APT FUND UPDATE
Q4 2019

Overview of markets in Q4 2019

– The geopolitical risks that dominated markets for much of 2019 faded in Q4, helping global equity markets to post gains. In fixed income, corporate bonds performed well amid the improved investor sentiment.

– US equities made robust gains in Q4 as trade uncertainty faded with the US and China's "phase one" trade deal announcement. The Federal Reserve cut interest rates once in the quarter before indicating that "the current stance of monetary policy is appropriate".

– Eurozone shares advanced, supported by signs of better economic data from Germany as well as optimism surrounding the US and China trade deal. Christine Lagarde took over as president of the European Central Bank.

– UK shares gained. Domestically focused areas of the market performed well amid reduced near-term political uncertainty, following the landslide general election victory for the Conservative Party.

– Japanese shares ended higher and the yen weakened slightly against the US dollar. Economic data continued to show a significant divergence between the strength in service sectors and the weakness in manufacturing.

– Emerging market equities posted a strong gain. The easing trade tensions benefitted China, South Korea and Taiwan. A pick-up in crude oil prices was supportive of the Russian and Colombian markets.

– Bond markets reflected the better mood as government bond yields rose (i.e. prices fell) and corporate bonds performed well.

Quarterly markets review – Q4 2019

US

US equities made robust gains in Q4 as trade uncertainty faded with the US and China's phase one trade deal announcement, while economic data remained stable. The trade deal, which is due to be signed in mid-January, means the planned new tariffs will not be imposed, while US tariffs imposed in September on $120 billion Chinese goods will be reduced by half. The US' 25% tariffs on $250 billion of Chinese goods will remain. China has also agreed to increase purchases of US goods, with agricultural produce highlighted.

The Federal Reserve cut interest rates once in the quarter before indicating that "the current stance of monetary policy is appropriate". The US economy expanded by 2.1% (annualised) in Q3; this was better than expected and stronger than in Q2. While we await the Q4 growth data, the unemployment release in early December showed that joblessness declined to 3.5% - its lowest point since 1969 - with better-than-expected wage inflation. Forward-looking data such as the purchasing managers' indices, which survey the manufacturing and services sectors, continues to indicate modest expansion.

The tech sector was among the principal beneficiaries of the easing trade tensions. Energy stocks, which had lagged the broader S&P 500 index materially in 2019, rallied as the oil price rose on lower-than-expected supply. Real estate – which is typically less exposed to economic growth – lagged, although industrials were also flatter over the month.

Eurozone

Eurozone equities notched up a strong advance in the final quarter of the year, with the region's MSCI EMU index returning 5.1%. Stocks were supported by some better economic data from Germany as well as the phase one trade deal agreed by the US and China.

Gains were led by sectors that generally fare well when the economy is strengthening; top performing sectors included information technology, consumer discretionary and materials. By contrast, the communication services and consumer staples sectors registered a negative return, while utilities were also weak. In the consumer staples sector, Unilever warned that its 2019 sales growth would be slightly below its previous forecast. In the car sector, Fiat Chrysler and PSA Peugeot signed an agreement to merge in a €40 billion deal. Meanwhile, France's luxury goods group LVMH bought US jeweller Tiffany & Co for $16.6 billion.

The Ifo business climate indicator, which measures confidence among German executives, improved to 96.3 in December from 95.1 in November. The eurozone composite purchasing managers' index was unchanged at 50.6 in December – a level that indicates weak growth. (50 is the level that separates expansion from contraction. The survey is based on responses from companies in the manufacturing and services sectors).

Annual inflation was 1.0% in November, up from 0.7% in October but still well below the European Central Bank's target of close to 2%. Christine Lagarde took over as president of the European Central Bank on 1 November. In her first major speech she urged governments to boost public investment in order to increase domestic demand in Europe.

Quarterly markets review – Q4 2019

UK

Domestic politics drove UK asset prices following a landslide general election victory for the incumbent Conservative Party in December. The new government is set to use its large majority to take the UK out of the EU by 31 January 2020, entering a transition period when the next stage of negotiations will begin. UK equities performed relatively well and, within the market, domestically focused areas significantly benefited as they responded very favourably to the reduction in near-term political uncertainty.

These trends were further reflected in a very strong performance by small and mid cap shares and a sharp recovery in sterling from the lows struck in the summer. Latest GDP figures confirmed the UK economy had avoided entering a technical recession in the third quarter after contracting in the previous quarter. GDP growth was 0.4% quarter-on-quarter in Q3 compared to -0.2% in Q2. Overall, the data suggests that the economy is coping with the uncertainty from Brexit.

More widely, many economically sensitive areas of the market outperformed, in line with the trend across global markets amid a return of risk appetite. However, the oil & gas sector was the notable exception and performed poorly over Q4 despite the recovery in crude oil prices. HSBC also performed poorly as sentiment was negatively impacted by a combination of factors, including social unrest in Hong Kong, lower-for-longer US interest rates and company-specific factors.

Japan

The Japanese market rose in each month of the quarter to record a total return of 8.6%, but underperformed other major markets in December. Across the quarter as a whole the yen weakened slightly against the US dollar but generally remained in a range which is comfortable for both the US and Japan.

Sentiment towards Japanese equities fluctuated in line with geopolitical tensions but was ultimately helped by signs of easing in relations between the US and China and expectations for the signing of a phase one trade agreement. Foreigners generally remained net buyers of Japanese equities for most of the quarter. The most recent quarterly reporting season for Japanese companies ended in November and was largely in line with expectations.

Japan’s economic data continued to show a significant divergence between the strength in service sectors and the weakness in manufacturing. There were also signs that the long-running trend towards an ever-tighter labour market had finally reached its natural limit. The main economic event for the quarter was the consumption tax increase on 1 October. Some evidence of front-loading demand ahead of the tax increase was visible, but it is now clear that the subsequent downturn has been greater than consensus expectations, even if allowance is made for the devastating typhoon which hit central Japan in the same month.

In response, the government has announced a significant supplementary budget, with a particular focus on reconstruction. Investors have generally responded positively to this planned fiscal stimulus, while the Bank of Japan governor, Mr Kuroda, has welcomed the change in emphasis away from monetary policy alone. The Bank of Japan made no change in policy this quarter.

Asia (ex Japan)

Asia ex Japan equities delivered a strong return in Q4, supported by easing geopolitical risk as the US and China reached a phase one trade deal, to be signed on 15 January. US dollar weakness also provided support to returns.

Against this backdrop China, South Korea and Taiwan all outperformed. In Taiwan, strong performance from technology sector companies boosted returns, as earnings expectations were revised upwards following solid Q3 sales figures. In South Korea, the central bank cut interest rates by 25bps to 1.25%. Pakistan was the best-performing index market, led higher by banking stocks.

By contrast, Thailand recorded a negative return and was the weakest index market as Q3 GDP growth remained subdued at 2.4% year-on-year. The Philippines and Malaysia finished in positive territory but lagged the index. India also underperformed, negatively impacted by higher crude oil prices, rising fiscal pressure and concerns over slowing growth. Hong Kong posted a solid gain but lagged the wider index..

Emerging markets

Emerging market (EM) equities posted a strong gain in Q4, benefiting from an easing in geopolitical concerns. The MSCI Emerging Markets Index increased in value and outperformed the MSCI World.

China posted a strong gain and outperformed. Under the outline phase one trade agreement, the US will indefinitely suspend tariffs on close to $160 billion of Chinese imports that were previously scheduled to take effect on 15 December. Existing tariffs on $120 billion of Chinese imports are expected to be reduced to 7.5% from 15%, 30 days post the signing. In exchange, China would increase purchases of US agricultural goods. Against this backdrop, Taiwan and South Korea also outperformed. In Taiwan, strong performance from technology sector stocks boosted returns, as earnings expectations were revised upwards following solid Q3 sales figures.

Russia and Colombia generated strong returns, benefiting from crude oil price strength as oil producing nations announced further production cuts for the first quarter of 2020. A number of EM markets sensitive to US dollar strength outperformed, including South Africa. Brazil also finished ahead of the index, aided by currency strength. In October the senate passed the long-awaited pension reform bill while Q3 GDP growth ticked up to 1.2% year-on-year and was ahead of expectations.

By contrast, Chile registered a negative return as mass protests erupted amid wider concerns over inequality. Turkey, where military incursions into Northern Syria led to tensions with the US, and India lagged. Oil price strength was a headwind for Indian equities, in addition to concerns over slowing growth.

Quarterly markets review – Q4 2019

Global bonds

Rising expectations of a phase one US-China trade deal, with an agreement announced in December, and moderately better economic data supported robust risk sentiment over the quarter. Government bond yields rose (meaning prices fell) and corporate bonds outperformed.

The US 10-year yield rose from 1.66% to 1.92%, while the two-year yield dropped from 1.62% to 1.57%, steepening the yield curve as investors took a more optimistic view on the economy. Economic data saw some improvement, relative to expectations, over the period.

The German 10-year yield increased from -0.57% to -0.19%, while France's rose from -0.27% to 0.12%. The Italian 10-year yield rose from 0.82% to 1.41%, as political risk resurfaced. Spain's increased from 0.15% to 0.47%. The UK 10-year yield rose from 0.49% to 0.82% amid a decisive election victory for the incumbent Conservative party and optimism around Brexit.

Corporate bonds performed well to cap a strong year. High yield outperformed, but US investment grade was also notably buoyant relative to government bonds, across various sectors. (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.)

Emerging market bonds saw good returns. Local currency bonds did particularly well as EM currencies performed strongly in December. Lower rated issuers led in hard currency sovereigns and corporates, partly reflecting a rebound in Argentina.

Convertible bonds benefited from the upward trend in stockmarkets. The Thomson Reuters Global Focus index gained 5.0% in US dollar terms in Q4. In this positive market environment, convertibles were sought after and valuations became richer, especially in US names. At the end of December, European and US convertibles were trading slightly above fair value while Asian and to a lesser extent Japanese convertibles remained cheap.

Commodities

The S&P GSCI Spot Index delivered a strong return in Q4, led by energy. Crude oil prices rallied as OPEC+ announced further production cuts to ease oversupply concerns. (OPEC is the 14-strong Organisation of the Petroleum Exporting Countries; OPEC+ includes a further 10 oil producing nations).

News of the US-China trade deal also supported the demand outlook for oil. In agriculture, coffee (24.8%) and wheat (12.2%) were notably strong. In precious metals, both gold (3.3%) and silver (5.0%) advanced. Industrial metals posted a more modest gain. Copper gained 7.9% but nickel (-17.8%) was firmly down. Spot nickel prices fell as the world's largest producer, Indonesia, lifted export restrictions for some companies.

[1] 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 Q4 2019

Overview

Total returns (net) % – to end December 2019

	3 months			12 months		
Equities	**USD**	**EUR**	**GBP**	**USD**	**EUR**	**GBP**
MSCI World	8.6	5.4	1.0	27.7	30.0	22.7
MSCI World Value	7.3	4.2	-0.2	21.7	24.0	17.0
MSCI World Growth	9.8	6.6	2.1	33.7	36.1	28.5
MSCI World Smaller Companies	9.8	6.6	2.1	26.2	28.5	21.3
MSCI Emerging Markets	11.8	8.6	4.0	18.4	20.6	13.8
MSCI AC Asia ex Japan	11.8	8.6	4.0	18.2	20.3	13.6
S&P500	9.1	5.9	1.5	31.5	33.9	26.4
MSCI EMU	8.2	5.1	0.6	23.2	25.5	18.4
FTSE Europe ex UK	8.5	5.4	0.9	25.3	27.6	20.5
FTSE All-Share	12.0	8.8	4.2	24.0	26.2	19.2
TOPIX*	8.0	4.9	0.5	19.3	21.4	14.6

	3 months			12 months		
Government bonds	**USD**	**EUR**	**GBP**	**USD**	**EUR**	**GBP**
JPM GBI US All Mats	-0.9	-3.8	-7.8	7.1	9.1	3.0
JPM GBI UK All Mats	2.9	-0.0	-4.3	11.6	13.7	7.3
JPM GBI Japan All Mats**	-1.7	-4.6	-8.6	3.1	5.0	-0.9
JPM GBI Germany All Traded	-0.2	-3.1	-7.1	1.3	3.2	-2.6
Corporate bonds	**USD**	**EUR**	**GBP**	**USD**	**EUR**	**GBP**
BofA ML Global Broad Market Corporate	1.8	-1.2	-5.3	11.4	13.5	7.1
BofA ML US Corporate Master	1.1	-1.8	-5.9	14.2	16.3	9.8
BofA ML EMU Corporate ex T1 (5-10Y)	2.4	-0.6	-4.8	7.2	9.2	3.1
BofA ML £ Non-Gilts	6.8	3.7	-0.7	13.9	16.0	9.5
Non-investment grade bonds	**USD**	**EUR**	**GBP**	**USD**	**EUR**	**GBP**
BofA ML Global High Yield	3.4	0.4	-3.8	13.7	15.8	9.3
BofA ML Euro High Yield	5.0	2.0	-2.3	9.3	11.3	5.1

Source: Thomson Reuters DataStream.

Local currency returns in December 2019: *8.6%, **-3.1%.

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

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APT Q4 2019 FUND UPDATE

Active Global Equity Funds	**Q4**	**1yr**	**3yr**	**5yr**	**2019**	**2018**	**2017**	**2016**	**2015**
Canada Life (Grp) CL/Setanta Pension Equity	3.8	21.1	7.6	9.2	21.1	-4.6	7.9	15.3	8.2
Friends First (Grp) International	6.1	26.8	10.5	9.4	26.8	-4.4	11.5	7.4	8.2
Irish Life (Grp) Active Global Equity	3.8	21.0	7.7	9.2	21.0	-4.4	8.1	15.3	8.0
Merrion IM (Grp) Global Equity	3.9	26.4	5.7	6.5	26.4	-10.8	4.7	0.0	16.0
Standard Life Global Equity	3.5	32.5	7.3	6.8	32.5	-12.8	6.9	-1.5	14.2
Zurich Life (Grp) International Equity	5.7	28.9	10.0	10.1	28.9	-5.5	9.3	10.0	10.6
Navigate High Growth Fund	4.6	26.5	8.3	9.3	26.5	-6.4	7.4	11.4	10.2
Index: MSCI World Index	**5.4**	**30.0**	**10.3**	**10.4**	**30.0**	**-4.1**	**7.5**	**10.7**	**10.4**
Passive Global Equity Funds	**Q4**	**1yr**	**3yr**	**5yr**	**2019**	**2018**	**2017**	**2016**	**2015**
Navigate Low Volatility Equity Fund	0.2	25.5	9.5	11.5	25.5	1.2	3.5	11.4	17.9
Navigate Quality Equity Fund	4.9	24.9	6.5	8.2	24.9	-7.3	4.3	14.9	6.6
ILIM Index World Equity - IWE	5.7	29.4	10.3	10.3	29.4	-4.6	8.5	11.5	9.4
State Street World Index Fund	5.6	29.5	10.1	10.3	29.5	-4.7	8.1	10.7	10.3
Standard Life Vanguard Global Stock Index	6.0	30.6	9.8	10.1	30.6	-5.6	7.6	11.1	10.4
Index: MSCI World Index	**5.4**	**30.0**	**10.3**	**10.4**	**30.0**	**-4.1**	**7.5**	**10.7**	**10.4**
Active Managed Funds	**Q4**	**1yr**	**3yr**	**5yr**	**2019**	**2018**	**2017**	**2016**	**2015**
Acorn Life (Grp) Pension Managed Growth	3.1	18.9	5.6	6.4	18.9	-6.3	5.8	5.7	9.6
Canada Life (Grp) Setanta Pension Managed	2.4	15.6	6.0	7.4	15.6	-3.1	6.3	11.8	7.5
Friends First (Grp) Mixed	4.4	21.1	7.7	7.1	21.1	-4.6	8.2	5.2	7.4
Merrion IM (Grp) Managed	1.1	19.2	4.3	5.0	19.2	-8.9	4.4	-0.7	13.6
New Irl (Grp) Pension Managed Net	4.4	19.4	5.9	6.7	19.4	-7.3	7.3	9.3	6.5
Standard Life Managed	4.5	23.4	7.6	6.8	23.4	-7.7	9.4	1.0	10.5
Zurich Life (Grp) Balanced	3.2	19.8	6.8	7.4	19.6	-3.7	6.2	6.6	9.8
APT Average	**3.1**	**19.6**	**6.3**	**6.7**	**19.6**	**-5.9**	**6.8**	**5.5**	**9.3**
Passive Managed Fund	**Q4**	**1yr**	**3yr**	**5yr**	**2019**	**2018**	**2017**	**2016**	**2015**
ILIM Consensus Fund - PCF	3.3	21.2	7.5	7.9	21.2	-4.1	7.0	7.4	9.5
Target Return Funds	**Q4**	**1yr**	**3yr**	**5yr**	**2019**	**2018**	**2017**	**2016**	**2015**
ILIM Absolute Alpha - ABS	0.2	0.5	0.4	0.8	0.5	-2.2	3.1	-0.5	3.1
ILIM Managed Fund - MR1	2.6	15.3	6.1	7.2	15.3	-2.1	5.8	9.2	8.3
Merrion High Alpha	-5.4	-1.0	-3.9	-1.5	-1.0	-8.2	-2.4	-9.1	15.0
State Street Dynamic Diversified	2.1	6.4	2.6	1.7	6.4	-5.2	6.9	2.6	-1.5
Bond/Fixed Interest Funds	**Q4**	**1yr**	**3yr**	**5yr**	**2019**	**2018**	**2017**	**2016**	**2015**
Irish Life Navigate Annuity Bond Fund	-6.3	11.9	4.6	4.5	11.9	3.1	-0.8	9.3	-0.3
Zurich Long Bond Fund	-4.8	11.6	3.5	3.8	11.6	1.4	-1.6	6.4	1.9
Merrion Long Bond Fund	-5.2	14.3	4.5	4.1	14.3	0.4	-0.5	4.6	2.6
ILIM Passive Long Bond Fund - PPL	-5.9	15.3	5.4	5.0	15.3	2.2	-0.6	6.7	2.0
State Street IUT Euro Gov Long Bond Fund	-6.1	14.9	5.2	4.8	14.9	1.9	-0.6	6.5	1.8
Merrill Lynch EMU > 10 year Index	**-5.9**	**15.5**	**5.6**	**5.2**	**15.5**	**2.4**	**-0.4**	**7.0**	**2.3**
Merrill Lynch EMU Gov >10 Year AAA/AA Index	**-6.3**	**12.3**	**4.9**	**4.7**	**12.3**	**3.5**	**-0.6**	**9.3**	**-0.3**
Cash Funds	**Q4**	**1yr**	**3yr**	**5yr**	**2019**	**2018**	**2017**	**2016**	**2015**
ILIM Cash Fund - PC2	-0.2	-0.6	-0.6	-0.5	-0.6	-0.6	-0.6	-0.4	-0.2
Merrion Cash Fund	-0.2	-0.4	-0.6	-0.4	-0.4	-1.0	-0.4	-0.2	-0.1
Zurich Cash Fund	-0.2	-0.6	-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
# Euribor EBF 3 month rate	**-0.1**	**-0.4**	**-0.3**	**-0.3**	**-0.4**	**-0.3**	**-0.3**	**-0.3**	**-0.0**
Multi Asset Funds	**Q4**	**1yr**	**3yr**	**5yr**	**2019**	**2018**	**2017**	**2016**	**2015**
Fund Name	**%**	**%**	**% p.a.**	**% p.a.**	**%**	**%**	**%**	**%**	**%**
Navigate Cautious Growth Fund	2.2	13.0	4.4	4.0	13.0	-6.6	7.8	5.9	1.2
Navigate Moderate Growth Fund	3.1	17.4	4.8	5.3	17.4	-7.0	5.5	7.8	4.4
Aberdeen Standard Diversified Growth	2.4	6.6	3.0		6.6	-5.5	8.5		
Amundi Multi-Strategy Growth	3.1	4.8	1.3	2.4	4.8	-3.8	3.0	4.0	4.3
Amundi SF Absolute Return Multi-Strategy Control	1.6	2.9	0.0		2.9	-3.5	0.5		
AQR Global Risk Parity	1.7	16.4	5.0		16.4	-8.5	8.6	9.0	
Aviva AIMS Target Return	1.5	9.1	-0.7	0.4	9.1	-7.4	-3.1	0.1	4.0
Aviva Merrion Multi-Asset 50	0.2	14.4			14.4	-7.1			
BlackRock Market Advantage Strategy	1.9	19.6	7.2	5.3	19.6	-7.2	10.8	9.2	-3.5
BlackRock SF Dynamic Diversified Growth	2.9	9.3	4.0	1.6	9.3	-4.0	7.2	-2.9	-0.7
BNY Mellon Global Real Return	1.4	11.5	3.9	2.9	11.5	-1.0	1.5	1.3	1.9
Insight Broad Opportunities	2.1	11.2	4.1	2.7	11.2	-6.6	8.6	3.6	-2.4
Invesco Global Targeted Returns	0.7	2.9	-0.8	0.3	2.9	-5.0	0.0	2.2	1.4
Investec Global Diversified Growth	3.4	11.1	1.8		11.1	-11.4	7.0		
Irish Life MAP C	1.7	9.6	4.0	4.7	9.6	-3.8	6.9	6.1	5.5
Irish Life MAP B	2.7	12.2	5.1	6.2	12.2	-4.5	8.5	7.4	8.3
L&G Diversified EUR Fund (I EUR Acc ICAV)	3.0	17.5			17.5	-5.2	6.6		
L&G Euro Dynamic Diversified Fund (PMC MAAJ)	2.5	17.2	5.8	5.4	17.2	-5.5	6.9	6.7	2.8
Nordea DIF Diversified Growth	1.0	9.2	2.8		9.2	-4.2	3.8		
Pimco GIS Dynamic Multi-Asset	3.7	8.8	3.1		8.8	-5.6	6.6		
Russell Investments Multi-Asset Growth Strategy	2.7	12.7	3.2	3.1	12.7	-7.1	4.9	3.5	2.6
Schroder Dynamic Multi Asset	2.0	10.4	2.8		10.4	-8.2	7.1		
Schroder ISF Global Diversified Growth	2.7	10.5	3.0	2.8	10.5	-8.7	8.3	4.7	0.4
Standard Life Enhanced Diversification Growth	2.6	13.2	4.3		13.2	-8.2	9.3	-1.9	
Standard Life GARS	0.5	6.2	0.0	0.0	6.2	-7.3	1.7	-3.2	3.0
State Street IUT Dynamic Diversified	0.8	4.9	1.9	0.6	4.9	-5.3	6.6	2.2	-4.9
APT Peer Group Average	**2.1**	**10.9**	**3.1**	**3.0**	**10.9**	**-6.1**	**5.7**	**3.6**	**1.8**
Sector : Ire Off Mixed Asset Flexible TR	**2.7**	**12.8**	**4.2**	**2.9**	**12.8**	**-6.1**	**6.8**	**3.4**	**-1.4**

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