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Monthly Monitor

October 2019

The Changes Currently Ongoing In Equity Markets

Quotes like “things change” and “nothing stays the same” don’t sound very profound but when change occurs in financial markets, it’s normally first met with surprise and denial. The refusal to accept change was illustrated by the initial reaction to falling house prices in Ireland or falling equity markets during the Financial crisis. The default first reaction is that this can’t be happening.

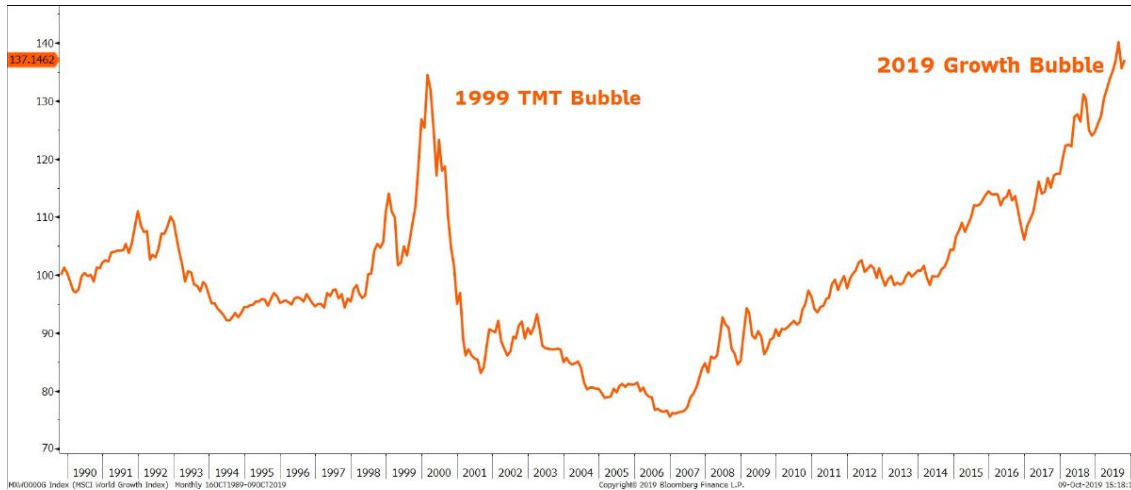
The most dominant theme within markets over the last decade has been the distortion caused by central bank intervention. This has created a “bond bubble” as fixed income valuations diverge from the underlying fundamentals such as growth and inflation. As the negative bond yield environment becomes the “norm”, this has driven further bubbles in expensive areas of the equity market and within private equity. Many in the market have arrived at the conclusion that the place to be invested is in assets which will appreciate if interest rates go lower. This is at a time when interest rates are already deeply in negative territory across much of the developed world. The consensus is that the environment we have been living through will never change. History tells us this complacency is wrong and change happens.

September was a significant month of change within financial markets bringing the first sign that change may be coming.

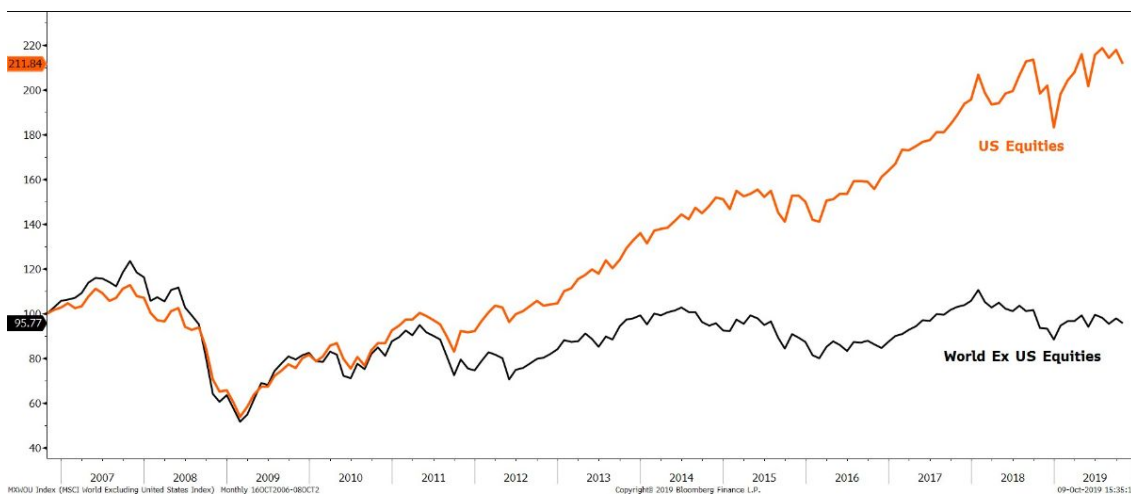
- **Bonds lost money** as fixed income investors took fright at the thought of Fiscal policy taking over from monetary policy as the driver of the economy – This shouldn’t be an earth-shattering conclusion considering that monetary policy is reaching its limits and something else needs to take over. After Greek 10-year bonds rallying over 900% since 2012, the market is asking the question, can bond prices go

any higher? August 2019 may mark the end of the 30-year bull market in fixed income.

- o Within the equity market, **value performed**, enjoying its best period of out-performance versus growth in over a decade. With the valuations between value equities and growth equities greater than we saw in 1999, a reversion of this trend should not be a surprise to anyone, but there's no doubt that a collapse in the valuation of growth stocks will come as a surprise even if history tells us it shouldn't.



- o **US Equities under-performed** as investors started to reappraise the attractiveness of US equities given that their valuations are at all-time highs. Also, with US equities performance after decoupling from the rest of the world, should anyone really be surprised if the gap narrowed?



It's always impossible to tell what alters trends in financial markets or pinpoint when a change will occur. However, it is easy to highlight where the risk is and today the risk is in fixed income assets and assets which have been driven by the bond bubble, which includes growth stocks which have been driving the rally in US equities. We are currently avoiding those areas of the market where we see substantial valuation risk whilst at the same time investing in areas which offer value opportunities. In our view, the question is not if the bond induced bubbles in financial markets burst but what happens when they do? It's for

this reason September was an interesting month as value equities rallied as money was pulled out of bonds and growth equities. Could this be a taster of what is to come?

Appian Market Update Call

Please join Chief Investment Officer Niall Dineen, Senior Fund Manager Derek Heffernan and Senior Relationship Manager John Flavin by telephone on **Thursday, October 17th at 10 am** for a discussion on:

"The Changes Currently Ongoing In Equity Markets"

Dial in details

To listen in to the conference please use the dial in details below.

Ireland (national) : 0818 270 298

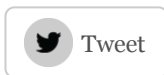
Ireland, Dublin: +353 (0)1 428 9999

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Submit questions

If you would like to submit a question for the team, please forward it by email to niall.dineen@appianasset.ie



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Appian Unit Fund Prices

4 Oct 2019

Appian Value Fund	150.97
Appian Equity Fund	196.76
Appian SCOF	166.12
Appian Liquidity Fund	104.11
Appian Ethical Value Fund	104.89
Appian Burlington Property Fund	127.10

For more detailed information on each of our funds click [here](#)

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