Irish Life

Life | Pensions | **Investments**

January 2025 in review
Performance Pulse

Helping people build better futures

OVERVIEW

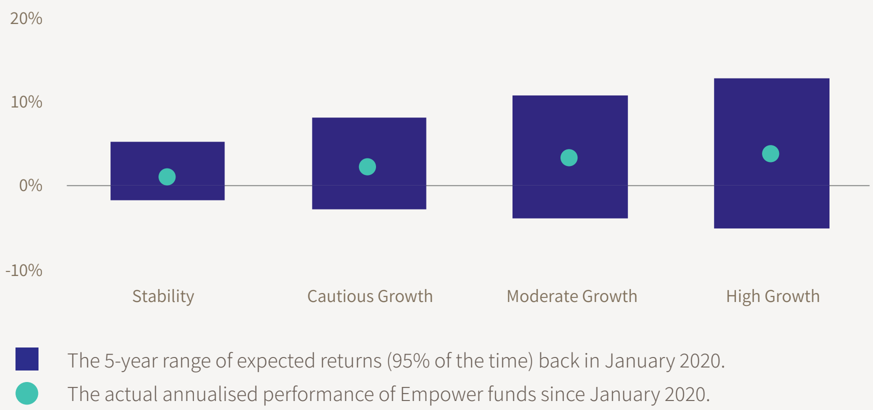
Global stock markets rebounded in January from losses in December, aided by a strong rally in European stocks amid a rosier growth outlook. US stocks rose overall, but AI bellwether Nvidia declined due to the release of a lower cost, less chip-intensive AI model from China's DeepSeek. German bond yields rose amid concerns over possible increased debt issuance following elections in February. Global growth data showed signs of improvement. The US dollar fell against the euro given initial perceptions of a softer US tariff stance post President Trump's inauguration compared to rhetoric during the election campaign.

IRISH LIFE EMPOWER FUNDS: STRATEGIC ASSET ALLOCATION

Fund Name	Stability	Cautious Growth	Moderate Growth	High Growth
New World Share (DSC)*	11.0%	18.0%	13.0%	13.0%
New World Shares	2.5%	9.0%	29.0%	50.5%
Low Volatility Shares	6.5%	11.5%	16.5%	11.5%
Thematic Equity	0.0%	0.0%	0.0%	3.0%
Small Cap Equities	0.5%	1.0%	2.0%	3.0%
Global Infrastructure Equities	1.5%	2.5%	3.5%	2.5%
Equity Option Strategy	6.0%	6.0%	4.0%	3.0%
SHARES/EQUITIES	28.0%	48.0%	68.0%	86.5%
Government Bonds	12.5%	0.0%	0.0%	0.0%
Corporate Bonds	35.1%	29.3%	14.3%	2.8%
Global Aggregate Bonds	4.0%	3.0%	3.0%	0.0%
Emerging Market Debt	3.0%	6.0%	8.0%	4.0%
BONDS	54.6%	38.3%	25.3%	6.8%
PROPERTY	6.4%	6.7%	6.7%	6.7%
CASH	11.0%	7.0%	0.0%	0.0%

Source: ILIM, Data is accurate as at 31 January 2025. *DSC Global Shares use the Dynamic Share to Cash model. The table above shows the strategic asset mix before any Dynamic Share to Cash (DSC) or tactical movements (where applicable). ILIM rebalances the fund back to this mix on a quarterly basis. For the latest actual Irish Life Empower fund mixes, which allow for any tactical or DSC changes, for example, see the relevant Empower fund factsheet at **https://www.irishlifecorporatebusiness.ie/investment-documents**. ILIM will continue to monitor and review these assets and may change them over time.

IRISH LIFE EMPOWER FUNDS: PERFORMANCE



Source: ILIM – Data is accurate as at 31 January 2025. The expected range of returns and the actual performance are both gross.

EQUITIES

- Inflation has come down close to targets. Central banks have begun to cut interest rates.
- US economic strength.
- Optimism over AI and possible US tax cuts and deregulation under Trump.

- Risk of inflation remaining more persistent.
- Risk of trade wars resulting from tariffs under Trump.
- High relative valuations of equities.

Global stock markets rose in January, supported by generally healthy corporate earnings and guidance, as well as an improving global growth backdrop. The MSCI All Country World index was up by 3.3% (3.0% in euros) over the month. This was driven by a strong rally in European stocks, with the MSCI Europe ex-UK rising by 7.1% (7.0% in euros) due to a better economic activity outlook and further expected rate cuts from the European Central Bank (ECB). Emerging markets (EM) underperformed developed markets, as the threat of US tariffs weighed on sentiment, with the MSCI EM index rising by 1.6% (1.4% in euros) over the month.

US indices rebounded from losses in December, with the MSCI USA index 3.0% higher (2.6% in euros), but there was volatility around tech stocks. Some AI-related stocks were roiled towards the end of the month after the release of a new AI model from DeepSeek, a Chinese tech company, that was claimed to be significantly cheaper to train than US equivalents. AI bellwether Nvidia fell by 10.6% in January as expectations of lower chip demand required by new AI models like DeepSeek's dampened sentiment. These models, however, may speed up the delivery, adoption and monetisation of AI products, so the wider AI theme and market held up reasonably well.

MSCI ACWI (GLOBAL EQUITIES) Performance, %	
1 month	3.3%
6 months	8.6%
YTD	3.3%
1 year	23.2%
3 years p.a.	10.5%
5 years p.a.	12.5%

Source: ILIM, Factset. Data is accurate as at 31 January 2025.

MSCI ACWI PERFORMANCE (GLOBAL EQUITIES)

One-year performance chart (in euros)

Source: ILIM, Factset.
Data is accurate as at 31 January 2025.

BONDS

Eurozone government bond returns were negative as a result of rising yields. The 10-year German bund yield was up by 11 basis points (bps) over the month to 2.46% due to the potential for increased debt issuance after Germany's federal election on 23 February. The ICE BofA 5+ Year Euro Government bond index returned -0.3% in January.

Concerns over the UK's government debt sustainability flared up during the month. UK economic activity is expected to be lacklustre this year, which could limit tax revenues and lead to a wider budget deficit, necessitating increased state borrowing. The potential for higher government borrowing helped push up gilt yields temporarily to the highest levels since 2008. The 10-year gilt yield was as high as 4.89% before ending January at 4.53% as the government pushed for growth-boosting policies.

BOND YIELD

- More persistent inflation, combined with strong economic data, could cause interest rates to stay higher for longer than expected.

BOND YIELD

- Inflation continuing to moderate, and/or worsening economic data, could result in increased expectations of interest rate cuts and falling bond yields.
- US tariffs, expected to hamper European growth, would allow the ECB to cut rates more aggressively.

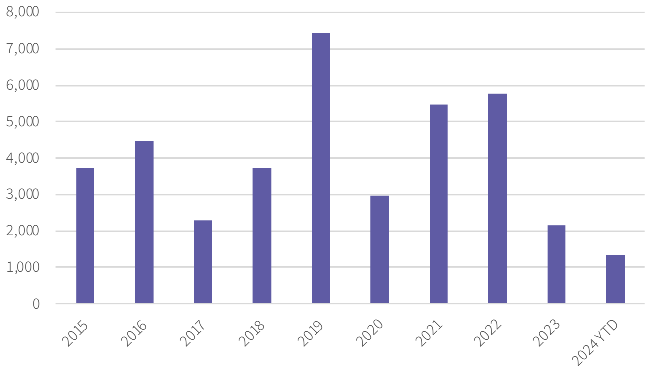
10-Year Bond Yields	2025	2024	2023	2022	2021	2020
US	4.5	4.6	3.9	3.9	1.5	0.9
Germany	2.5	2.4	2.0	2.5	-0.2	-0.6
UK	4.5	4.6	3.5	3.7	1.0	0.2
Japan	1.2	1.1	0.6	0.4	0.1	0.0

Source: ILIM, Factset. Data is accurate as at 31 January 2025.

PROPERTY – Q3 2024

The relatively restrained investment market for Irish real estate recorded some notable activity in Q3, with buyers chasing available stock and the macro picture continuing to make its investment case more appealing. Analysis by Savills suggests that turnover of investment-grade property is close to the Q2 total of €595m, bringing the year-to-date (YTD) quantum to in excess of €1.3bn.

Investment Turnover – 2024 YTD



Source: Savills

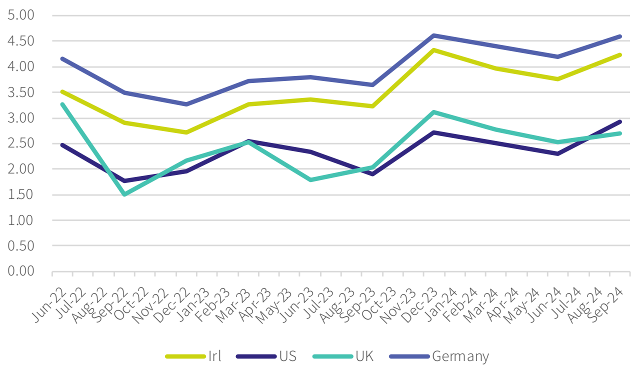
Valuations have stabilised across the sectors at this point. Combined with the trajectory of interest rates downwards, it appears property yields have now passed their peak. The MSCI Ireland Property Index recorded its first positive quarter in Q3 since Q2 2022, suggesting that income has now eclipsed the impact of valuation decline.

The reduction in interest rates in Q3 and the current relative value of property, demonstrated by the yield gap to local and major bond rates, suggest a more active market could be burgeoning.

While this data reflects the total market in MSCI's Ireland index, it is notable that most transactions currently taking place are of higher yielding assets, representing more significant spreads for active investors. MSCI's hedonic yield series tracks transaction data, which calculates the most recent yield on Irish office transactions at 8%, which would represent a spread of 5.5% against Irish 10-year bonds.

The absence of a core market is defining the difference in current trade from the 10-year annual average of excess €4bn. There are drivers of both supply and demand deficiencies for this market.

Irish Property vs. 10yr Government Yields: Spreads



Source: Bloomberg, MSCI

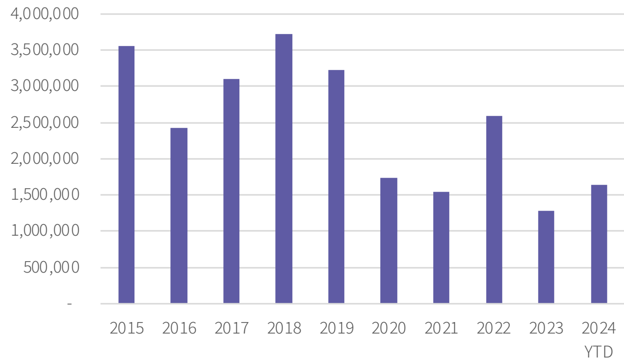
While some transactions completed or on-going in Q3 have been the result of default, distress has been relatively limited and confined to secondary-quality assets. Moreover, the debt on several high-quality, large properties has been successfully refinanced in recent months. It remains to be seen what will feed the core market.

Heightened activity was seen in the office occupational market in Q3, primarily in the agreement of terms for several large lettings in Dublin city, while these largest deals will take some time to contract and be reflected in the standing metrics for that sector. The most notable news in Q3 was Workday's decision to re-locate to 480,000 sq. ft. at College Square, a new development bounded by D'Olier and Townsend Streets in Dublin 2.

Take-up, as tracked by Savills, in Q3 was recorded at 550,000 sq. ft., and a notable decrease in pipeline of new stock from a height of 2.8m sq. ft. in 2022, to 515,000 sq. ft. at end Q3.

The retail sector has remained surprising resilient to the rise in inflation and cost of living on consumers. However, a notable negative impact is being seen across the food and beverage sector. Rental growth is now a feature of certain parts of the market, a somewhat obvious result of the reduction in vacancy and recovery of footfall across the different locations. Retail parks' performance has been the highlight, unsurprisingly experiencing healthy investor activity of late.

Office Take-Up (Sq Ft)



Source: Savills

Irish Life completed a new lease with Mango in the recently redeveloped 112/113 Grafton Street, which will be open for trade in early 2025. This is a relatively large format unit on the street, offering approximately 3,000 sq. ft. of retail accommodation at ground level and 13,000 sq. ft. overall.

The industrial market has been characterised by high levels of demand, matched by piecemeal supply, generating strong rental growth for the past five years. Take-up so far in 2024 of 610,000 sq. ft. has been materially lower than in previous years; however, Savills is tracking a current demand for excess 2.3m sq. ft.

The largest letting of the quarter was to Jysk, a Danish retailer, which took a 100,000 sq. ft. unit in Western Business Park.

CASH

CASH

The last ECB meeting was held on 30 January 2025, and the ECB policy makers proceeded with a rate cut of 25bps in line with market expectations. The current deposit rate is at 2.75%.

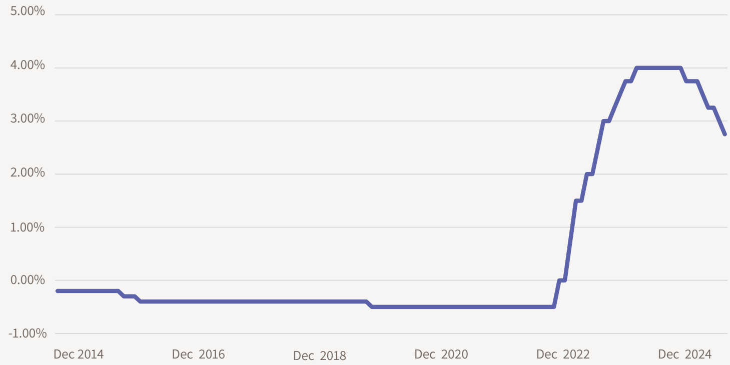
The next ECB meeting will be held on 6 March and the expectations are for a cut of 25bps.

Central bank rates

	End 2023	End 2024	31 Jan 2025
ECB deposit rate	4.00	3.00	2.75
Bank of England*	5.25	4.75	4.75
US Federal Reserve**	5.50	4.50	4.50

* Official Bank Rate **Federal Funds Target Rate
Source: ILIM, Factset and Bloomberg. Data is accurate as at 31 January 2025.

ECB Deposit Rate



Source: ILIM, Factset. Data is accurate as at 31 January 2025.

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