September 2021

XPS Investment News

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

Month in brief

- The 20-year war in Afghanistan was brought to a chaotic end
- Emerging markets outperform other equity markets but are a long way short of their peak
- Inflationary pressures persisted but widespread stimulus remains in place

Scott Millward
Senior Investment Associate

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Scott's September update

Emerging markets recover some lost ground despite rising Middle East tensions

Developments in Afghanistan largely dominated news stories. After the Taliban seized control of the country a humanitarian crisis unfolded as thousands of people desperately tried to leave the country, many fearing reprisal from the group having helped the US and UK during their war efforts.

Equity markets performed well despite this backdrop, in particular Emerging Markets equities which rebounded to help mitigate some of the sharp falls experienced in July and earlier in the year. It is not immediately obvious where this uptick has arisen from, noting continuing concerns around China's regulatory pressures. It could reflect relatively attractive valuations compared to developed markets where valuations are more stretched. The US equity market was helped by very strong US corporate earnings reports.

Inflationary pressures persisted over the month, largely due to supply chain constraints and soaring demand.

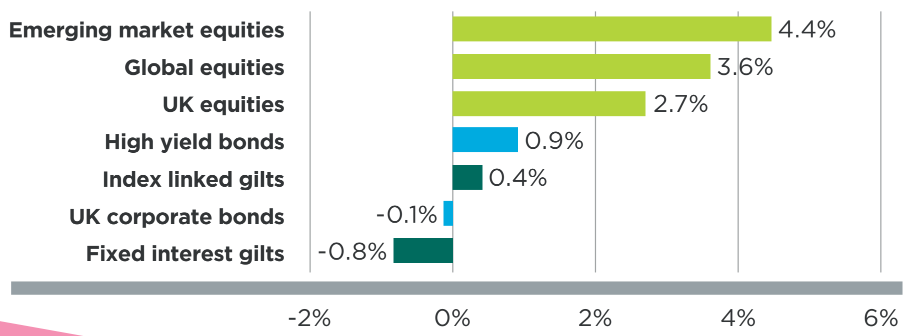
US consumer price increases hit a 13-year high in July and inflation in the Eurozone rose to its highest level in a decade.

The surge in the more-transmissible Delta Covid-19 variant has sparked anxiety over the continued trajectory of global economic growth, particularly in the US and China. Economists are now expecting the first rise in UK interest rates next year and the US to begin tapering its bond purchase program this year, earlier than previously expected.

In the UK these supply side problems were compounded by labour shortages resulting from July's 'pingdemic', where workers were forced to self-isolate due

Emerging market equities were the strongest performer over the month

One Month to 31 August 2021



Source: Refinitiv Datastream

to being in close contact with someone with COVID, and Britain's departure from the EU. Like the US and EU, the UK's inflation remains above its target.

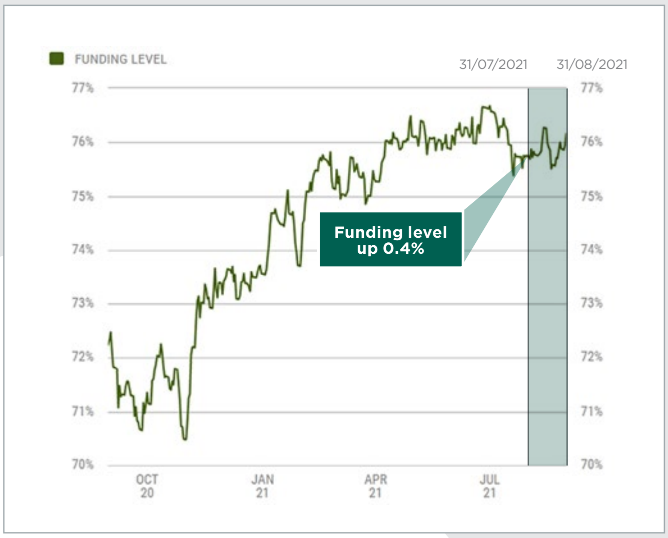
Despite these inflationary pressures, central banks remained fairly united in their view that inflation would be transitionary and therefore, at their respective meetings over the month, held off removing current stimulus measures in place, for the time being.

Credit spreads remained relatively flat over the month.

A report from the UN's Intergovernmental Panel on Climate Change, it's first since 2013, concluded that the world needed to act immediately and materially to reduce emissions otherwise limiting global warming to either 1.5C or even 2C above pre-industrial levels by 2100 would not be possible.

The funding level of a typical UK pension scheme would have improved over August, owing to positive asset performance outweighing an increase in liability values.

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 Scott Millward.

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Alternatively, please speak to your usual XPS Investment contact.

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