Q2 2023 Update

Davy Global Bond Fund

For Investment Professionals Only

Performance	1 Month (%)	Q2 2023 (%)	1 Year (%)	3 Years P.a. (%)	5 Years P.a. (%)
Davy Global Bond Fund (Net Of Fees)	-0.45	-1.26	-3.29	-5.44	-1.38
JP Morgan Global Bond Index[1]	-0.43	-1.13	-3.82	-5.42	-1.44

Source: IQ EQ Fund Management (Ireland) Limited (Class A Acc EUR) as at 30 June 2023.
[1]The JPM Global Bond (Euro Hedged) Index shown above does not include fees or operating expenses and you cannot invest in it.

Fund overview

The aim of the **Davy Global Bond Fund** (the 'Fund') is to protect capital against volatility, deflation, and bear markets by investing primarily in global sovereign bonds.

Market comment

Bonds prices fell (yields rose) during the second quarter. The JP Morgan Global Bond Index (euro hedged) finished down -1.13% for the period. It remained up +1.27% year to date.

This second quarter weakness was mostly concentrated in US Treasuries and UK Gilts. Eurozone bonds were relatively range-bound. In the US, yields moved higher as the market moved to price out interest rate cuts by year end, with the regional banking crisis showing signs of stabilisation and labour market data remaining resilient. At the same time, surprisingly strong inflation data in the UK suggested that the Bank of England will need to continue hiking interest rates and this led to a large selloff in UK Gilts.

Corporate bonds and other Fixed Income sectors generally outperformed government bonds during the period. They were supported by relatively resilient economic data, particularly in the US, and improved risk appetite. As a result, the yield demanded by investors to hold these bonds fell relative to the yield on highly rated "risk free" government bonds such as US Treasuries and German Bunds.

Fund performance

The Fund finished circa 0.13% (net) behind its benchmark, the JP Morgan Global Index (euro hedged), during the quarter.

The main detractor from performance was the Fund's active duration management. The Fund's long duration position in US Treasuries and UK Gilts underperformed as yields rose during the quarter.

This was offset by overweight positions in corporate, supranational and government agency bonds, which outperformed as risk appetite improved and their spreads tightened relative to benchmark government bonds.

Positioning

Recent economic data has challenged our view that growth (and subsequently inflation) should slow materially and help push bond yields lower. Growth has been holding up better than expected, labour markets have been quite resilient, and inflation has proved sicky in some jurisdictions, particularly the UK.

There are several reasons why the global economy has been robust in the face of higher interest rates and tighter credit. Perhaps the main reason is that savings built up by consumers during the pandemic are, for now, helping to cushion consumers from inflation and higher borrowing costs. In addition, higher interest rates may be taking longer to cool the economy than in past cycles, given there is a relatively higher percentage of fixed rate mortgages than before as borrowers were keen to lock in the historically low interest rates of recent years.

Though labour markets and inflation have remained resilient we are mindful that these are lagging indicators. The leading indicators we look at continue to flag a more challenging environment ahead and although higher interest rates may be taking longer to slow the economy than before, we are of the view that it is only a matter of time before they will work.

In addition, while the US regional bank crisis has faded into the background, we continue to believe that deposit retention remains an issue and they have to prepare for tighter regulations going forward. Both factors are likely to result in less credit to the US economy over the coming months and weigh on growth.

To summarise, we continue to remain cautious on the outlook. Therefore, we keep faith in our long duration position in anticipation of lower yields ahead. In addition, we are wary of adding to risk and, as such, we are maintaining sovereign and corporate spread exposure at moderate levels. However, we stand ready to increase exposure again if a selloff produces a greater margin of safety in valuations, or our view on the economic outlook significantly improves.

Calendar year performance	2022 (%)	2021 (%)	2020 (%)	2019 (%)	2018 (%)
Davy Global Bond Fund (Net of fees) (EUR)	-14.5	-3.4	6.0	5.2	-0.8
JPMorgan Global Bond Index (Euro Hedged)	-14.0	-3.1	4.9	4.6	-0.3

Source: IQ EQ Fund Management (Ireland) Limited (Class A Acc EUR) and Bloomberg as at 30 June 2023. Performance is quoted in local currency unless otherwise stated.

Warning: Past performance is not a reliable guide to future performance. The value of the investment can reduce as well as increase and, therefore, the return on the investment will also be variable. Changes in exchange rates may have an adverse effect on the value price or income of the product.

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The Davy Global Bond Fund is a sub-fund of Davy Funds plc, an open-ended umbrella investment company with variable capital and segregated liability between sub-funds incorporated with limited liability under the Companies Acts 2014, authorised by the Central Bank of Ireland as an Undertaking for Collective Investment in Transferrable Securities (UCITS). The Prospectus, Supplement and Key Investor Document for the fund are available in English from IQ EQ Fund Management (Ireland) Limited, 5th Floor, 76 Sir John Rogerson's Quay, Dublin Docklands, Dublin 2, D02 C9D0, Ireland or https://www.iqeq.com/davy-funds-plc/. Investors should be aware that some of the Directors of the Company (Davy Funds plc) are also employed by the Investment Manager, Promoter and Distributor. Further information in relation to the management of potential conflicts of interest is available upon request.

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*Information correct as of July 2023

Reference: HMG_11082023_1

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