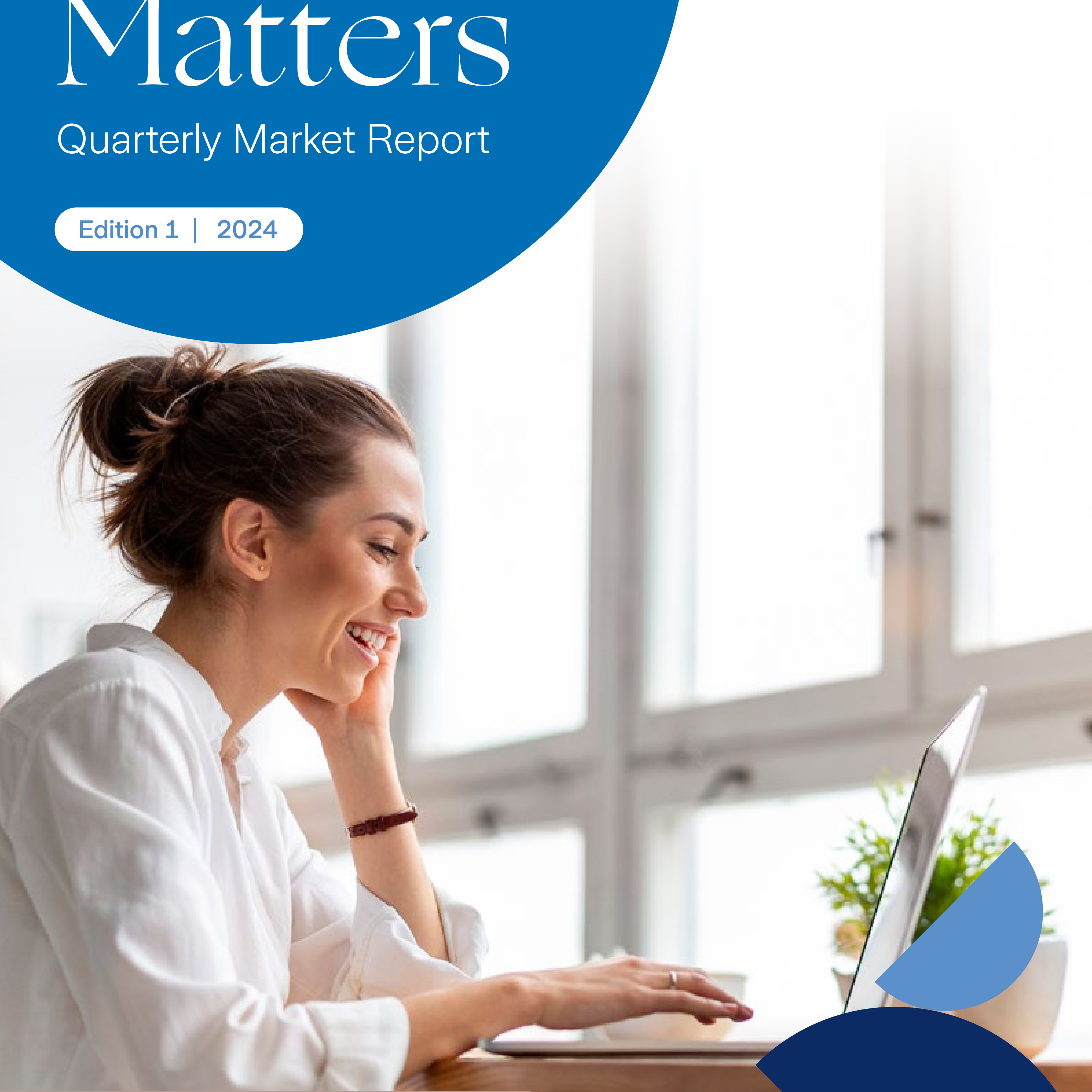
# Pension Matters

## Quarterly Market Report

Edition 1 | 2024



# What does inflation mean for your pension?

Inflation, as a concept, deals with the rise (and fall) of prices in the economy. After spending much of the last decade flying under the radar, it has been centre stage for investment markets over the last three years. Higher inflation, both recently and potentially in the years ahead, can have a material impact on your pension.

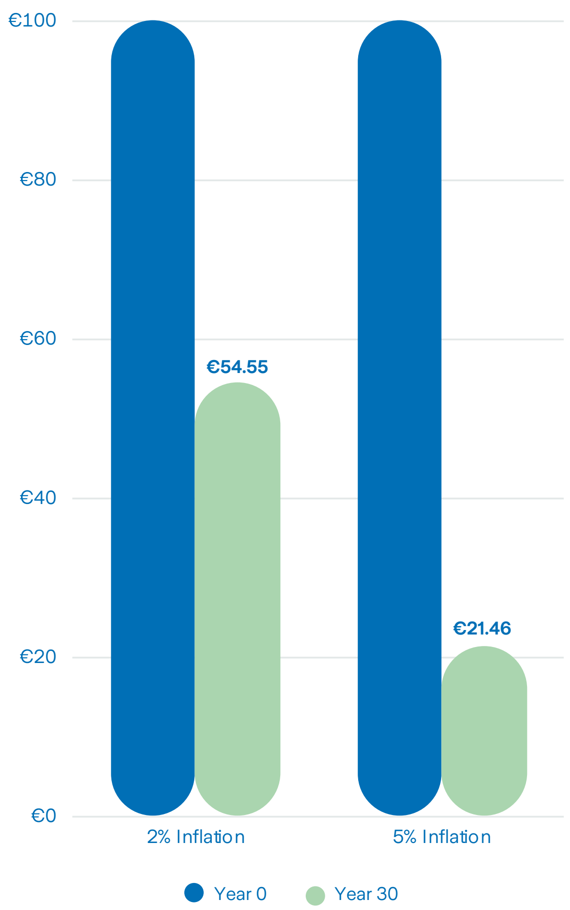
Inflation in Ireland currently stands at 2.9% in April/May 2024, down significantly from its peak of 9.2% in 2022. While it is natural to focus on the everyday impacts of inflation, inflation can also have a significant impact on the purchasing power of retirement savings over the long term. It's crucial to consider inflation when planning your retirement to ensure that your pension remains sufficient to cover expenses in the future. When you compare inflation at 2% versus 5% over a long period as we have in the graph then you can see it's effect.

**Why is inflation now more topical?**

After falling sharply towards the end of last year, inflation has continued to decline in early 2024 but at a more gradual pace. Goods disinflation, which was the key driver of falling inflation in 2023, has moderated and energy prices are no longer adding to disinflationary pressures. Prospects for inflation hinge on the service components, where price pressures remain high amid robust demand, tight labour markets and above-trend wage growth. Declining inflation is not just limited to Ireland, we are seeing this trend in the larger arenas of the US and the wider eurozone. Falling inflation is good news for central banks, which are either already cutting rates or getting ready to cut rates. Despite some stickiness on the services side, major central banks, including the Fed in the US and the European Central Bank (ECB), continue to signal that rate cuts will soon be forthcoming.

Between 1995 and 2020, the rate of yearly Consumer Price Index (CPI) in the US stayed in the range of 1% to 3%, with just a few minor deviations. In the European Union (EU), average inflation mostly varied between 2% and 3% from 1995 to 2012 and between 0% and 2% since. All this changed over the last few years. During the Covid-19 pandemic, amid a collapse in demand and plunging oil prices, global CPI declined significantly between January and May 2020. Since May 2020, however, inflation accelerated, resulting in the quickest subsequent upturn in inflation compared to the 5 global recession instances of the past 50 years. In 2021, inflation rates began to exceed their target levels. Rising commodity prices and supply chain disruptions were the principal

**Impact of 2% vs 5% inflation on €100 after 30 years**




Source: Zurich Life, April 2024

triggers of this inflation. As these factors faded, tight labour markets and wage pressures became the main drivers. The outbreak of the war in the Ukraine in February 2022, and its consequences for the markets for energy and food, massively accelerated this process. Major central banks initially viewed the rise in prices as 'transitory' and were therefore seen as slow in responding.

### What does it mean in terms of reducing purchasing power?

Purchasing power is how much people can afford based on their costs and their income – including in their retirement. Inflation occurs when prices rise across the economy, decreasing the purchasing power of your money. Essentially the same euro amount doesn't buy you the same basket of goods as it did the year before. In 2021 and 2022, when inflation was surging, wage growth was also rising but not nearly as sharply, leaving many people worse off in real terms. In the beginning of 2023, over three quarters of professional firms in Ireland gave pay increases averaging 4%. This increase however, still lagged behind the rate of inflation in Ireland which stood at 8.2% at the end of 2022, although it has fallen back slightly since. With food price inflation and energy price inflation, even with the pay increases, most workers remained substantially worse off than they were due to a reduction in purchasing power.

### What can you do?

The level of inflation in an economy can change depending on current events. There are many ways to hedge against inflation, including by increasing exposure to risk assets and increasing contributions.

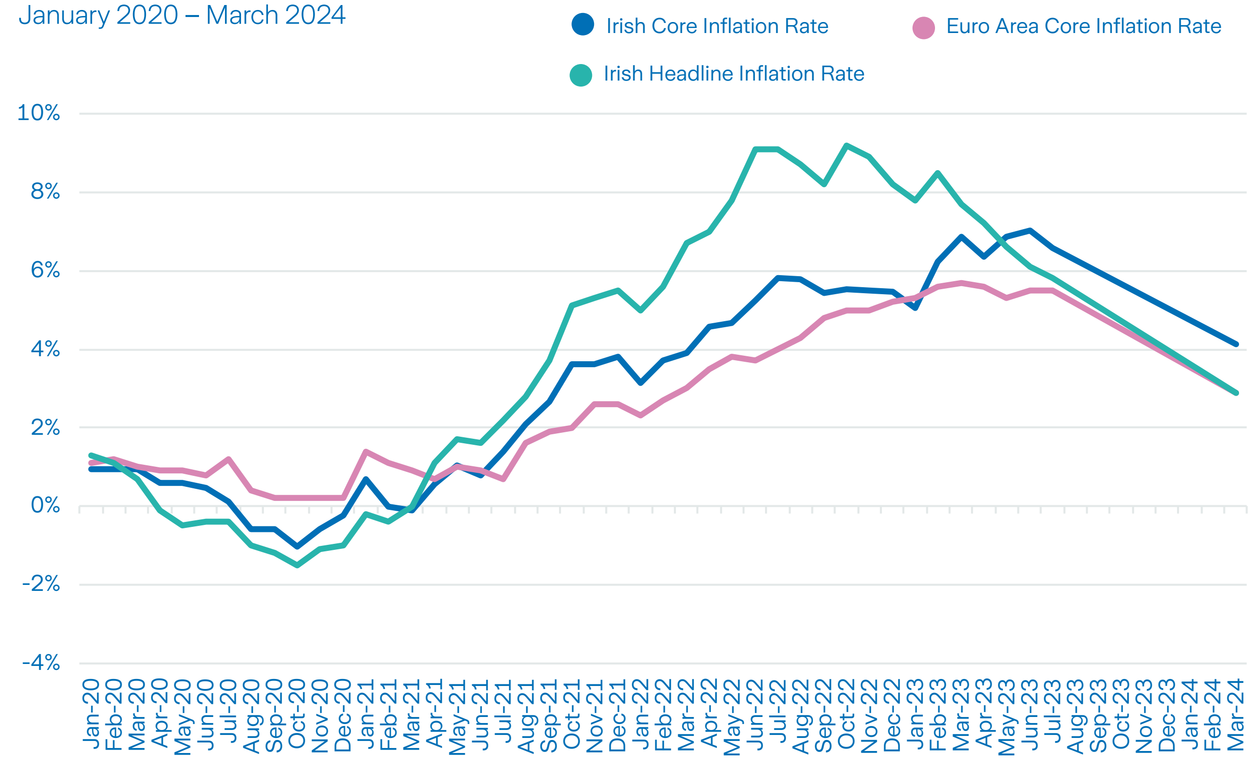
Investors concerned about the impact of inflation on their pension and their investment returns should consider their long-term strategy, namely their investment horizon and their tolerance for risk. For many, the best course of action would be to maintain a globally diversified portfolio, by investing in multi-asset portfolios. One way to navigate times of inflation is through a broad mix of assets. Through Zurich's actively managed multi-asset funds we can create the right balance of these assets within a portfolio. It is noteworthy that holding on to cash may reduce your future spending power, and this is even more predominant in today's high inflationary environment.

Defined Contribution (DC) schemes and master trust's are not immune from the effect of rising inflation. Members may see the value of their pension pot, and therefore their purchasing power for retirement annuity, falling as they approach retirement. Members who contribute a set percentage of salary where that salary increases in line with inflation or increase contributions may be protected from the dangers of high inflation.

With inflation expected to fall further over the course of the year and central banks signalling that interest rate cuts will soon be forthcoming. Members and employers of DC schemes should be ensuring they are well prepared, and receive advice, regarding the impact of these themes on their pensions.

**Irish vs Euro Area Inflation Rates**

January 2020 – March 2024




Source: ECB, CSO January 2020 – March 2024

- Equity markets performed well over the quarter
- Led higher by US technology stocks
- Bonds were flat
- Commodities were higher on inflation fears

# Markets at a glance

The first quarter of the year saw a strong performance from equities globally. Stocks staged impressive returns in the first quarter, gaining over 11.37%. These gains were led by technology stocks, particularly those anticipated to thrive in the artificial intelligence boom, with value stocks also participating in the rally. Conversely, the bond market faced challenges for the quarter as the possibility of the Fed postponing rate cuts until the middle of the year affected their performance.  Economic releases in the US indicated that the economy is portraying signs of resilience with improved manufacturing activity. In Europe, economic conditions were subdued, with slower manufacturing activity and tight labour markets. After falling sharply towards the end of last year, inflation has continued to decline in early 2024 but at a more gradual pace, becoming sticky, indicating that the Fed and ECB rate cuts will be pushed out to a least June and that three rates cuts in 2024 is now more likely than the previous anticipated five cuts.

**Equity Markets**

The US stock market keeps racing from record to record. While tech stocks and the Nasdaq have been the major drivers of the robust equity performance since the beginning of this year, the equal weighted S&P 500 Index outperformed both the Nasdaq and the widely used market-cap weighted S&P 500 last month, indicating that the rally is broadening out. A robust growth environment and the prospect of looser monetary policy despite recent pickups in inflation have supported investor sentiment. Communication Services was the best performing sector for the quarter on a global basis, returning 15.53% in euro terms. Unlike 2023, he tech and tech-aligned sectors didn't substantially outperform, with the best performing sectors being communication services, financial, energy and industrials. The worst performing sector globally was Real Estate, returning 1.77%, however, all sectors were in positive territory for the quarter. The only major market to show negative equity performance for the quarter was Hong Kong, hampered by geopolitical tensions and an economic slowdown in China.

**Commodities & Currencies**

Commodities as an asset class saw strong gains in the first quarter thanks to still-elevated geopolitical tensions, a weaker US Dollar and smaller than expected declines in inflation. Gold saw positive inflows as the US Dollar weakened against foreign currencies. In Euro terms, Gold returned 10.58% over the quarter. The price of the precious metal remained on an upward trajectory throughout the quarter as weaker economic data indicated a higher probability of future rate cuts. Higher volatility also increased inflows to what is traditionally viewed as a safe haven asset class. Crude Oil prices also increased across the quarter and continues to rise as geopolitical tensions intensified amidst developments in the middle east. At the end of March 1 Euro purchased 1.079 Dollars.

### Bonds & Interest Rates

The quarter was more challenging for fixed income markets. Sticky inflation, resilient economic activity, and the prospect of less rate cuts in 2024 than originally anticipated, combined to drive negative returns for bonds. Overall, US Treasury yields rose across the curve, with the benchmark 10-year Treasury yield rising from 3.88% to end the quarter at 4.20%. In the US higher than expected inflation and strong jobs data prompted a revision of the number of Fed rate cuts markets were pricing in at the beginning of the year. In Europe, 10-year yields also climbed over the quarter, notably in Germany, France and also in the UK. The ECB is making progress on inflation but risks still remain.

## Current Positioning

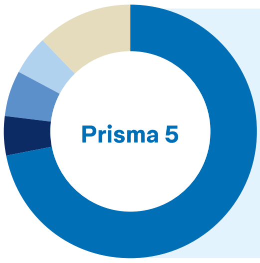
| Asset Class | Country | Positive | Neutral | Negative |
|---|---|---|---|---|
| Equities | US | ✓ | | |
| | Europe | ✓ | | |
| | Japan | | | ✓ |
| | Asia-Ex Japan | ✓ | | |
| Fixed Income | Sovereign Eurozone | | ✓ | |
| | Sovereign US | | ✓ | |
| | Sovereign UK | | ✓ | |
| | Credit | | ✓ | |
| Currencies | USD | | | ✓ |
| | GBP | | ✓ | |
| | YEN | | ✓ | |
| Alternatives | Oil | | ✓ | |
| | Gold | ✓ | | |
| | Copper | | ✓ | |
| | Global Property | | | ✓ |
| | Soft Commodities | | ✓ | |

# Medium Risk Default Investment Strategy Personalised GuidePath

**Asset splits* and performance**

## Early Growth Stage

- Performed well due to allocation to equities.
- Returned 9.9% over the quarter.
- Strong economic data and optimism around Artificial Intelligence (AI) drove equity markets.

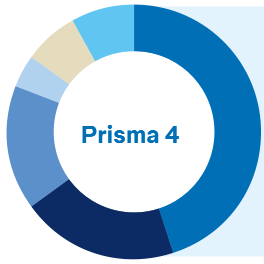



- Equities 72%
- Gov Bonds 5%
- Corp Bonds 6%
- Property 5%
- Alternatives 12%

| Year to date | Annualised 1 Year | 3 Years | 5 Years | 10 Years |
|---|---|---|---|---|
| 10.3% | 24.5% | 8.5% | 10.8% | 9.9% |

## Mid Growth Stage

- Performed well due to allocation to equities.
- Returned 6.0% over the quarter.
- Commodities performed positively with Oil and Gold prices rising.

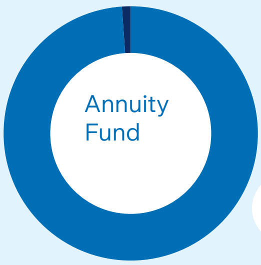



- Equities 45%
- Gov Bonds 20%
- Corp Bonds 16%
- Property 4%
- Alternatives 7%
- Cash 8%

| Year to date | Annualised 1 Year | 3 Years | 5 Years | 10 Years |
|---|---|---|---|---|
| 6.2% | 16.6% | 5.5% | 7.1% | 7.0% |

## Retirement Planning Stage


ARF fund is the Prisma 3 fund.




Annuity fund is the Long Bond fund.


- Equities 23%
- Gov Bonds 25%
- Corp Bonds 18%
- Property 2%
- Alternatives 3%
- Cash 29%

- Bonds 99%
- Cash 1%

- Cash 100%

Performance data: FE fundinfo as at 01/04/2024.

Annual management charges (AMC) apply. The fund returns are based on an investment in the funds and do not represent the returns achieved by individual policies linked to the funds. These fund returns may be before the full AMC is applied to a policy. The actual returns on policies linked to the specified fund will be lower because of the effects of charges and in some cases a higher management charge.

*Source: Zurich Life as at 31/03/2024. Due to rounding some totals might not equal 100%.

**Each stage is personalised. For further information please see individual fund pages on zurich.ie.**

# Personalised GuidePath

## The most flexible investment strategy in the market.

Personalised GuidePath is an innovative investment strategy that provides greater flexibility, catering for different risk profiles and retirement benefit plans.

Personalised GuidePath makes your investment choices clearer and smarter. It is the first investment strategy in the Irish market which allows you to **personalise it in three ways** to suit your needs.

### 1 Personalised risk preference

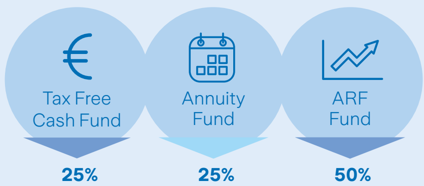
By answering some simple questions you can understand your preferred level of risk from Low to High.

Once you have your risk profile, you can then adjust your investment strategy to match. This can be done online in a few easy steps.


### 2 Personalised retirement planning stage

It is likely that many customers will want to use their accumulated pension fund in different ways depending on their personal preferences.

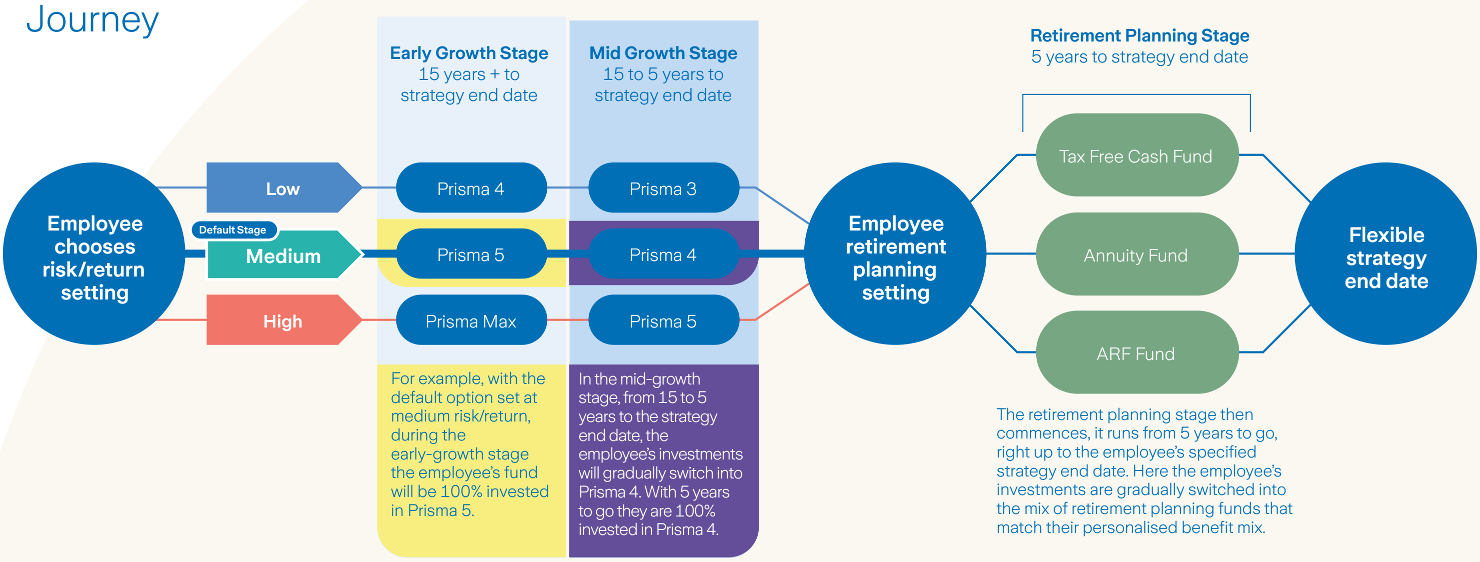
There is no formula to predict what benefit mix an individual will choose at retirement – but with the right education and tools at your disposal, Personalised GuidePath makes the decision easy for you.




### 3 Personalised strategy end date

If you are planning on retiring early or late, Personalised GuidePath gives you the flexibility to adjust your 'strategy end date' at any stage over the course of your working life. This means your pension will de-risk to the date you are actually planning to take your benefits, regardless of whether it's earlier or later than your normal retirement date.

## The GuidePath Journey



# Grow your pension with Additional Voluntary Contributions (AVCs)

## There has been much talk in recent weeks about the potential for changes to tax bands in the next budget.

Increasing the entry point to the higher rate of tax would decrease the amount of tax paid for anyone who pays the higher rate. The tax bands have been moved up in a similar fashion over the last few years. There are of course cost of living pressures and always something that can benefit from this increase in take home pay. However, putting some into your pension via an Additional Voluntary Contribution (AVC) is another good option. For example, the latest tax bands were introduced in January 2024. If you were to increase your pension contribution by €110* in January, your take home payslip would have been exactly the same as in December 2023. This move could have a big impact on your final pension – and could add an extra €47,000 to your final pension pot over a 25 year period. It's important to remember that small actions can have great impact.

An extra
**€110pm***
This AVC contribution has zero effect on net take home pay versus 2023

**What if this was invested for 25 years?**

An additional
**€47,023.70**
Pension Pot for no additional cost versus 2023 and not assuming any increase in salary

*This assumes you are a 40% taxpayer.

Source: Zurich Life, April 2024.

AVC in Prisma 5 @ 5.75% growth per annum. Annual Managment Charges apply. Returns are based on offer/offer performance and do not represent the return achieved by individual policies linked to the fund.

**Warning: These figures are estimates only. They are not a reliable guide to the future performance of your investment.**

## For more information

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**Warning: Past performance is not a reliable guide to future performance.**
**Warning: The value of your investment may go down as well as up.**
**Warning: Benefits may be affected by changes in currency exchange rates.**
**Warning: If you invest in this fund you may lose some or all of the money you invest.**
**Warning: The income you get from this investment may go down as well as up.**

The information below applies to all graphs and the preceding pages:



This does not constitute an offer and should not be taken as a recommendation from Zurich Life. Advice should always be sought from an appropriately qualified professional.

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