



MarketWatch Outlook 2023: Is hibernation over?

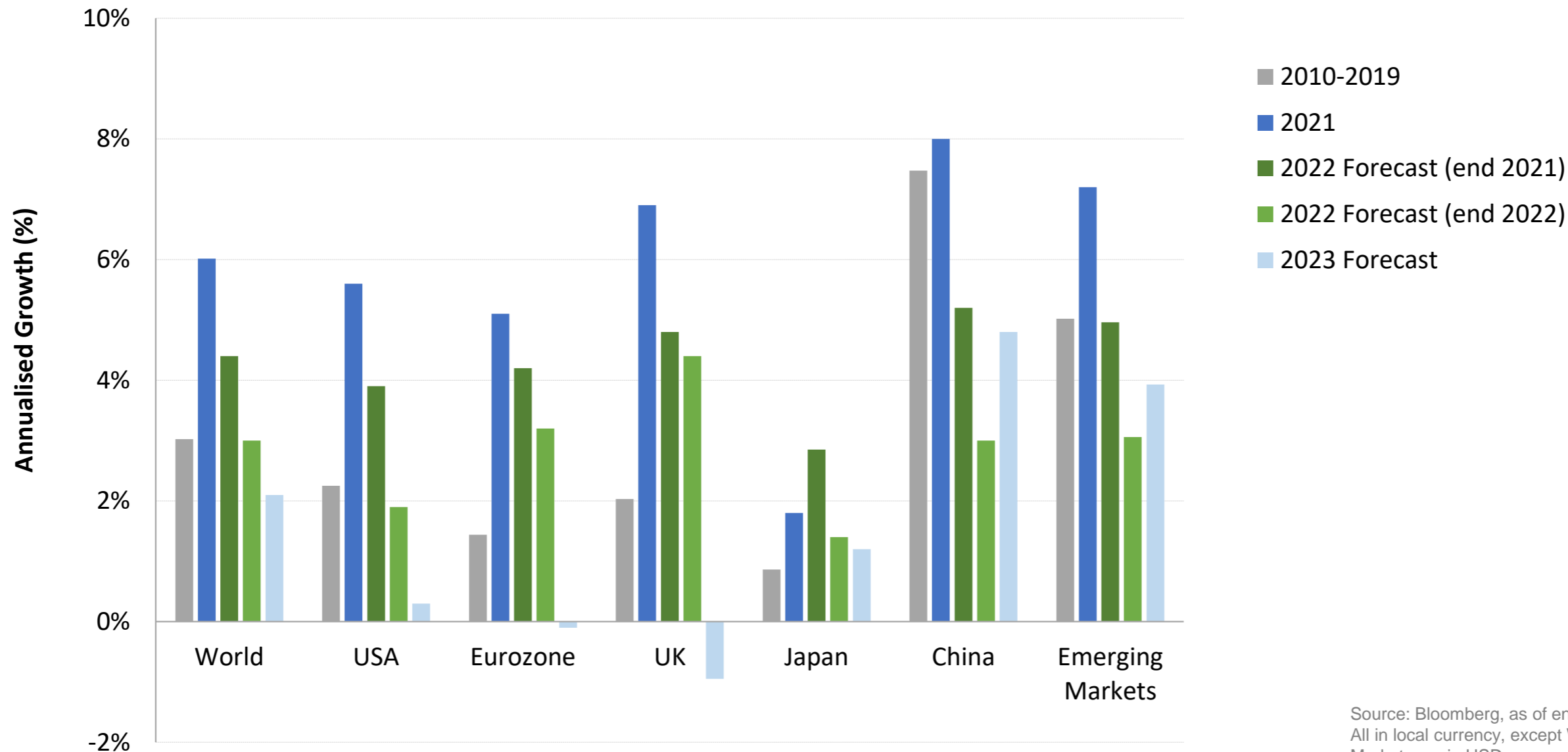


WARNING: Forecasts are not a reliable indicator of future performance.

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Global Growth Outlook – Consensus forecasts now too pessimistic?



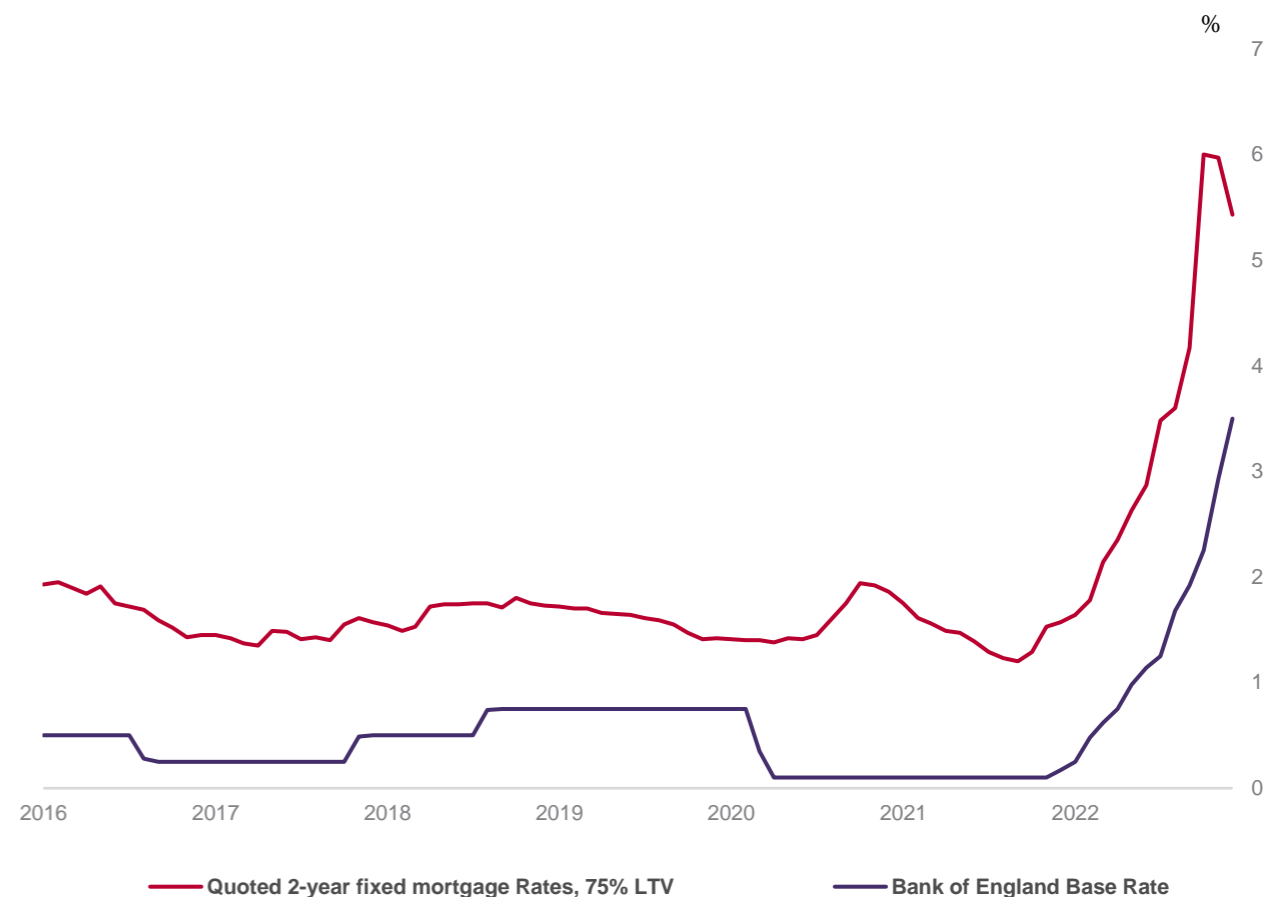
Source: Bloomberg, as of end December 2022.
All in local currency, except World and Emerging Markets are in USD.

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United Kingdom: Don't talk about the Brexit

- Consensus forecast for UK to have weakest GDP (-1%) and strongest CPI inflation (7.2%) in the G7 in 2023
- House prices now expected to fall 5-10% after surge in mortgage rates following the '*mini-budget*'
- Budget deficit of £177bn, or 7% of GDP expected, austerity measures put off until after next election
- The UK's export performance has lagged behind the rest of the G7 since exit from EU single market
- Progress on Northern Ireland protocol could herald better relations with EU, improved trade deal?

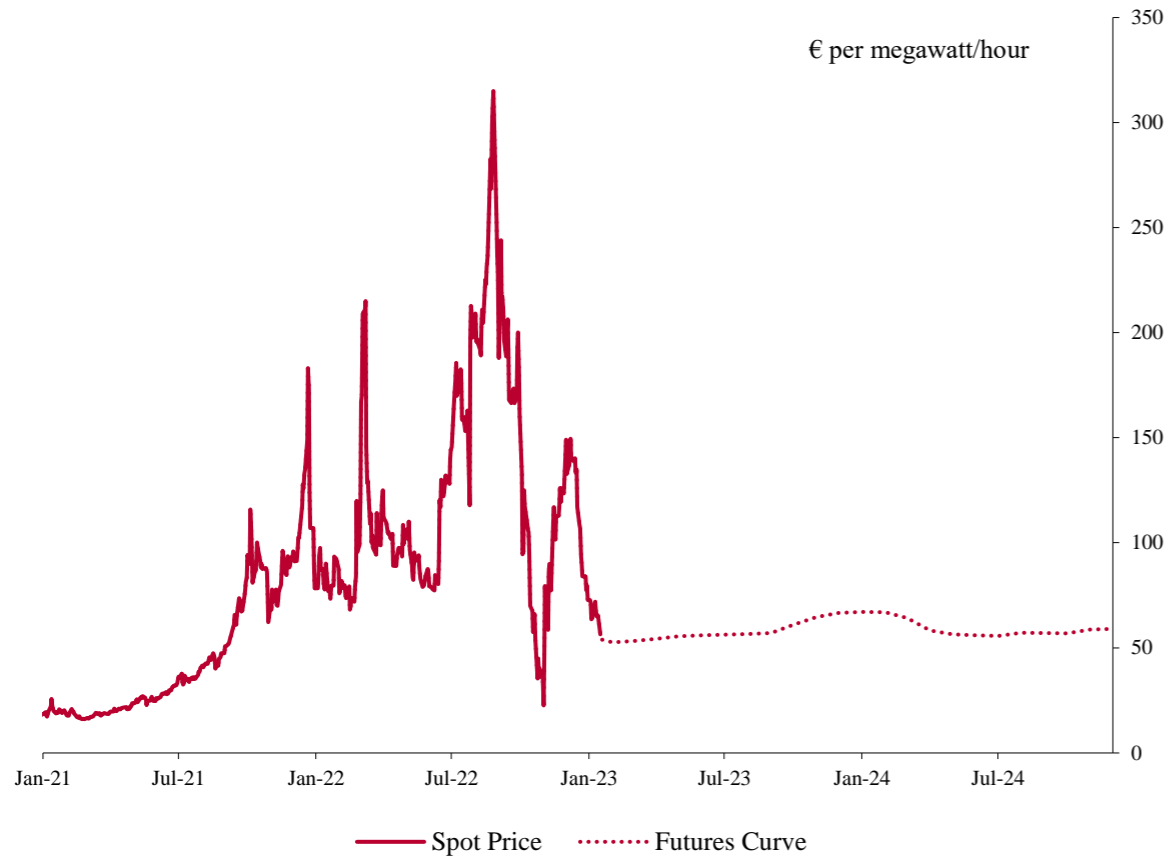
UK mortgage rates surged during the Autumn



Source: Refinitiv; GDP: Gross Domestic Product; CPI: Consumer Price Index

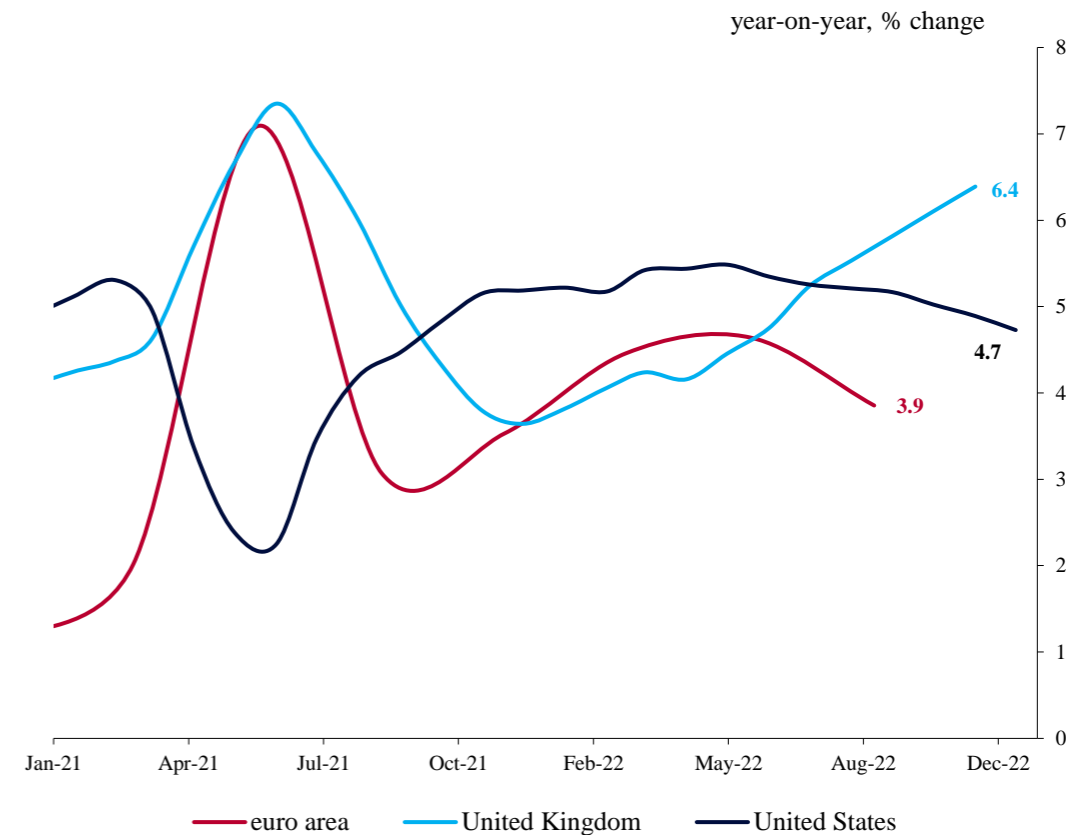
Finally, some good news on inflation?

European Natural Gas Futures Curve



Source: Refinitiv

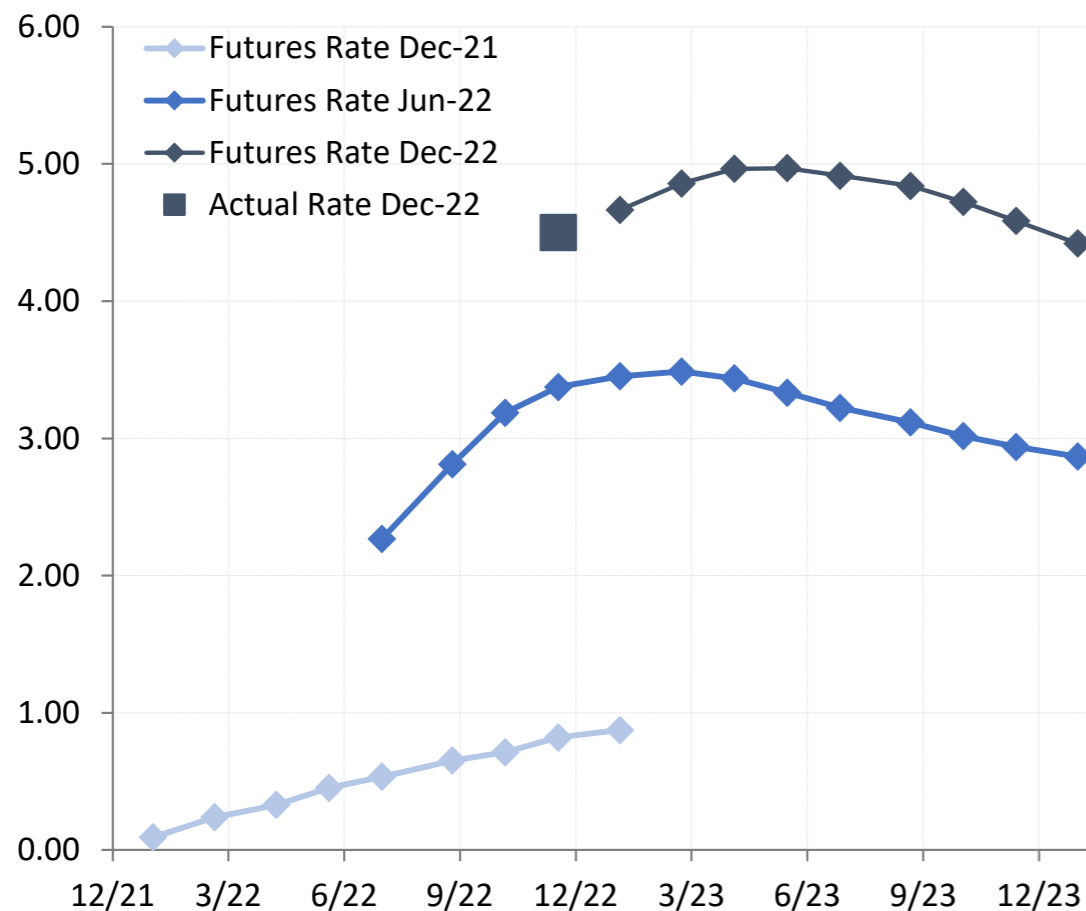
Pay pressures will be key focus for Central Banks



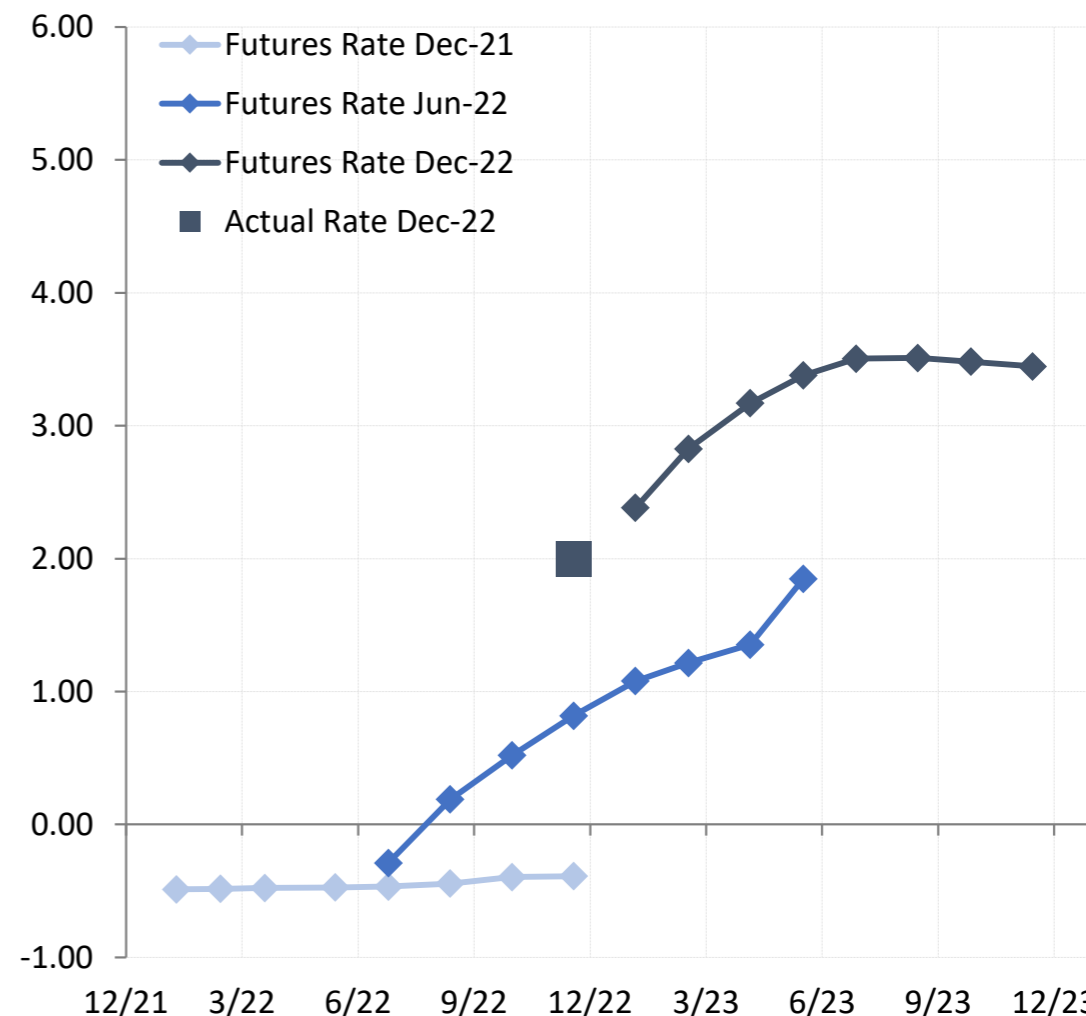
Source: EuroStat, as of December 2022.

How Far Will Interest Rates Go?

USD Interest Rate Futures (2022-23)



EUR Interest Rate Futures (2022-23)



Source: Bloomberg, as of end December 2022. Each dot represents a central bank meeting date.

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Stock Market Recoveries Post Declines

25% Market Declines			Cumulative Real Total Return – <i>Post 25% Decline</i>			
Market Peak Date	25% Decline Date	Overall Eventual Decline	1 year	3 year	5 year	10 year
May-46	Oct-46	-27%	-5%	12%	72%	312%
Dec-61	Jun-62	-28%	33%	64%	83%	101%
Nov-68	Apr-70	-36%	28%	30%	-7%	-5%
Jan-73	Apr-74	-48%	-9%	-2%	-3%	33%
Nov-80	Aug-82	-27%	57%	86%	218%	305%
Aug-87	Oct-87	-34%	22%	35%	78%	305%
Mar-00	Mar-01	-49%	1%	-4%	9%	9%
Oct-07	Sep-08	-57%	-4%	9%	54%	169%
Feb-20	Mar-20	-34%	59%	49%		
Jan-22	Oct-22	-25%				
Median Real Total Return (post 25% decline)			22%	30%	63%	135%

Source: Shiller, Davy, as of December 2022. All in USD. Real means net of inflation.

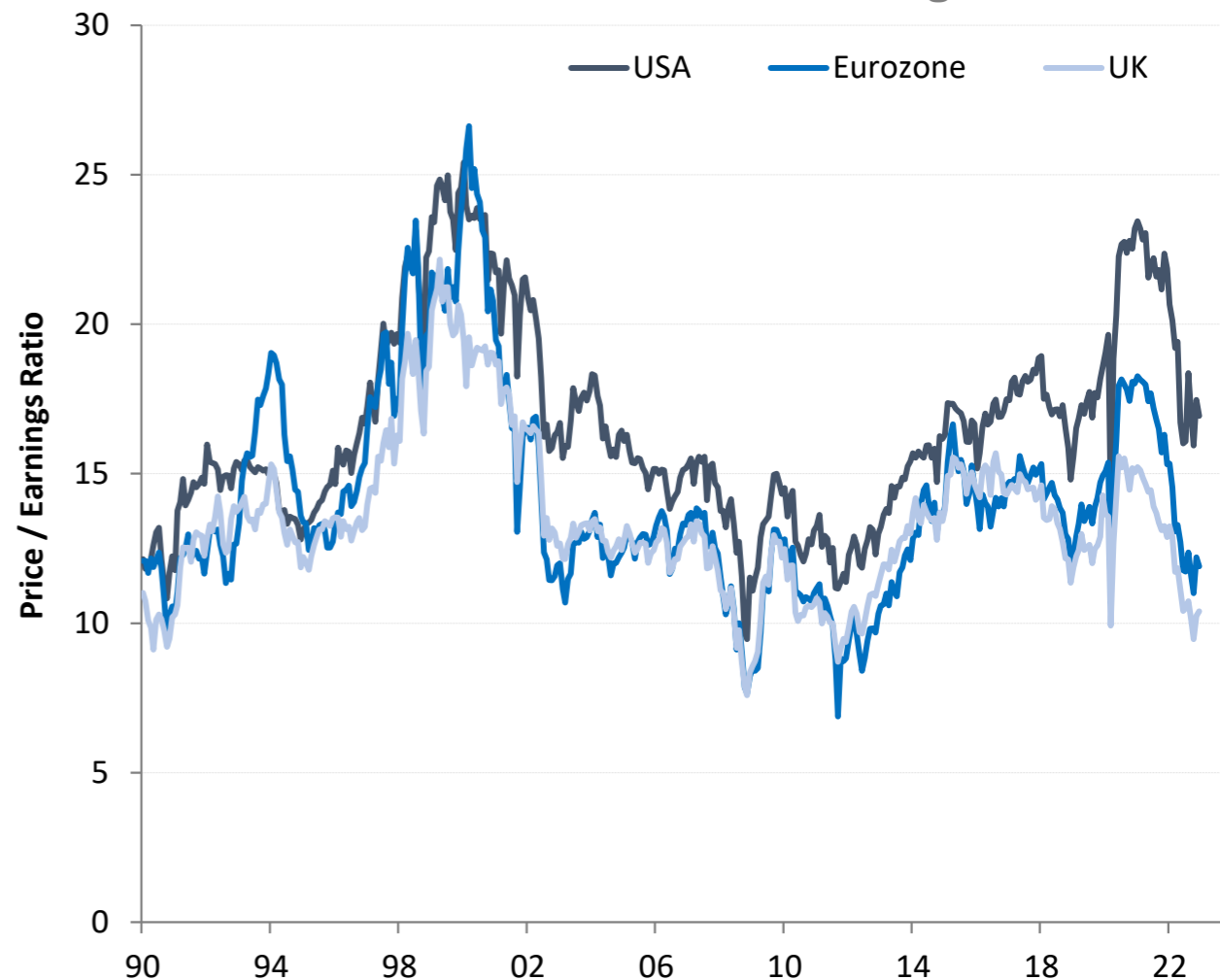
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Current Stock Market Valuations

	Price to Forward Earnings		Price to Trailing 10yr Earnings	
	Multiple	Percentile since 1990	Multiple	Percentile since 1990
World	14.0	27%	21.0	33%
USA	16.9	63%	30.7	75%
Eurozone	11.9	23%	17.4	36%
UK	10.4	12%	17.7	42%
Emerging Markets	11.5	26%	15.0	36%

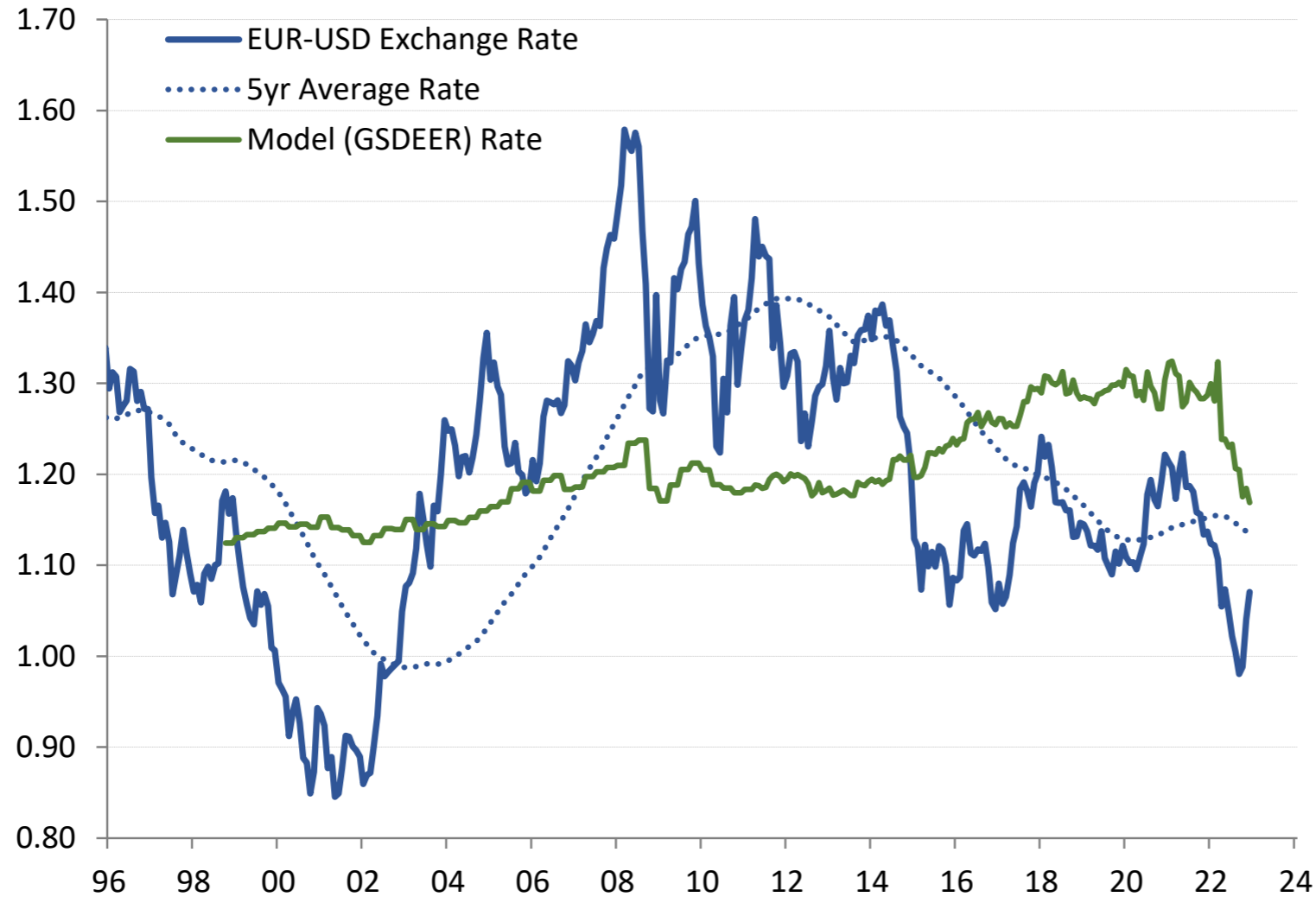
Source: DataStream, as of December 2022.
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Price to Forward Earnings



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US Dollar Strength To Fade



- EUR is undervalued vs. USD relative to theoretical models and its own history.

Source: Bloomberg, as of December 2022. GSDEER is Goldman Sachs Dynamic Equilibrium Exchange Rate.

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Ireland's economy still likely to outperform peers

Davy Irish Economic Forecasts

	2021	2022	2023
Consumer spending	4.6	5.5	1.8
Government expenditure	6.5	0.3	3.0
Investment	-39.0	-8.7	-4.7
<i>Building & construction</i>	-3.2	14.6	-0.2
<i>Machinery & equipment (core)</i>	37.0	25.0	-5.0
Exports	14.1	13.1	7.0
Imports	-8.3	8.7	5.9
GDP	13.6	9.4	3.5
<i>Multinational sector</i>	<i>20.7</i>	<i>13.7</i>	<i>5.9</i>
<i>Indigenous sector</i>	<i>4.7</i>	<i>7.0</i>	<i>2.1</i>
Government balance, % GDP	-1.7	0.8	1.7
Government debt, % GDP	55.3	45.6	42.2
Employment growth	6.0	7.0	1.1
Unemployment rate	6.3	4.4	4.8

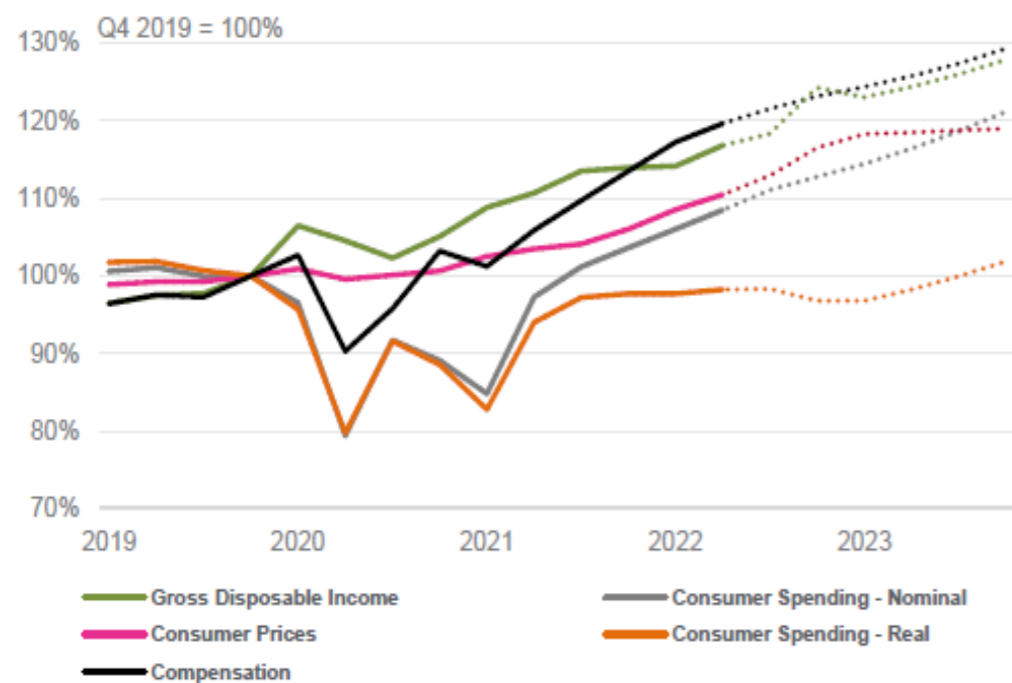
Davy Irish Economic Forecasts



Consumer hit by fresh energy price hikes

- A real wage squeeze has already been underway over the past 12 months, with broadly flat real consumption below pre-pandemic levels
- From October 1st the latest round of energy price hikes take effect, pushing average household bill above €4,000.
- We expect consumer spending will grow by 1.8% in calendar year 2023, to just above pre-pandemic levels by end-2023

Davy Forecasts for Household Income and Spending



Source: Central Statistics Office, Davy

Davy Forecasts for Household Incomes and Spending

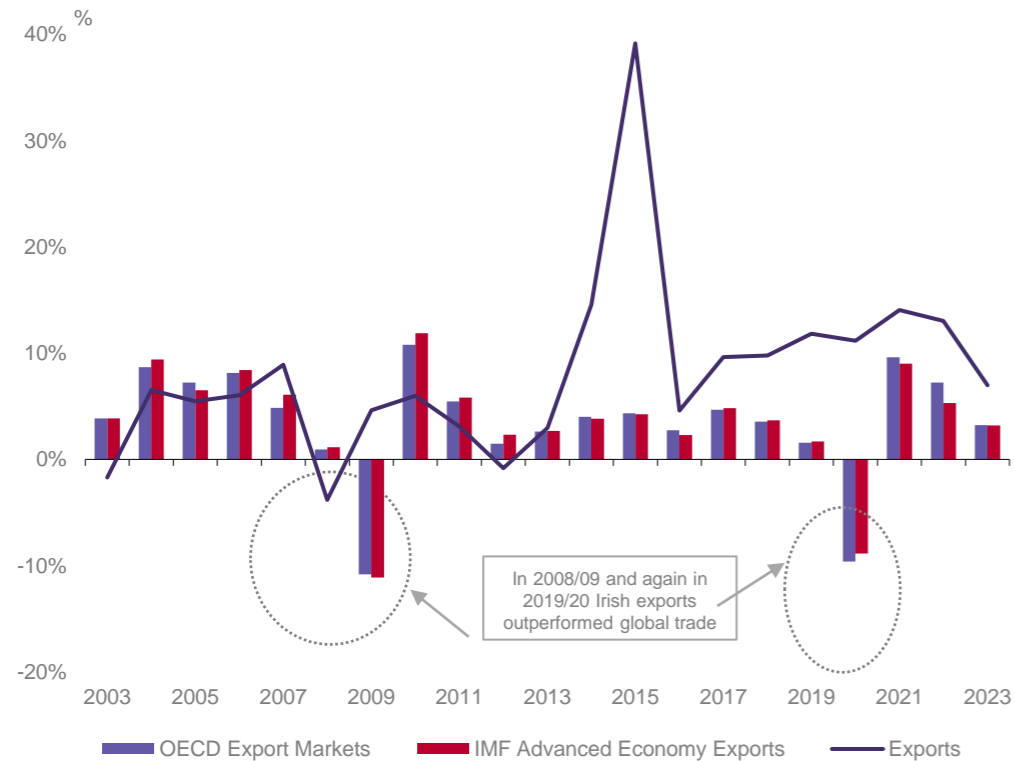
	2021	2022	2023
Compensation	9.8%	11.9%	5.2%
Gross disposable income	6.8%	5.9%	5.8%
Savings ratio	24.7	19.4	18.3
Nominal spending	8.5%	13.3%	7.4%
Consumer expenditure deflator	3.7%	7.8%	5.8%
Real spending	4.4%	5.5%	1.8%

Source: Central Statistics Office, Davy

Export sector is defensive and has outperformed in global downturns

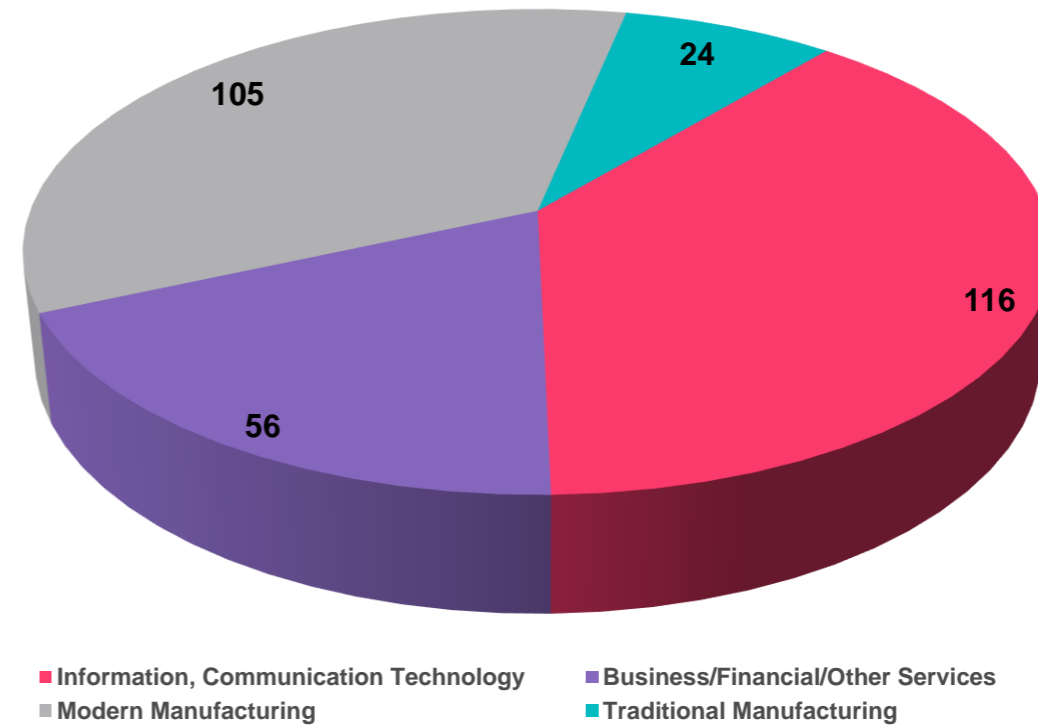
- Irish exports grew by 17% in 2021, split between €282bn of goods and €285bn of services – an unusually high share for services sector
- Ireland is specialised in agri-food, pharmaceuticals, information technology services – but lacks cyclical capital goods producing sector (e.g. auto-makers)
- The Industrial Development Authority reported employment in multinational firms grew by 9% in 2022 to 301,500.

Irish Exports and World Trade



Source: Central Statistics Office, Davy, OECD

Multi-national Employment in Ireland, 000s

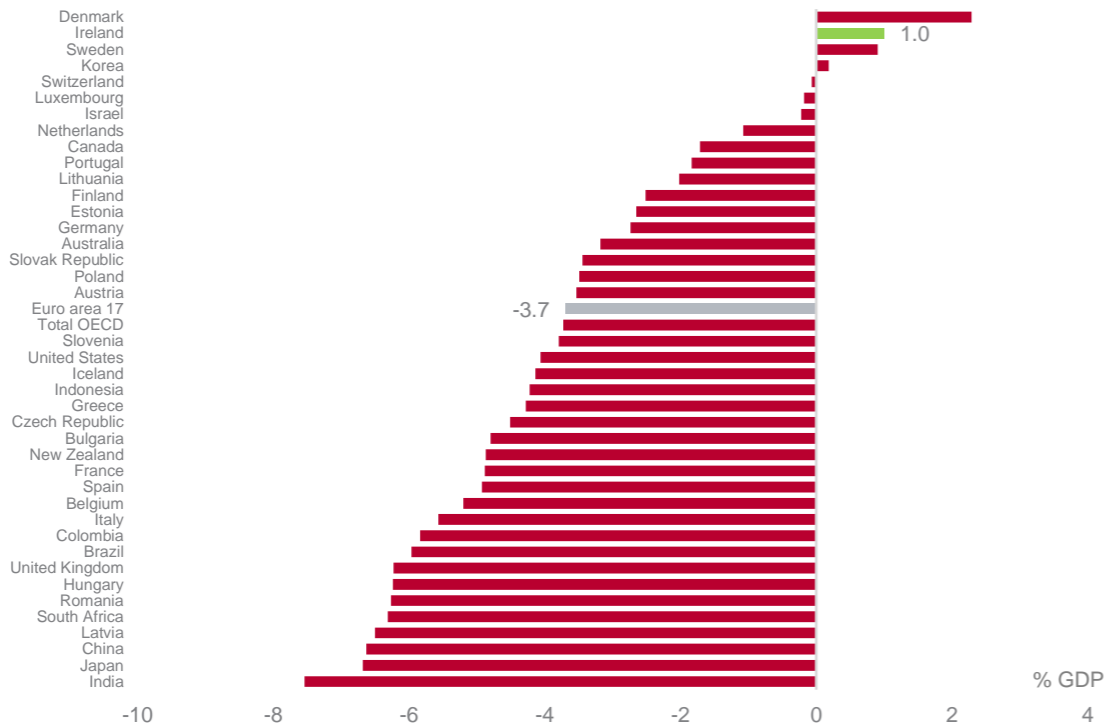


Source: Industrial Development Authority

The public finances are in rude health, but reliant on buoyant corporation taxes

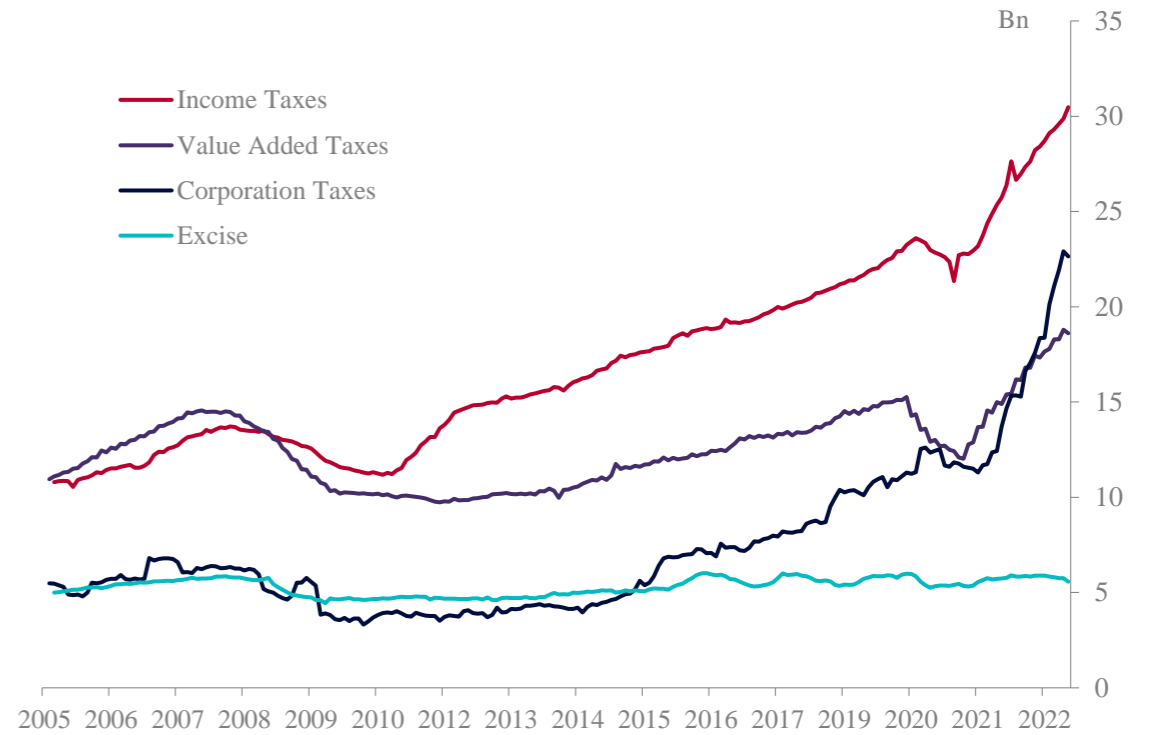
- A €6.7bn package (1.6% of GDP) planned for 2023; €1bn tax cuts, €2.7bn spending aimed at cost of living, €3bn to maintain existing public services / commitments
- Core government spending set to rise by 6.5% in 2023, above self-imposed 5% 'rule'.
- An additional €4bn package to support household incomes and businesses, as energy prices surge

General Government Balance, % GDP, 2022 Forecasts



Source: OECD May 2022 Economic Outlook and Department of Finance

Tax Revenues, 12 month rolling sum

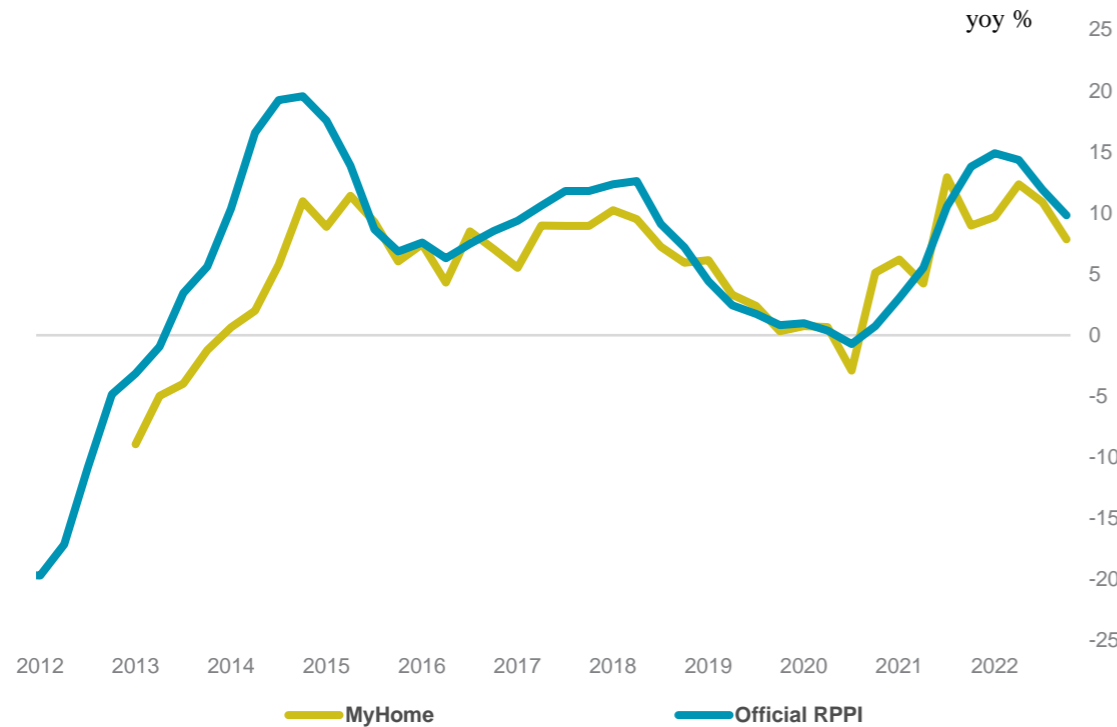


Source: Department of Finance

Housing still an intractable issue

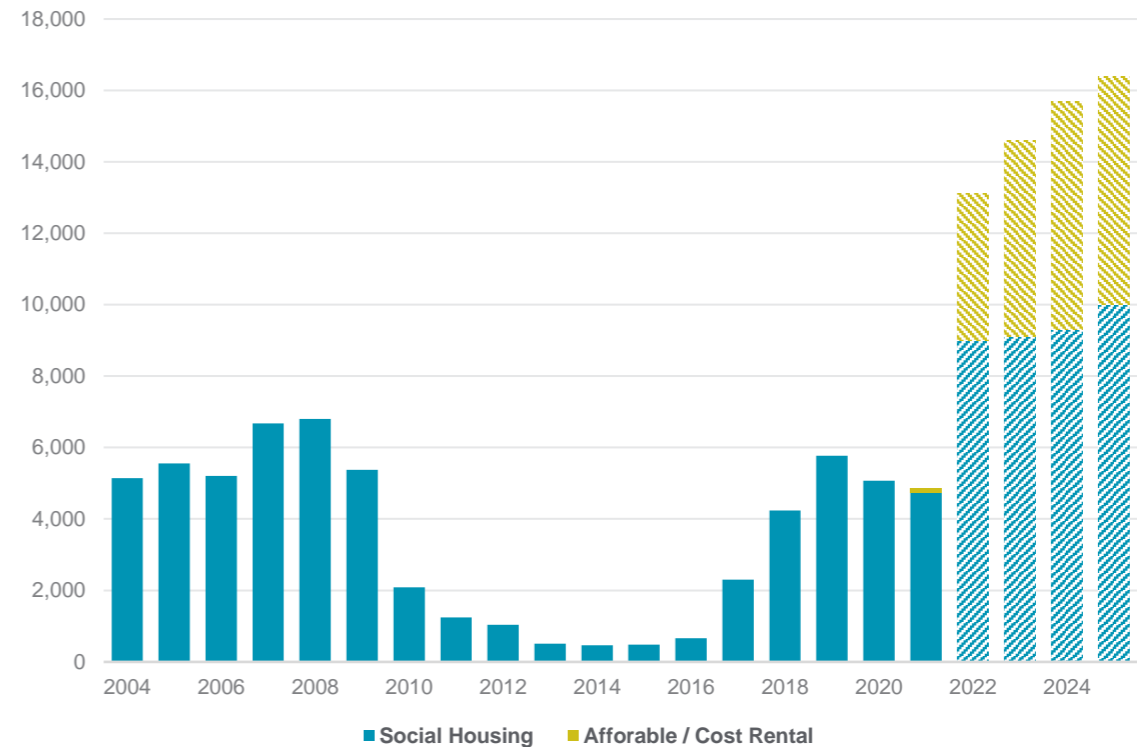
Build cost inflation, rising funding costs and viability fresh headwinds to housing supply

House price inflation starts to slow



Source: Department of Housing

Housing for All targets look very ambitious



Source: Department of Finance

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Key Points

Global outlook

- Consensus for a difficult year in 2023 as real income squeeze and higher interest rates drag on growth
- Some signs of dis-inflationary pressure, tough talk from Central Bank's may dissipate as the year progresses
- UK expected to be an outlier, with Brexit still holding the economy back

Ireland – still likely to out-perform

- Favourable demographics, attractiveness to FDI and defensive export sector underpinning Ireland's strong performance
- Irish government under pressure to meet growing demand for public services and infrastructure
- Housing market has become a key bottleneck and political issue



Thank you.

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