ZURICH

A Continued Balancing Act

Investment Outlook July 2024

2024 Review – The year so far

Overall, 2024 has so far been a positive year for equities and other risk assets, with the majority of funds enjoying positive returns. Short-term US interest rates remain at the same level as at the start of the year, between the 5.25% and 5.5% range, the highest since 2001. In December 2023 there was an expectation of between six and seven 0.25% cuts in 2024. This helped the Q4 2023 rally in stock markets to endure, and mega cap stocks continued to lead the market higher on the back of the Artificial Intelligence (AI) narrative. These stocks helped to sustain the rally even as sticky inflation and a strong US labour market led to a curbing of rate cut expectations. The market has now priced in closer to just one US interest rate cut in 2024 as a result. Investors have been heartened by the fact that a small number of central banks such as the Swiss National Bank and the ECB have cut short-term interest rates – albeit for different reasons, even if the Federal Reserve has disappointed the more aggressive expectations of the start of the year.

Within the US, the 'Magnificent Seven' stocks continued to outperform on a relative basis, as the excitement around artificial intelligence and strong earnings continued to push valuations higher. However, the first half of the year did also see some broadening out in equity performance across sectors. World equities returned 15.2% in euro terms in the first half of the year.

Increased political uncertainty was also a feature of the first six months of the year with major elections around the world seeing some surprise results. The second quarter saw Donald Trump emerge as the primary candidate for the Republican party in the US Presidential Election, which takes place in November. In the UK, Prime Minister Rishi Sunak called a snap-election, much to the surprise of many commentators. Whilst in the European Union, the results of the European Parliament Elections, saw a large shift away from incumbent parties, which subsequently led to the calling of a parliamentary election in France. The potential policy implications from these elections will continue to emerge throughout the rest of 2024.

Throughout the year, China has remained the primary global outlier in terms of market performance as the country struggled to reach growth targets. Issues within the country's real estate market continued to place downward pressure on risk assets, while weak demand led to some fears of deflation. Despite this, prospects have improved in China slightly, as policymakers appear committed to stimulating growth.

In relation to commodities, continued tensions in the Middle East and Ukraine were the main areas of focus, as clashes continued to escalate. Energy and oil prices were volatile as a result. WTI crude oil prices have risen by 17.3% in euro terms year to date. Against this backdrop Gold rallied on the strength of its safe haven status and continued central bank buying programmes.

“Economic growth continues to be positive. Key indicators suggest little immediate signs of a recession.”

For The Bulls

- The ‘soft landing’ successfully comes to pass
- Inflationary pressures continue to ease and central banks lower rates
- The Chinese economy experiences accelerated growth
- Corporate earnings continue to support higher valuations

For The Bears

- Inflationary pressures re-emerge
- The lagged effects of hawkish monetary policy cause a recession
- China continues to experience stagnating growth
- Geopolitical tensions continue to escalate

Outlook Summary

At the midpoint of 2024 we maintain the broadly balanced asset allocation stance with which we entered the year. We remain neutral towards both equities and fixed income and are ready to pivot materially into either asset class as opportunities present themselves. The additional fixed income exposures taken in our funds during 2023 were scaled back to a more neutral position in early 2024 after the dramatic rally in bond prices during the final quarter of last year. This is an active neutral position which is being constantly monitored. Within the framework of our top-down investment process, we adjust allocations at a regional, sectoral, and individual security level across respective asset classes on a regular basis. We continue to operate with a controlled and measured attitude to risk taking.

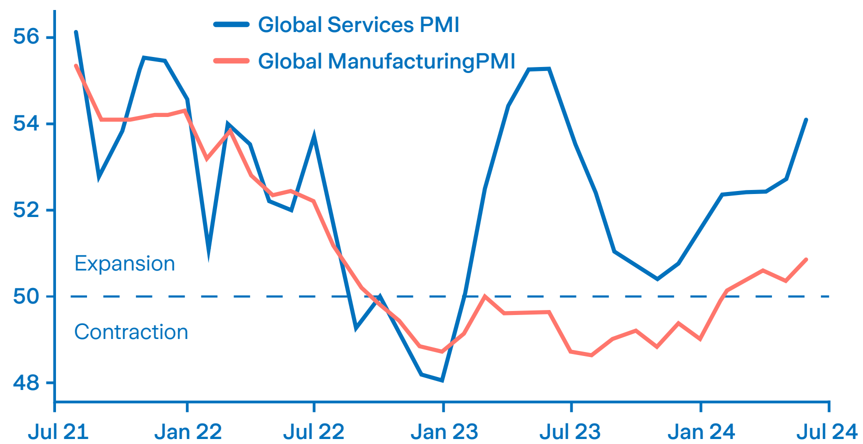
In relation to the global economy, growth continues to be positive. Key economic indicators suggest little immediate signs of a recession. Job markets remain tight across the developed world and PMI data remains broadly in positive territory, albeit not stellar. Inflation continues to trend lower, economic momentum remains resilient, and equity valuations are close to long term averages. Whilst the broadly positive equity market trend remains intact, conditions in the market remain volatile. If interest rate cuts do not materialise to the extent of market expectations, the overall growth in equities may suffer. This has supported our balanced stance throughout the year.

Key economic risks remain, including the condition of global commercial real estate, which continues to be dogged by higher vacancy rates in key urban centres, the twin negative influences of 'work-from-home' and higher refinancing rates. Chinese growth continues to be a focus for investors – but continues to disappoint expectations - and the upcoming Third Plenum will be closely watched for signals of the government's views on further stimulus or reform. Similarly, the market will continue to digest the results of key elections in the UK and France, while the forthcoming US Presidential election has come sharply into focus. History remains a useful guide and reference point, but investors, to date, have not taken a clear view on the likely economic impact of a second Trump term. In addition to politics, the trajectory of earnings, the path taken by key monetary policymakers, and the relative resilience of the US consumer will all continue to influence investment markets. Medium-term inflation expectations remain a key input into our asset allocation process.

As stated in previous editions, we now have a scenario where sovereign bonds, credit, and cash are all yielding firmly in positive territory. In addition, real yields (which take account of inflation) are also positive. This creates a much more competitive backdrop from an asset allocation perspective with viable opportunities for active investment managers within multi-asset investing.

In conclusion, our asset allocation is more balanced today after several years of high/very high equity allocations and lowered fixed income exposures. We maintain a flexible outlook and are poised to act from a position of strength. We may act upon buying opportunities within either equities or fixed income, as they present themselves.

Trend-like global growth is broadening



Source: Bloomberg
01/07/2021 – 01/07/2024

Equities

Global equities remain at all-time highs, yet valuations remain close to long-term averages on the back of resilient earnings. While expectations for the pace of rate cuts eased somewhat in 2024, the evidence of weakening inflationary pressures together with robust earnings and excitement around certain key themes such as AI and Infrastructure have provided a tailwind for equity markets, particularly for more growth orientated companies. Furthermore, a more normalised monetary environment can help provide certainty for individual firms.

Within our equity allocation we remain focused on cyclical sectors such as Information Technology and Financials. On a geographical basis we have a slight preference for US, European and Asia Pacific regions. Thematically, our active approach has taken advantage of secular trends such as AI, infrastructure, decarbonisation, and the development of treatment for diabetes and obesity. Within Europe, political developments may provide opportunities for active managers.

The topic of equity market concentration remained a key talking point this year. Equity markets have indeed become more concentrated in 2024, especially in the US with the meteoric rise in companies such as Nvidia. But we see the interaction and relationship between earnings and valuations is more pertinent than equity market concentration or leadership. For example, there is valuation support for the broad technology sector currently, and by extension the market. We continue to monitor this market narrative across our equity portfolios and remain vigilant to the emergence of any material risks from this source.

Earnings have been resilient and supported valuations. For now, US corporate profits have been supported by a growing economy, and a relatively resilient consumer. However, earnings cannot rise exponentially, and at some point, this must be reflected in price/earnings multiples. The lagged effects of monetary policy could still pose a risk to the labour market. Additionally, consumer borrowing has been increasing as lockdown savings have been run down given the rising cost of living. The cumulative effects of inflation continue to be felt across the global economy as countries, companies, and consumers grapple with higher borrowing and refinancing costs. Such issues are felt acutely in sectors such as real estate.

From an equity risk perspective, inflation data and subsequent interest rate expectations remain a dominant topic. If inflation remains more stubborn than expected, and subsequent interest rate cuts are not forthcoming, equity markets could suffer. Conversely, if more rate cuts than forecast materialise due to lower economic growth or the threat of deflation, sentiment in equity markets could be adversely affected.

Strong equity performance year to date

Source: Zurich Life, International Equity Fund
02/01/2024 – 02/07/2024

Fixed Income

Eurozone government bond yields have risen so far in 2024 but remain off the highs reached in October 2023. Inflation has moved gradually lower, and the ECB cut the main interbank rate by 0.25% at their June meeting to 3.75%. Within our eurozone government bond portfolios, we have a modest short duration position and have a broad geographical preference for so called 'periphery' over 'core' issuers. Overall, bonds are now clearly in positive yield territory, and this looks set to continue. Therefore, despite the possibility of capital price losses like those experienced so far in 2024, coupon payments now contribute to a positive real return. Our outlook on bonds remains more positive than it has been over the course of the last decade.

French government bonds, one of the largest components of the eurozone sovereign market, experienced significant yield volatility in the wake of the European Parliamentary elections and the subsequent snap election call. The higher yields have been accompanied with a widening of the difference, or 'spread', demanded by investors for holding French debt over German. Looking forward, this may lead to opportunities at respective points on the yield curve.

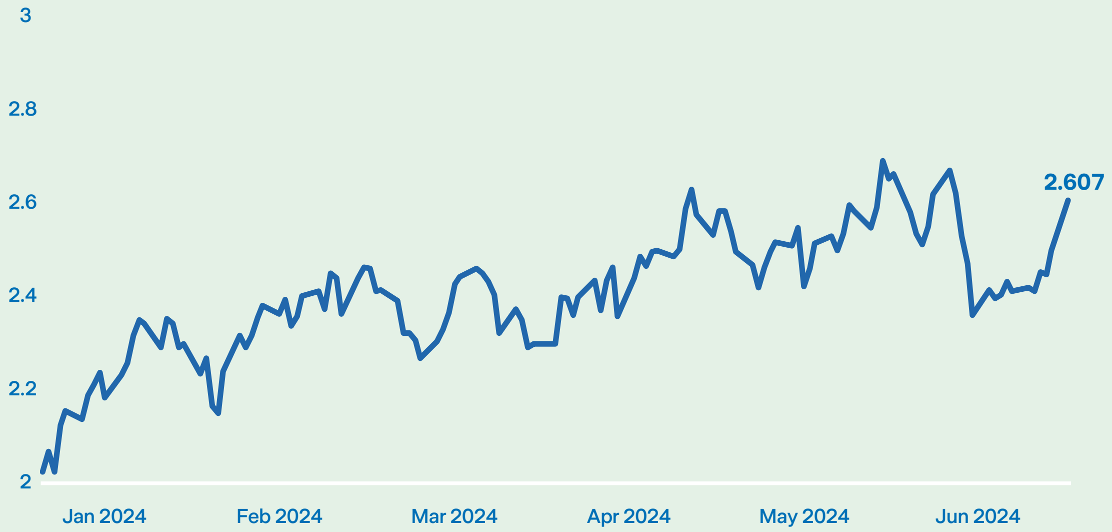
Within the US market, the benchmark 10-year treasury yield has moved higher this year, but also remains off its cycle highs of October 2023. In recent weeks, the yield has ticked higher in the wake of the first Presidential Debate, due to the more uncertain outlook for fiscal and monetary policy if Donald Trump was to return to the White House.

In relation to longer term risks, the high general level of government debt and the continued prevalence of primary deficits is cause for concern. Whilst it is not currently a focus for debt markets; higher refinancing costs and increased fiscal indiscipline does increase the risk of volatility in developed world sovereign bond markets.

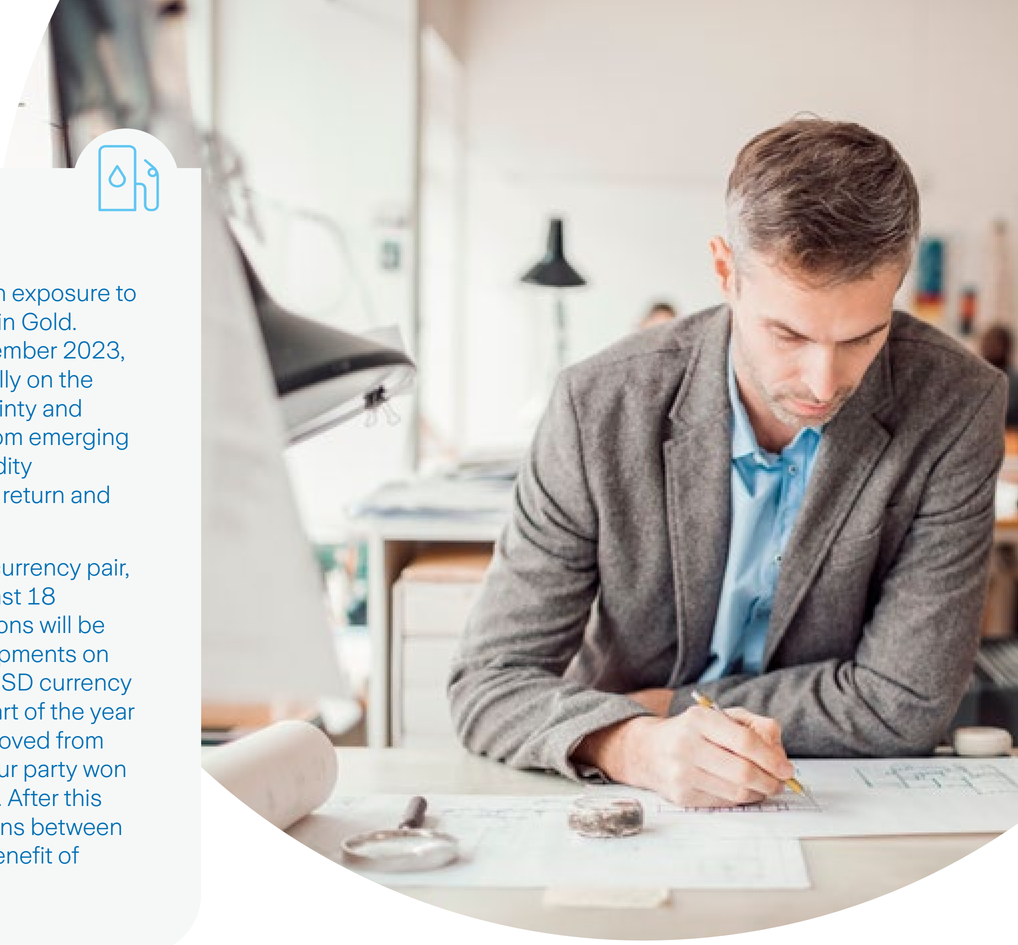
Interest rate expectations in the US have shifted materially this year. Markets are still pricing interest rate cuts by most developed market central banks over the next two years, with the exception of Japan. A key risk at this stage is the potential for central banks to maintain higher short term interest rates for longer than markets currently expect, thereby disappointing current market expectations. However, overall, we are much more constructive on bonds than in recent years.

Within corporate bonds, we are taking a broadly neutral stance from an asset allocation perspective. Within portfolios we are relatively balanced from a duration viewpoint. In the face of higher funding and refinancing costs, credit spreads have so far traded very well. The strength of economies and the prospect of interest rate cuts has helped to support both Investment Grade and High Yield markets.

Government bond yields continue to rise



Source: Bloomberg, German 10 year Government Bond Yield
02/01/2024 – 02/07/2024

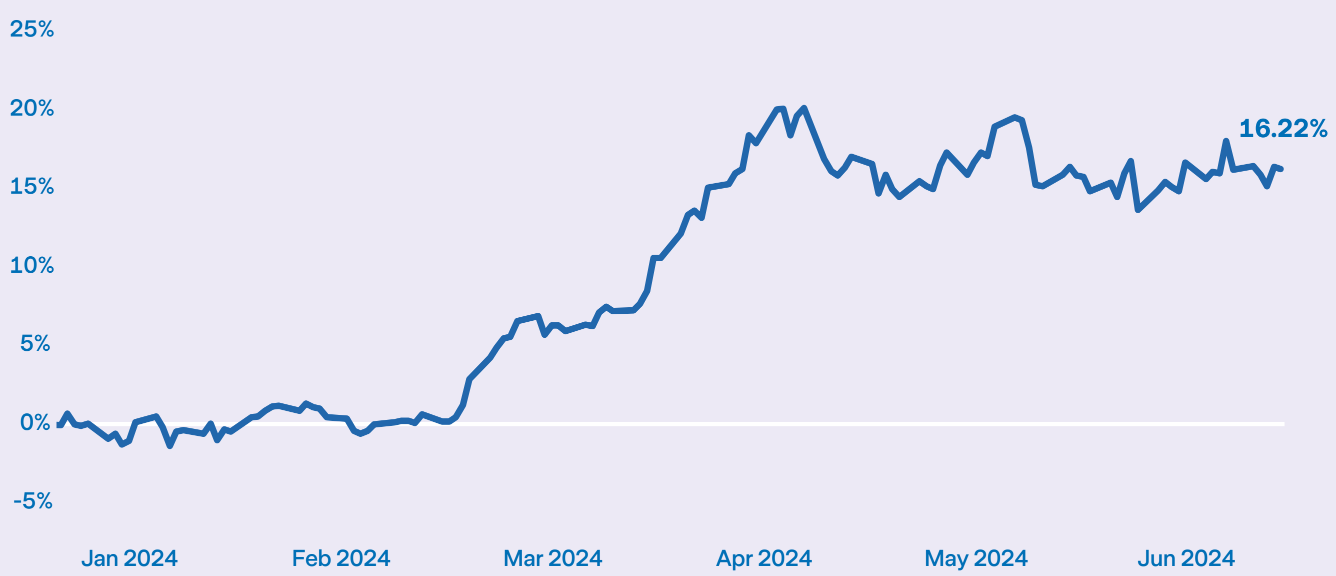


Currencies & Commodities

Where applicable, we are overweight in exposure to alternatives, mainly through a position in Gold. Despite hitting an all-time high in December 2023, the precious metal has continued to rally on the back of increased geopolitical uncertainty and central bank purchase programmes from emerging market countries in particular. Commodity investment in 2024 has provided both return and diversification benefits.

In relation to the important EUR/USD currency pair, it has traded in a tight range over the last 18 months. Central bank rhetoric and actions will be keenly watched, as will political developments on both sides of the Atlantic. The partial USD currency hedge which we had in place at the start of the year remains in place. The EUR/GBP rate moved from 0.87 to 0.85 over the period. The Labour party won a strong majority in the recent election. After this result there is scope for political relations between the UK and the EU to improve to the benefit of sterling and UK assets in general.

Gold has performed well in 2024



Source: Bloomberg, Gold (EUR) performance
02/01/2024 – 02/07/2024

Four pillars of Responsible Investment at Zurich

At Zurich we aim to create sustainable value for customers, shareholders, our people, and broader society. This is core to how we do things; we focus on long-term success over short-term gains. Our approach to Responsible Investment is fully integrated with and complements our active top down investment process. We intend to continue to play our part in supporting a more sustainable world.

Environmental, Social and Governance (ESG) Integration

- As an active investment manager, many of the aspects of ESG have always been part of our approach to analysing investee companies.
- All our portfolio managers are formally trained in relation to both the theory of ESG factors and the interpretation of the data. We also partner with Morgan Stanley Capital International (MSCI) as our provider, and this is integrated fully into our front office systems.

When we are analysing companies, ESG information is readily available alongside other more traditional data such as P/E ratios, earnings forecasts, and balance sheet metrics.

Active Ownership

- This is an area where we strongly believe that active investment managers have a clear advantage over passive counterparts. At Zurich, active ownership incorporates both exercising our voting rights as shareholders, and also engaging with investee companies.
- We partner with Glass Lewis, who provide a shareholder proxy voting advisory services to formulate our overarching policy. Here in Ireland, we are in our fourth year of full proxy voting, and our proxy voting policy is publicly available on our website, in keeping with the Shareholders Right Directive II.

Full voting records of Zurich for every investee company is also publicly available on our website**.**

Exclusions

- At Zurich, there are specific activities that we see as irreconcilable with our purpose, values, sustainability strategy and pose a high reputation risk. For these activities detailed exclusion criteria are defined. Zurich will not consider any investee companies affected by those criteria.
- Our exclusion policies cover business activities in thermal coal, oil sands and oil shale, and the percentage threshold in these areas has been reduced from 50% to 30% in recent years, which reflects the constant evolution of Zurich's approach to Responsible Investment.
- We also do not invest in banned weapons and will not invest in companies that produce, stockpile, distribute, market, or sell banned cluster munitions or anti-personnel landmines.

While we have a strong preference for ESG integration and engagement, there are certain areas where we believe strict exclusions for certain activities are justified.

Carbon Ambition

- Zurich introduced a carbon reduction ambition across selected internally managed relevant portfolios. The aim is to reduce the carbon intensity of equity and credit portfolios by 25% by 2025 vs 2019 levels.
- This will be pursued within the framework of Zurich's existing top-down active investment process. In order to support this ambition, we will monitor the carbon intensity of our portfolios versus a trend line, and report to existing internal oversight groups and committees.

We intend to achieve this by continuing and enhancing our existing use of environmental, social and governance (ESG) data, and by active voting and engagement with investee companies.

Interested in finding out more on Responsible Investment with Zurich? Visit: zurich.ie/responsibleinvestment.

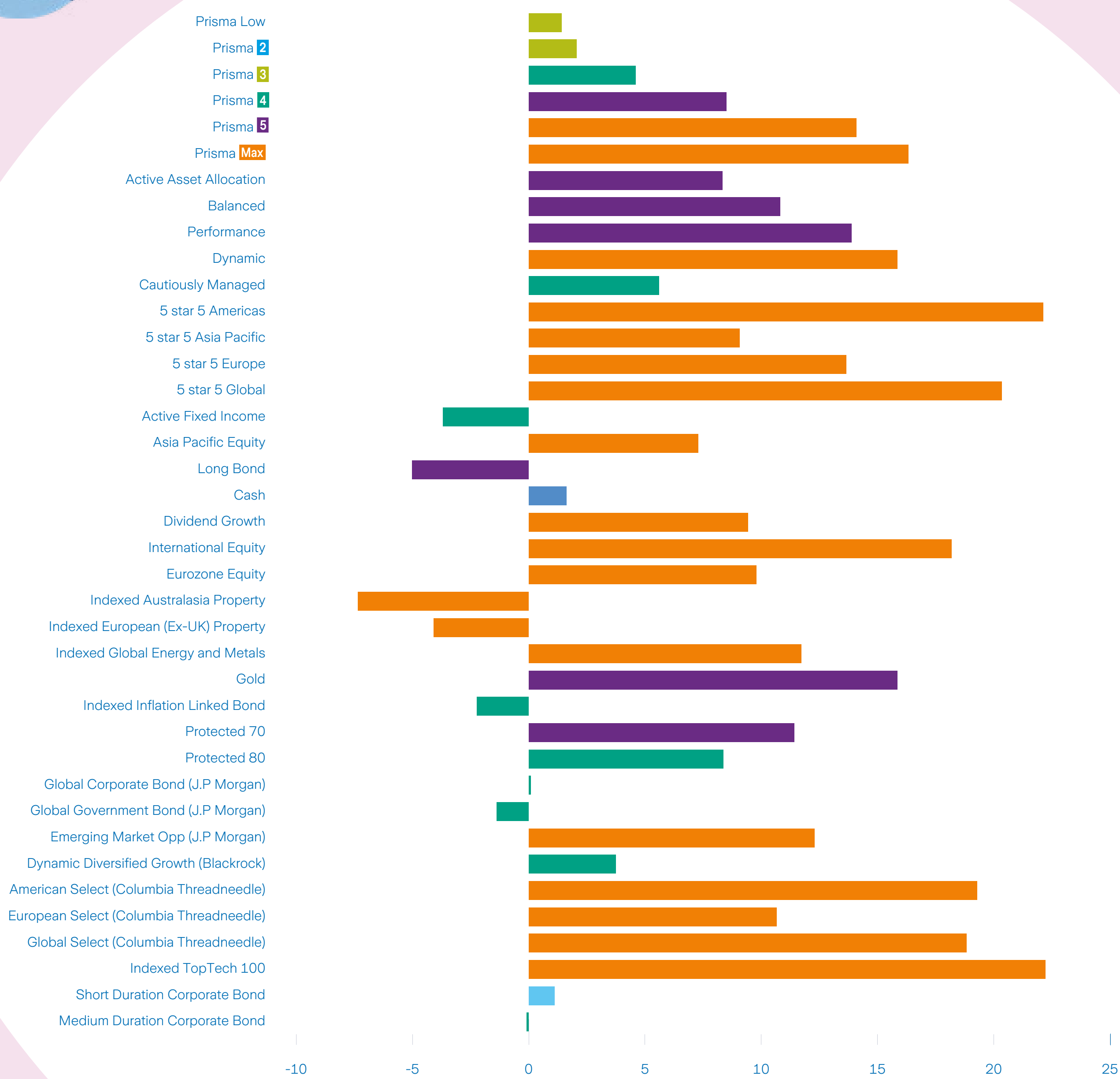
2024 Performance

year to date

Risk/Reward Rating

Lower — — — — — Higher

1 2 3 4 5 6 7



Notes: Annual management charges (AMC) apply. The fund performance shown is before the full AMC is applied on your policy. Returns are based on offer/offer performance and do not represent the return achieved by individual policies linked to the fund. Risk Ratings as at 31/03/2024.

Source: Zurich Life 02/01/2024 – 01/07/2024.

Warning: The value of your investment may go down as well as up.
Warning: Past performance is not a reliable guide to future performance.
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Warning: If you invest in this product you may lose some or all of the money you invest.

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The Zurich Investment Outlook is produced twice yearly by the team at Zurich Investments, based in Dublin, Ireland. This publication provides an in-depth insight into our current thinking and positioning, and expands on the reasons behind our economic views to our clients and customers.

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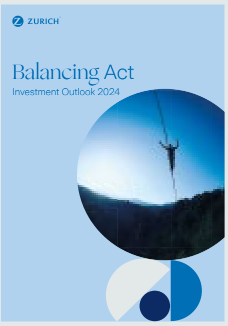
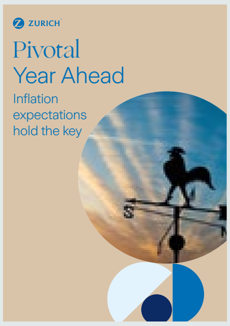
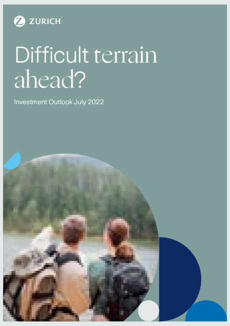


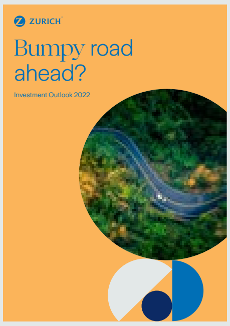
H2 2023



H1 2023

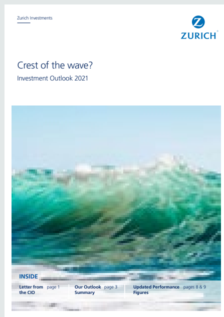


H2 2022



H1 2022

H2 2021



H1 2021

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