September 2020

XPS Investment News

Bringing you our market round-up and the latest news affecting UK pension scheme investments

Global equities finish the summer strongly

Month in brief

- Global developed market equities continued their rally over the month
- Investment grade corporate bond spreads tightened, reflecting a perceived decrease in the risk of default
- Data released over the month showed strong spending and activity across both the UK's manufacturing and services sectors in July

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Investment Associate

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Arfah's September update

Over the month, financial market news was dominated by the continuation of the global developed market equity rally.

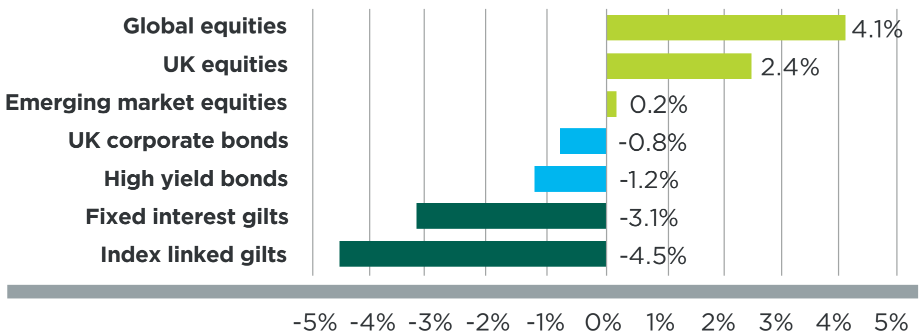
Strong equity returns, in local currency terms, were experienced across most major global countries in August and the S&P 500 powered to new highs. Technology stocks continued to soar, as they have done since the lows experienced in March, and other big winners included some companies and sectors badly hit by the coronavirus pandemic. Equity markets continue to react strongly to the extremely loose monetary and fiscal policy that remains in place to support economies and markets, and increased optimism around the economic rebound from the coronavirus crisis. Sterling's appreciation relative to the US Dollar and Euro would have trimmed some of these gains for a Sterling investor, although the return experienced was still material.

Investment grade corporate bond spreads tightened over the month, reflecting a perceived decrease in the risk of default, however, gilt yields increased materially over the same period leading to losses for UK corporate bonds.

Figures released showed that the UK experienced its deepest recession on record over the second quarter of 2020 and the worst slump of any other major European economy over the period. However, building on June's momentum, data for July showed strong spending and activity across both the manufacturing and services sectors, which is expected to continue being supported through August, particularly due to 'staycations' and the 'eat out to help out' scheme.

Global equities were the strongest performer over the month

One Month to 31 August 2020

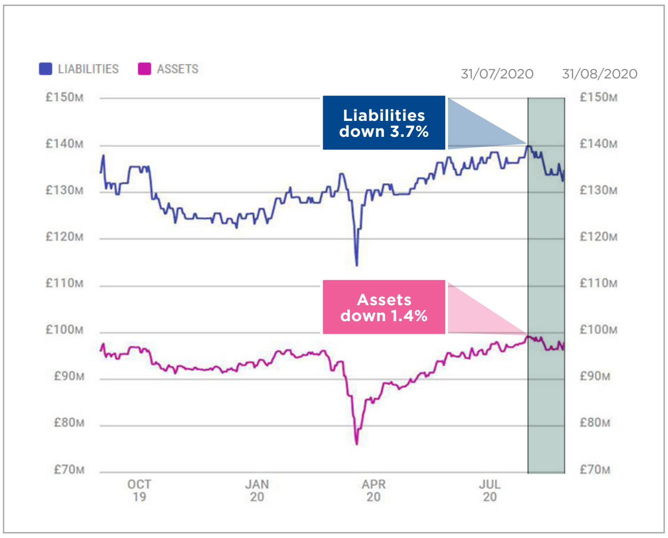


Source: Refinitiv Datastream

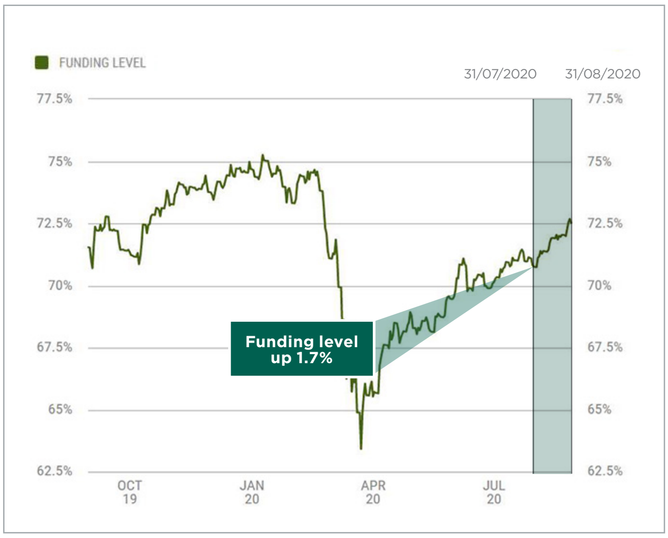
That being said, the impact of the crisis continues to be felt in various sectors and the number of people claiming out-of-work benefits continued to rise in July. Large scale job losses continue to hit headlines in August, including Marks and Spencer's plans to cut 7,000 jobs and Pret a Manger plans to cut nearly 3,000 jobs.

The relationship between the US and China remained strained as President Trump continued to make confrontational moves to address what he believes are economic and security threats from China. Most notably he increased restrictions on the Chinese telecommunications giant, Huawei, and gave the Chinese owned firm TikTok 90 days to be sold to an American firm or face a ban in the US.

Strong asset performance over the month coupled with a decrease in liabilities would have led to an overall improvement in the funding level for a typical pension scheme.



Source: XPS Radar



Source: XPS Radar

The typical scheme used has an assumed asset allocation of 24% equities, 33.8% corporate bonds, 12.6% multi-asset, 5% property and 24.6% in liability driven investment (LDI) with the LDI overlay providing a 60% hedge on inflation and interest rates. This example scheme was 80% funded in 2015.

To discuss any of the issues covered in this edition, please get in touch with Arfah Jawid.

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Alternatively, please speak to your usual XPS Investment contact.

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