.7	7.0	6.3	-7.3	7.3	9.3	6.5	10.9
Standard Life Managed	1.4	12.9	3.3	6.8	6.8	-7.7	9.4	1.0	10.5	15.6
Zurich Life (Grp) Balanced	1.9	11.8	4.9	7.3	7.7	-3.7	6.2	6.6	9.8	15.1
APT Average	**1.8**	**12.4**	**4.5**	**7.0**	**7.3**	**-6.1**	**7.0**	**5.5**	**9.7**	**15.1**

Passive Managed Fund	Q2	YTD	1yr	3yr	5yr	2018	2017	2016	2015	2014
ILIM Consensus Fund - PCF	2.4	12.9	6.7	8.0	8.2	-4.1	7.0	7.4	9.5	16.0

Target Return Funds	Q2	YTD	1yr	3yr	5yr	2018	2017	2016	2015	2014
ILIM Absolute Alpha - ABS	-0.3	-0.2	-0.3	0.5	1.3	-2.2	3.1	-0.5	3.1	4.8
ILIM Managed Fund - MR1	0.9	8.9	5.0	6.8	7.7	-2.1	5.8	9.2	8.3	15.7
Merrion High Alpha	-0.2	4.5	-4.8	-2.5	2.1	-8.2	-2.4	-9.1	15.0	9.1
SSgA Dynamic Diversified	-0.2	4.9	0.9	3.2	1.3	-5.4	6.7	2.3	-1.8	3.2

Bond/Fixed Interest Funds	Q2	YTD	1yr	3yr	5yr	2018	2017	2016	2015	2014
Zurich Long Bond Fund	5.7	9.9	10.7	1.2	6.0	1.4	-1.6	6.4	1.9	28.3
Merrion Long Bond Fund	8.1	12.5	12.2	1.8	6.5	0.4	-0.5	4.6	2.6	28.8
ILIM Passive Long Bond Fund - PPL	7.5	13.0	13.4	2.5	7.2	2.2	-0.6	6.7	2.0	28.5
State Street IUT Euro Gov Long Bond Fund	7.2	12.7	13.1	2.4	7.1	2.1	-0.8	6.5	1.7	29.5
Merrill Lynch > 10 year Index	**7.6**	**13.2**	**13.6**	**2.8**	**7.5**	**2.5**	**-0.4**	**7.0**	**2.3**	**28.9**

Cash Funds	Q2	YTD	1yr	3yr	5yr	2018	2017	2016	2015	2014
ILIM Cash Fund - PC2	-0.1	-0.3	-0.6	-0.6	-0.4	-0.6	-0.6	-0.4	-0.2	-0.1
Merrion Cash Fund	-0.1	-0.1	-0.6	-0.5	-0.4	-1.0	-0.4	-0.2	-0.1	0.1
Zurich Cash Fund	-0.2	-0.3	-0.6	-0.6		-0.7	-0.7	-0.5		
Zurich Secure (Closed to New Business)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
# Euribor EBF 3 month rate	**-0.1**	**-0.2**	**-0.3**	**-0.3**	**-0.2**	**-0.3**	**-0.3**	**-0.3**	**-0.0**	**0.2**

APT Multi Asset - Medium Volatility	Q2	YTD	1yr	3yr	5yr	2018	2017	2016	2015	2014
Fund Name	**%**	**%**	**%**	**% p.a.**	**% p.a.**	**%**	**%**	**%**	**%**	**%**
Irish Life Navigate Cautious	2.3	9.2	3.5	4.4	3.9	-6.6	7.6	5.9	1.2	8.5
Irish Life Navigate Moderate	2.3	11.4	4.6	5.2	5.3	-7.0	8.5	7.6	4.2	11.2
Aberdeen Global Diversified Growth	0.3	3.0	-1.2	3.5		-5.5	8.5			
Amundi SF Absolute Return Multi-Strategy Control	0.5	0.4	-2.0			-3.5	0.5			
Amundi II Multi-Strategy Growth	0.8	0.4	-3.9	0.5	2.0	-3.8	3.0	4.0	4.3	7.6
Aviva AIMS Target Return	1.7	6.1	-1.1	-0.8		-7.4	-3.1	0.1	4.0	
BlackRock Market Advantage Strategy	4.2	15.7	8.4	6.6	4.8	-7.1	10.7	9.1	-3.6	11.2
BlackRock SF Dynamic Diversified Growth	1.3	6.6	2.9	3.1	1.5	-4.0	7.2	-2.9	-0.7	5.0
BNY Mellon Global Real Return	3.3	8.1	7.8	1.0	2.6	-1.0	1.5	1.3	1.9	5.2
Insight Broad Opportunities	2.8	7.1	3.9	3.5	2.1	-6.6	8.6	3.6	-2.4	5.5
Invesco Global Targeted Returns	-0.2	1.9	-2.1	-0.4	1.0	-5.0	-0.0	2.2	1.4	8.8
Investec Global Diversified Growth	2.3	7.3	1.3	1.4		-11.4	7.0			
Irish Life MAP 3	1.4	6.5	3.3	4.4		-3.7	6.5	6.0	5.6	
KBI Diversified Growth	1.4	11.2	2.3	6.0	3.8	-8.7	8.5	7.1	-0.1	8.9
L&G Diversified EUR Fund (C EUR Acc ICAV)	2.1	8.9	6.3			-5.2	6.6			
L&G Euro Dynamic Diversified Fund (PMC MAAJ)	1.8	11.2	8.5	5.3		-5.5	6.9	6.7	2.8	13.2
Pimco GIS Dynamic Multi-Asset	0.7	5.2	0.7	3.2		-5.6	6.6			
Russell Investments Multi-Asset Growth Strategy	1.6	8.2	2.7	3.1	3.0	-6.7	5.0	3.5	2.6	6.8
Schroder Dynamic Multi Asset	2.5	6.9	0.1	3.1		-8.2	7.1			
Schroder ISF Global Diversified Growth	1.5	6.7	-0.7	2.8	2.2	-9.1	7.3	3.8	-0.5	6.7
Standard Life GARS	0.7	4.3	1.7	0.1	0.4	-7.5	2.1	-2.5	3.2	5.6
Standard Life EDGF	1.9	9.4	1.1	4.4		-8.2	9.2	-1.9		
State Street IUT Dynamic Diversified	-0.2	4.9	0.9	3.0	0.7	-5.3	6.6	2.2	-4.9	3.3
APT Average	**1.6**	**7.0**	**2.1**	**3.0**	**2.6**	**-6.2**	**5.8**	**3.3**	**1.2**	**7.7**

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