ILIM

Life | Pensions | **Investments**

May 2024 in review
Performance Pulse

Irish Life MAPS® 10 YEARS

more **INVESTED**

OVERVIEW

In May, global stock markets rallied to new all-time highs, supported by tech stocks and softer US inflation data. Global economic data showed signs of improving activity, although US growth showed some signs of moderating as inflation in the country slowed, leaving the potential for the Federal Reserve (Fed) to cut interest rates in the coming months. In Europe, while the European Central Bank (ECB) was set to ease policy in June, the rise in Eurozone inflation led to a slight reduction in the scale of expected rate cuts for 2024, and central-bank speakers played down the extent of future cuts. European bond prices declined slightly.

EQUITIES

Global stock markets rallied to new all-time highs in May, aided by strong earnings from the technology sector, especially from companies related to artificial intelligence (AI) like Nvidia. Softer inflation and activity data in the US also supported the case for some interest rate cuts and equity-market sentiment.

The MSCI All Country World index rose by 3.8% (2.6% in euros) over the month, with the MSCI USA rallying by 4.8% (3.2% in euros) and European ex-UK equities up by 3.6% (3.9% in euros).

Nvidia's earnings announcement for the latest quarter once again exceeded market expectations – revenue rose by 262% year-on-year amid strong demand for its chips and graphics processing units that are used to power AI applications. This helped to propel the stock and other tech names higher, pushing the S&P 500 and NASDAQ up to new historical highs during the month.

Markets

+

- Inflation well down from the highs. An economic ‘soft landing’ is expected, whereby inflation continues to moderate while avoiding recession.
- The US Federal Reserve (Fed) and European Central Bank (ECB) are expected to cut interest rates in 2024.
- Strong US economic data and optimism over the application of AI.

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- Risk of inflation remaining more persistent, and therefore ‘higher-for-longer’ interest rates.
- In this scenario, risk of recession / further bank sector issues.
- High relative valuations of equities.

Stocks

Up

- PharmaEssentia Corp. **42.82**
- First Solar, Inc. **54.15**
- Wan Hai Lines Ltd. **58.01**

Down

- HLB Co., Ltd. **-45.06**
- UiPath, Inc. Class A **-35.37**
- MongoDB, Inc. Class A **-35.36**

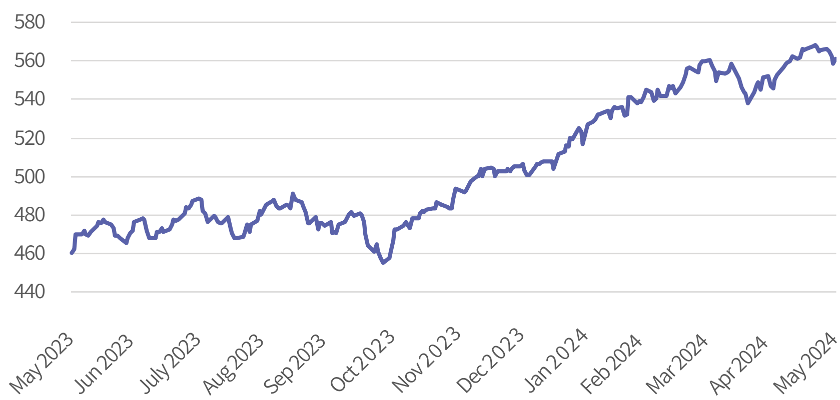
Performance (%) as at 31 May 2024

	1 month	6 months	YTD	1 year	3 years p.a.	5 years p.a.
MSCI ACWI (Global Equities)	3.76%	15.16%	10.63%	24.73%	7.60%	12.94%

Source: ILIM, Factset. Data is accurate as at 31 May 2024.

MSCI ACWI PERFORMANCE (GLOBAL EQUITIES)

One-year performance chart (in euros)



Source: ILIM, Factset.
Data is accurate as at 31 May 2024.

BONDS

Eurozone government bond prices were slightly lower in May as expectations for ECB rate cuts in 2024 were pared back, from 66bps to 55bps, amid sticky inflation. The ICE BofA 5+ Year Euro Government bond index returned -0.3% over the month as price falls offset gains from income.

Corporate bonds performed better than European sovereign bonds in May. European investment-grade corporate bonds returned +0.2% as yields rose marginally, with the income stream offsetting the rise in yield. Global high-yield bonds returned +1.1% as yields declined, supported by lower US Treasury yields.

BOND YIELD ↑

- More persistent inflation, combined with reasonably strong economic data, could cause interest rates to stay higher for longer than expected.
- Increased government borrowing to fund deficits could exert some upward pressure on yields.

BOND YIELD ↓

- Declining inflation and/or worsening economic data could result in increased expectations of interest rate cuts, and falling bond yields.

10-Year Bond Yields	2024	2023	2022	2021	2020	2019
US	4.5	3.9	3.9	1.5	0.9	1.9
Germany	2.7	2.0	2.5	-0.2	-0.6	-0.3
UK	4.3	3.5	3.7	1.0	0.2	0.8
Japan	1.1	0.6	0.4	0.1	0.0	0.0

Source: ILIM, Factset. Data is accurate as at 31 May 2024.

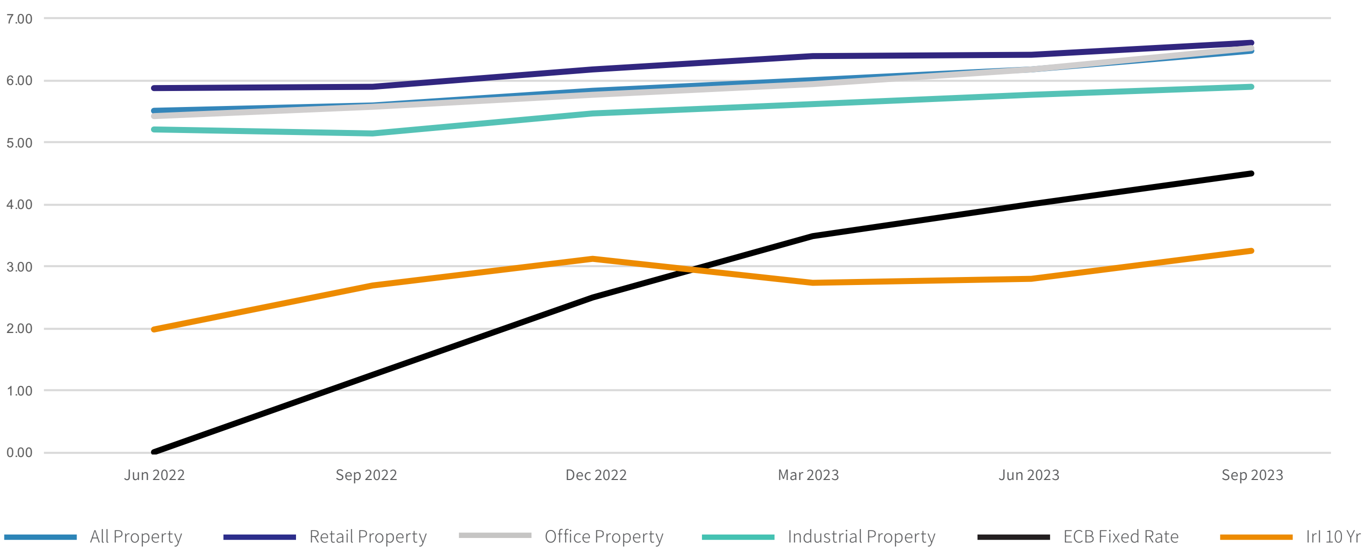
PROPERTY – Q4 2023

The steady rise in ECB interest rates from July 2022 (0.0%) to September 2023 (4.50%) led to a contraction in investment activity into property, which is heavily reliant on debt financing and investor sentiment. This perpetuated a rise in valuation yields across all property sectors, having a negative impact on values. The MSCI All Property Ireland Index equivalent yield moved out 1.0% in the same period from 5.5% to 6.5%. The spread of property yields to government bonds therefore improved by 0.73% to 3.24%, thereby increasing the relative attractiveness of property yields.

Investment turnover in Ireland reached approximately €440m in Q4, boosted by the off-market sale of an Amazon logistics centre in Baldonnell Business Park for €225m. This brings the annual tally to close to €2bn, roughly half the annual level of trade over the previous decade. Only 28 deals completed in Q4. Private investors continued to be the most active, focused on small lot sizes. The largest office transaction of the period was the OPW's acquisition of Trinity Point in Leinster Street for a reported €40m, which breaks back to in excess of €900 per square foot (sq. ft.). The OPW had leased four of the six floors in the property at a total rent of €2.59m p.a. The two remaining floors are currently vacant and account for 41% of the building. Chancery Court, a mixed-use property, comprising over 34,000 sq. ft. of office accommodation and four two-bedroom apartments, is also believed to have sold in Q4, for a price in the region of €15m, which would represent a net income yield of 9%. The property last traded to Credit Suisse in 2017 for €23.8m.

TRINITY POINT: SOLD IN Q4 FOR A REPORTED €40M

Property Equivalent Yields vs. ECB Fixed Rate



Source: MSCI, ILIM

PROPERTY (CONTINUED)

Increased income yields, which now stand at close to 5.75% across the Irish commercial market according to the MSCI Index, have not been sufficient to offset the capital decline caused by yield expansion, which dictated property performance in 2023. In addition, net income declined due to rising vacancy and associated costs, particularly in the office sector.

Office take-up in Q4 amounted to approximately 367,000 sq. ft., according to CBRE. This brings the 2023 total to just shy of 1.4m sq. ft., representing a significant retraction from the average over the past 15 years (2.2m sq. ft.) and the lowest annual take-up of office space since 2010.

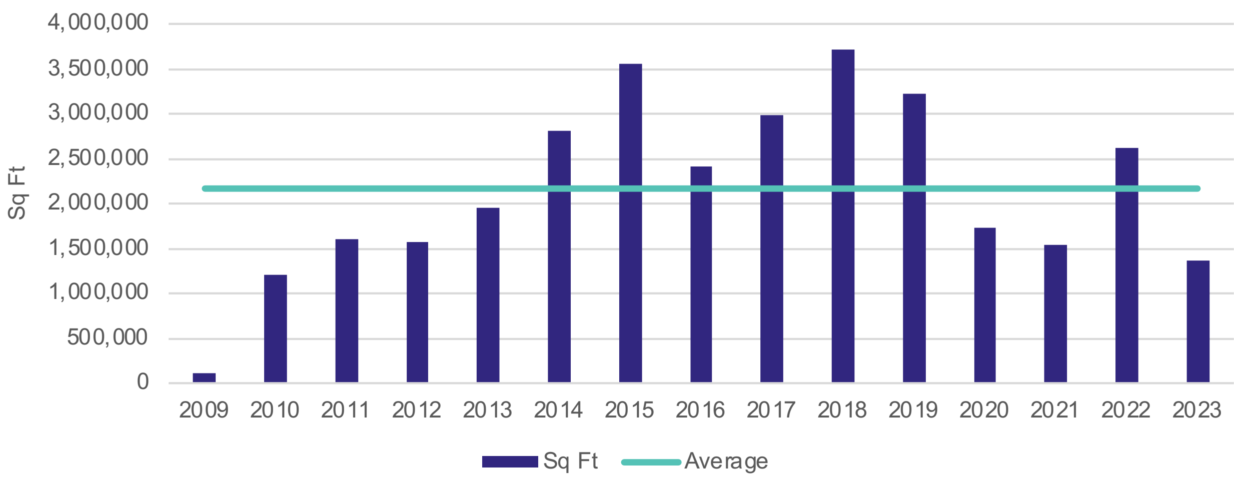
The main factors at play continue to be the corporate world's adaptation to hybrid working arrangements, staff amenity and welfare, a heightened focus on ESG, and a reaction to upcoming lease events (break options and lease expiries) in the context of greater availability and flexibility in the market. Vacancy across Dublin offices now lies above 16% and a significant amount of grey space is available for sub-lease – with fully fitted accommodation making up a sizable proportion of this segment. This has created a two-tier market at investment and occupational level for office property, with older, lower specification property suffering greater valuation decline and appeal.

2023 was a positive year for the occupational retail market. Retail sales growth, in terms of both volume (+0.8% YoY to Nov 2023) and value (+3.9% YoY to Nov 2023), remained positive for the duration of 2023, despite the impact of rising inflation and the cost of living on consumers. This is supported by close to full employment and population growth, which is augmented by net inward migration. The ratio of retail sales versus footfall is at an all-time high, according to Bannon, a property consultancy. Occupancy across retail property increased in 2023, most notably in retail schemes outside of Dublin, where greater availability offered retail more opportunities to grow during the year.

CHANCERY COURT: SOLD IN Q4 FOR A CONFIDENTIAL PRICE BELIEVED TO BE IN THE REGION OF €15M

The industrial sector accounted for its largest proportion of investment activity in 2023. Its attractiveness is anchored by the dramatic growth in occupational demand (particularly from logistics operators), the long-term profile of income streams, and low baseline allocations to the sector. Vacancy across industrial and logistics stock in Dublin is currently <2%, making new space difficult to source and putting continued upward pressure on rents. Prime rents are now comfortably in excess of €11 per sq. ft. for modern or well-located buildings. Take-up of space is somewhat hampered by a dearth of supply, amounting to 1.04m sq. ft in Q4 and 3.26m sq. ft. for 2023 in total.

Long-term Office Occupational Annual Take-up



Source: ILIM

CASH

The next ECB meeting is due on 6 June, and a 0.25% interest rate cut is currently expected by markets.

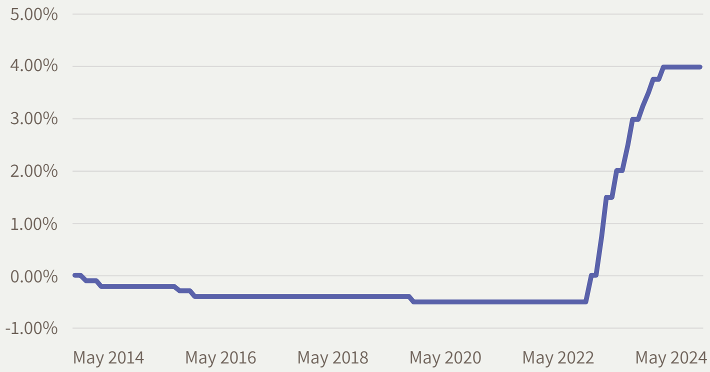
Central bank rates

	End 2022	End 2023	31 May 2024
ECB deposit rate	2.00	4.00	4.00
Bank of England*	3.50	5.25	5.25
US Federal Reserve**	4.50	5.50	5.50

* Official Bank Rate **Federal Funds Target Rate

Source: ILIM, Factset and Bloomberg. Data is accurate as at 31 May 2024.

ECB Deposit Rate



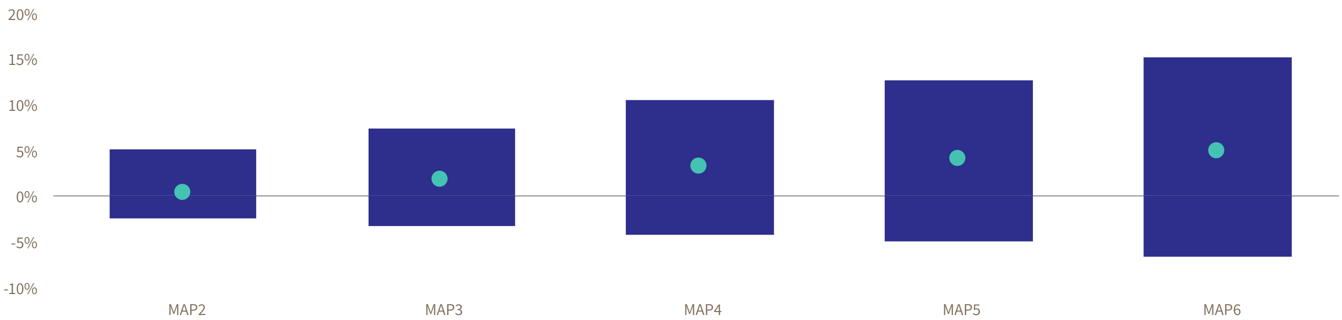
Source: ILIM, Factset. Data is accurate as at 31 May 2024.

Irish Life strategic MAPS asset allocation*

Asset class	MAP2	MAP3	MAP4	MAP5	MAP6
EQUITIES	**20.0%**	**40.0%**	**60.0%**	**80.0%**	**95.0%**
Developed Market (DM)	2.25%	6.2%	16.8%	29.0%	50.5%
Low Volatility (DM)	4.5%	9.0%	13.5%	10.0%	5.5%
Dynamic Shares to Cash (DM)	11.0%	20.0%	20.0%	20.0%	12.0%
Emerging Market (EM)	0.25%	0.8%	2.2%	12.0%	16.0%
Low Volatility (EM)	0.5%	1.0%	1.5%	1.0%	1.0%
EAFE (Europe, Australasia, Far East)	1.0%	2.0%	4.0%	5.0%	6.0%
Small Cap	0.5%	1.0%	2.0%	3.0%	4.0%
BONDS	**48.5%**	**31.2%**	**17.6%**	**5.6%**	**0.4%**
Government	8.5%	0.0%	0.0%	0.0%	0.0%
Corporate	29.0%	15.2%	4.6%	0.6%	0.4%
Global Aggregate	4.0%	3.0%	0.0%	0.0%	0.0%
Global High Yield	4.0%	5.0%	5.0%	2.0%	0.0%
Emerging Market (50% Hard 50% Local Currency)	3.0%	8.0%	8.0%	3.0%	0.0%
Alernatives	**15.0%**	**15.0%**	**15.0%**	**7.0%**	**0.0%**
Property	**5.5%**	**6.8%**	**6.8%**	**6.8%**	**4.2%**
Cash	**11.0%**	**7.0%**	**0.6%**	**0.6%**	**0.4%**
Total	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**

Source: ILIM, 31 May 2024. *DSC Global Shares use the Dynamic Share to Cash model. The table above shows the strategic asset mix before any Dynamic Share to Cash (DSC) or tactical movements (where applicable). ILIM rebalances the fund back to this mix on a quarterly basis. For the latest actual Irish Life MAPS fund mixes, which allow for any tactical or DSC changes, for example, see the relevant MAPS fund factsheet at **www.irishlife.ie**. ILIM will continue to monitor and review these assets and may change them over time.

Irish Life MAPS Performance v Expected Range of Returns



Source: ILIM – Data is accurate as at 31 May 2024. The expected range of returns and the actual performance are both net of a 1.15% fund management charge for MAP 2 to MAP 5 Funds inclusive and a 1.05% fund management charge for MAP 6.

■ The 7-year range of expected returns (95% of the time) back in May 2017.
● The actual annualised performance of MAPS funds since May 2017.

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