

RMC Financial Services

# Newsletter

January 2023



## Year in review 2022

**2022** has been a horrendous year for investors, one where bonds had a higher negative return than equities. The outcome was not going to be good for multi-asset investors. The typical low risk fund acted more like a higher risk one due to the fall in bond prices (the flip side of interest rate increases, see chart below: European long bond).

Eurozone government bonds saw their worst year since the € was launched and the fall in share values was the worst since 2008. There really was nowhere to hide, the only sector with a positive return were energy stocks, +57%, sparked by Russia's invasion of Ukraine, OPEC production cuts, while at the same time technology stocks plummeted by -26%.

The strength of the USD over the year somewhat cushioned the loss in value of US stocks, by approximately 6% for € investors.

The year started with the war breaking out in Ukraine instigated by the world's largest oil and gas supplier. Brent oil rose by 58% at one stage but by year end was down to €86 a barrel, ending the year up 10%. Super high inflation led to interest rates being hiked by the world's central banks, bringing a period of low to negative interest rates to an end.



# Equity Market Performance : Euro terms

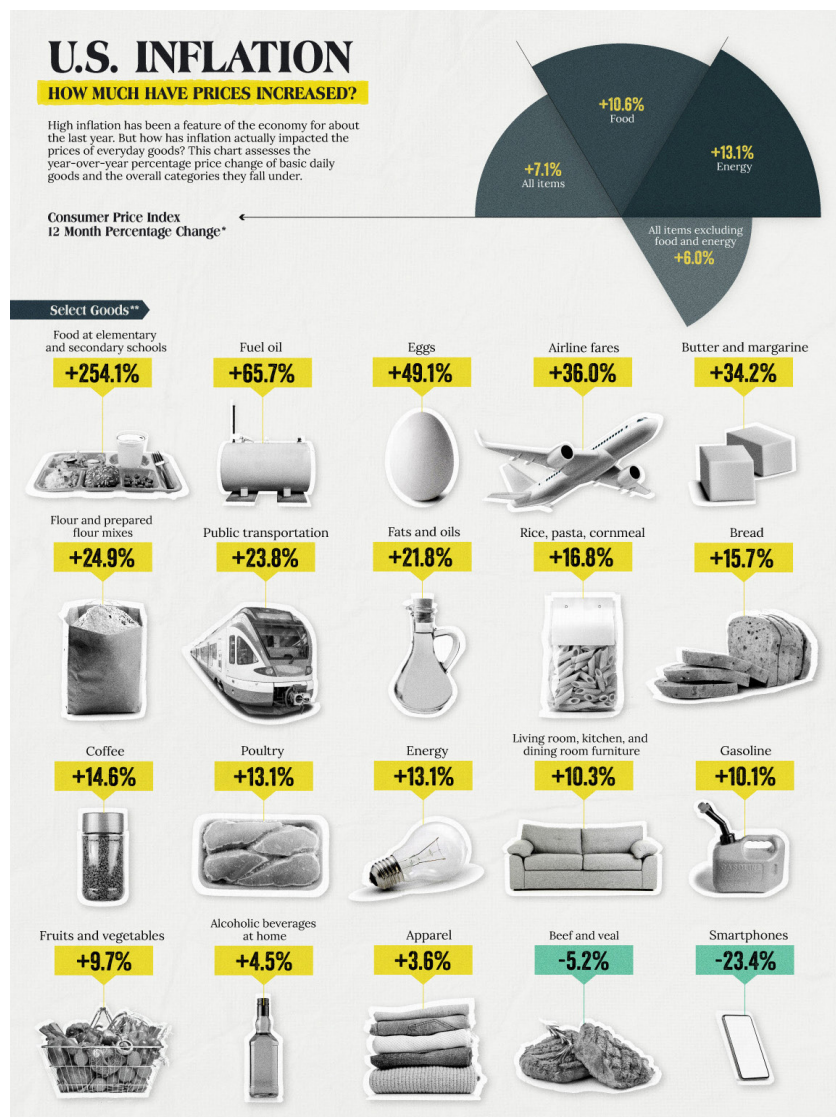


Year	2022	2021	2020	2019	Cumulative 5 years
<b>Performance Returns in €</b>					
ISEQ (Irish)	-15%	14%	4%	31%	+9%
FTSE 100 (UK)	-0.6%	22%	-16%	19%	+18%
Eurostoxx50 (Europe)	-9%	21%	-3%	25%	+27%
S&P 500 (USA)	-13%	36%	9%	31%	+76%
Nikkei (Japan)	-14%	2%	14%	22%	+22%
Hang Seng (Hong Kong)	-7%	-8%	-8%	12%	-13%
MSCI World	-13%	29%	7%	28%	+55%

**“Keep things in perspective and hold the long term view. Life is more important than short term valuation losses.”**  
Anon.

**Past performance is not a reliable guide to future performance.**

## US INFLATION EXPLAINED



Source: US Bureau of Labor Statistics

**Read the benefits of the financial protection policies you have in place. The policy conditions will explain those benefits in detail.**

Last year we came across a case while in conversation with a client. He informed us that a few months earlier



he had gone to his doctor concerned about tightness across his chest. The outcome was he had a cardiac procedure to insert a double stent to unblock his arteries. Lucky that he took notice and the doctor, consultant and patient acted on time. He did not suffer a heart attack thankfully and was back working within a week.

I asked him to let us investigate if any claim could be made on his specified illness policy and much to his delight he received a partial payment with no reduction in existing benefits.

It is really important to check your policy conditions and inform us or the relevant company if you think you may be entitled to a payment on your protection policy. We at RMC will be glad to look into this for you but you need to inform us.

# Pay more off your mortgage or set up a long term savings/ investment account

This discussion has come up quite a number of times in the past year, driven maybe by the increase in mortgage rates, having access to a lump sum or perhaps questions from those with higher disposable income.

Here we aim to explain the pros and cons of each scenario, taking some figures as an example. This assumes a mortgage of **€300,000** over **30 years** on fixed rate of **3.5%**

## Example

Mortgage 30 years	€300,000
Repayments per month	€1,347
Interest over the term	€184,920

## Scenario 1 – increase mortgage repayments by €300 pm

Repayments per month	€1,647
Term will then be reduced to	22 years
Interest over the term	€128,501
Savings in interest	€56,419

## Scenario 2 – leave mortgage repayment at €1,347 and put extra into a savings account

Monthly savings	€300
Projected value savings at end of 22 years	€127,000

This projected\* value is more than twice the interest savings of scenario 1. The mortgage outstanding in year 22 will then be €112,000 and you may decide to pay it off using the excess and still have savings of €15,000.

\*Assumes net growth rate of 4% p.a. in the savings plan.

## Other more personal reasons why you may choose to reduce your mortgage sooner

### Upsides

- Save money on the overall interest paid to the bank.
- Peace of mind, knowing the debt is reducing and the term of loan may be shorter.
- Your home/building belongs to you sooner and not the bank.
- You may not like to invest due to the equity market risk.

### Downsides

- All your eggs are in one basket. Once your money is applied to outstanding debt you have no flexibility regarding other resources.
- You may be forfeiting generous tax breaks if those funds were applied to pension savings.
- There is a difficult banking environment if you wanted to raise funds again, banks have become much stricter on re-financing.



The best outcome after assessing your options may be a two-prong approach: a split between reducing your mortgage and setting up a long term savings plan. We at RMC can help you make such decisions.



**“A bank is a place that will lend you money if you can prove you don’t need it.”**

Bob Hope

## European long bond performance in last 12 months, mainly as result of interest rate hikes

The Federal Reserve has raised interest rates seven times in 2022 by a cumulative 4.25% to reach the current rate of 4.5%.

The over 5 year eurozone government bond index returned -25% as can be seen in the graph (right).



## Currency Exchange Rates

The USD hit parity with the euro for the first time in two decades in July 2022, ending the year +5.8% against the euro. This reduced the overall loss in USD investments for euro investors.

FX Rates	Dec 22	Dec 21	% Change Year	5 years
EUR/USD	1.0705	1.1370	-5.85%	-10.8%
EUR/GBP	0.8853	0.8413	+5.23%	-0.31%
EUR/JPY	140.41	130.90	+7.27%	+3.79%



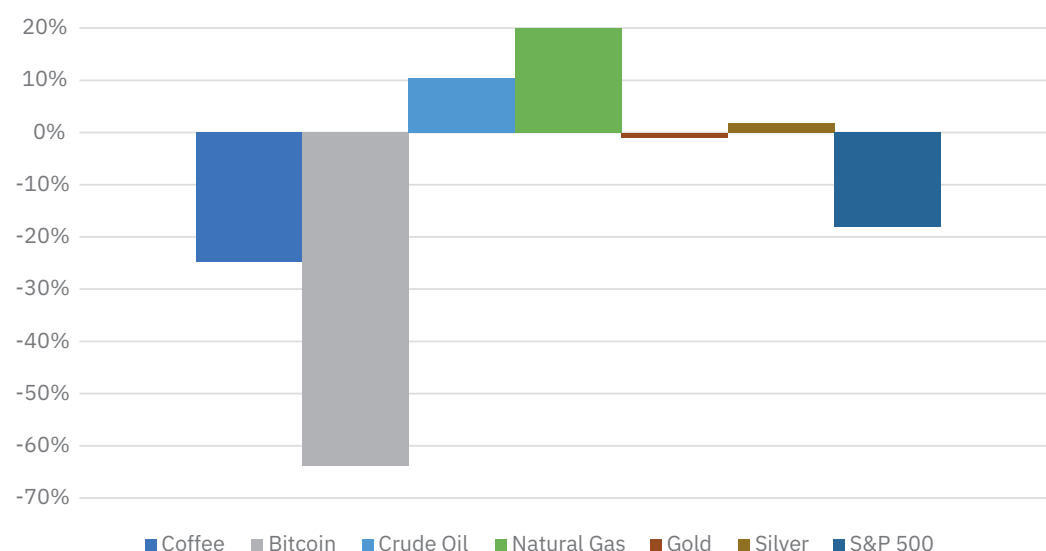
## Commodities

Brent oil prices hit highs in March and June 2022 of 123.29, a rise of 41% since the start of the year and finished the year up 10%.

Commodity	Dec 2022	Dec 2021	% Change	5 Year % Change
Oil (Brent)	85.91	77.78	10.45%	28.47%
Gold	1824.0	1829.2	-0.28%	40.00%
CRB Commodity Index	554.78	578.31	-4.07%	27.91%



## 2022 Crypto and Commodities returns



## Tax Incentive Investing – EII Funds

The Employment and Investment Incentive Scheme (EIIS) is a source of equity funding for small and medium-sized Irish enterprises (SMEs).

### Revenue scheme

This tax relief aims to encourage individuals to provide equity based unsecured finance to trading companies with the potential for capital appreciation.



The investor claims tax relief as a deduction from total income, including rental income, pension income, dividends and salary.

This reduces individual income tax liability but not PRSI or USC.

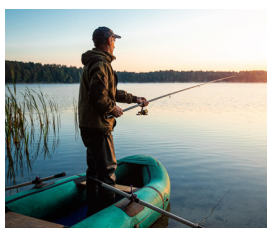
### Who is EIIS suitable for?

An individual with a taxable income (40%) liability in the year the EIIS investment is made who is willing to accept a higher risk profile investment.

Taxable income includes

- PAYE earnings
- Rental income from property held in a personal capacity
- Other investment income, e.g. dividends
- Pension/ARF income

## Pension legislation changes in 2022



- The requirement to invest €63,500 in an AMRF up to age 75 has been removed. This allows greater flexibility especially for those pension holders who had lower amounts than this in their overall pension and whose funds were locked away until age 75. If you choose to take a 25% tax free lump sum, the balance can be invested in an ARF with immediate access if required, although you may be liable to income tax on this withdrawal.
- The “15 year rule” whereby a person with more than 15 years’ service was unable to transfer occupational / employer pensions to a PRSA has been removed.
- Auto enrolment, targeted now for 2024, is aimed at 750,000 workers who do not currently have any pension arrangement.
- IORPs (Institutions for Occupational Retirement Provision): European legislation has increased the level of governance in the management of occupational schemes. All life companies offering pensions have introduced a Master Trust model which gives small/ medium sized companies the same opportunities to fund pensions, once they meet the governance criteria from IORP II. One-member schemes set up on or before 21<sup>st</sup> April 2021 have a 5 year timeline to meet the main criteria of IORP II which ends in April 2026.

“I’m going to retire and live off my savings. What I’ll do in the second week, I’ve no idea.”

Anon.

## Performance of a selection of funds (pensions and investments) for 2022

Please note funds have different volatility factors and a varied risk profile. Percentages are gross before any tax due and annual management charges which can vary from 0.5% to 1.5.

Invested on 1 Jan 2022	1 year to 31 Dec 2022 %	5 years to 31/12/2022 Cumulative %
<b>Equity Funds: Medium to High Risk</b>		
Irish Life MAPs 4	-10.3	10.4
New Ireland I Funds 4	- 7.1	15.2
Standard Life Myfolio Active IV	-13.7	14.7
Zurich Life Prisma 4	-13.6	21.4
Aviva High Yield Fund Risk level 5	- 1.9	59.5
Zurich Dividend Growth	- 4.9	23.8
New Ireland UK Equity	+ 1.6	18.7
<b>Lower Risk Funds</b>		
Irish Life Multi Asset 3	- 9.9	4.5
Zurich Prisma 3	- 8.7	7.4
Standard Life GARS	-10.8	-10.1
<b>Other Funds: Low to Medium Risk</b>		
Aviva Target return fund	+ 4.7	13.7
Aviva Multi Asset Strategic Fund	-11.2	13.8
New Ireland BNY Real Return Fund	-10.2	17.7
Merrion Multi Asset 30	-16.6	12.5
<b>Commercial Property Funds</b>		
Aviva/Friends First	+1.5	-2.7
Irish Life (Ireland)	-0.1	+2.7
New Ireland (Ireland, UK, Europe)	-4.1	-5.8
<b>UK Property Fund</b>		
Standard Life UK Property Fund	-12.5	-6.9
<b>German Food/Retail Property Fund</b>		
Greenman Open Fund	+8.4	32.5

**WARNING : Past performance is not a reliable guide to future performance. The value of your investment may go down as well as up. Returns on investments may increase or decrease as a result of currency fluctuations.**

## The Outlook for 2023

Investors and advisors alike are not fortune tellers and no-one is infallible when it comes to outlook for market performances. While analysts may have predicted a volatile year ahead for 2022, they didn't anticipate the Russian invasion of Ukraine which occurred in late February 2022 and continues to impact on inflation and financial markets.

History has proven there are always unpredicted events and circumstances that may impact on financial markets. However, going into 2023, the expectation now is that equity markets may already have priced in a shallow recession in the year ahead and that inflation may have peaked, with interest hikes peaking in mid-2023. If this turns out to be incorrect and the recession is deeper, the pricing of equities may fall further in the short term.

**"The only function of economic forecasting is to make astrology look respectable."**

J.K. Galbraith

If ongoing market uncertainties and volatility keep you awake at night and you are not prepared to invest for the longer term then perhaps you should re-assess and take action regarding your existing portfolios or at least discuss them with your financial advisor. The key to investing is to be patient and embrace the uncertainty. Generally, in



stock markets what matters is whether the future 'news' is more positive or negative rather than current expectations. Currently the expectation for being more positive is relatively low. Buying at times when sentiment is negative is normally in the long term a good idea.

At RMC our constant investment advice is to remain focused on a long term plan, but ensure to complete a portfolio review once a year with your advisor. Rebalance assets where appropriate, if overexposed to any one asset/market or your personal financial circumstances change.

Thank you again most sincerely for your ongoing continued support, in a very volatile year. We wish each and every client and your families a healthy, happy and successful year for 2023.

## Services

The following services are provided by RMC Financial Services, with over 30 years' experience in the Accountancy and Financial Advisory business:

- Financial planning
- Investment and pension fund reviews and advice
- Savings and deposits
- Retirement advisory services
- Post-retirement investment services
- Life insurance: personal and business protection
- Illness insurance
- Mortgage protection insurance
- Income protection insurance



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