March
2024

XPS Investment News

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

Month in brief

- Global, European and Japanese equity indices all hit record highs in February carried on the wave of surging tech stocks
- UK corporate bond spreads continued to contract, a trend partly driven by pension schemes approaching end-game status
- Gilt yields and inflation expectations both rose slightly leading to fixed interest gilts underperforming index-linked gilts
- UK DB pension scheme funding rose as assets grew and liabilities fell

Sarah Spencer
Senior Associate

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Sarah's March update

Tech stocks soar in February powered by Artificial Intelligence

Technology stocks have led the way so far in 2024 as several major equity indices benefitted from surging worldwide demand for Artificial Intelligence ('AI'). Global, European and Japanese equity indices were among those to hit all-time highs in late February.

Nvidia, the world's largest manufacturer of computer chips, has been responsible for over a quarter of the growth of the S&P 500 index so far in 2024. Their impressive earnings report and forecast was the catalyst behind a swell in tech stock valuations late in the month and CEO Jensen Huang commented that "demand is surging worldwide across companies, industries and nations" for accelerated computing and generative AI. Nvidia now boasts the record for the largest ever one-day increase in market capitalisation for a US stock.

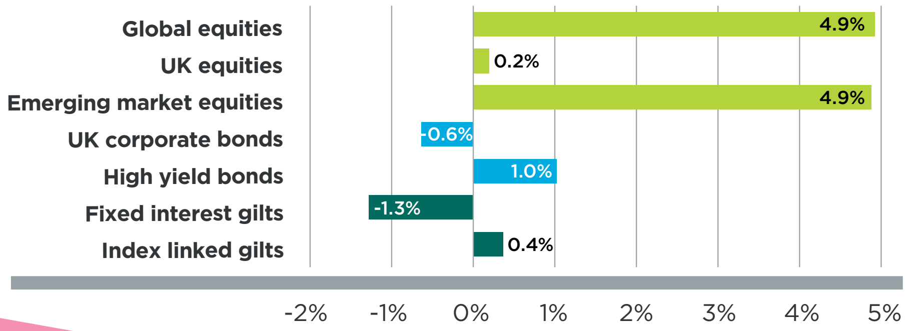
A new all-time high for Japan's Nikkei 225 index comes a staggering 34 years after its previous high. Aside from the tech market rally, the decline in the value of the Japanese Yen to its lowest level since 1990 has lifted share prices by making Japanese products cheaper in overseas markets and boosting exports.

UK equities finished in marginal positive territory but were unable to profit from the tech stock rally to the same extent as other regions. On the other hand, Emerging Markets performed strongly as Chinese equities rebounded after a series of tough months. Chinese authorities have repeatedly sought to reinvigorate investor confidence in its stock market and the country's sovereign wealth fund most recently announced it would expand its purchases of domestic shares.

In the UK corporate bond market, spreads have continued to trend

Global and Emerging Market equities performed well thanks to tech stocks

One Month to 29 February 2024

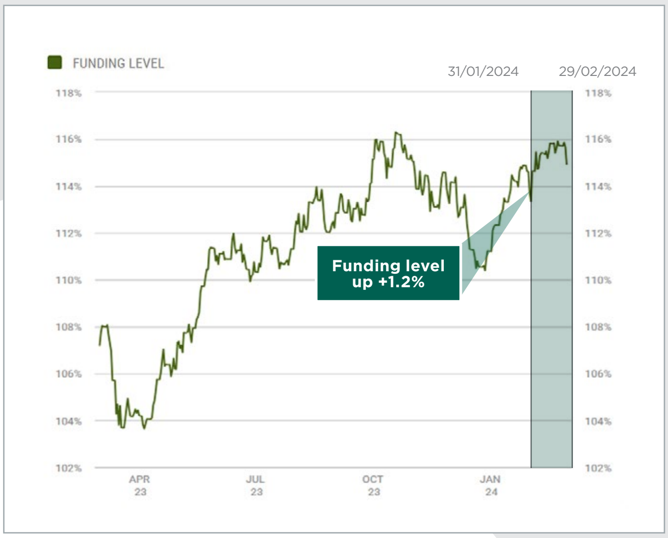


Source: Refinitiv Datastream

downwards as inflationary pressures have softened in recent months. 2024 has been the busiest start to a year in a decade for investment grade debt issuance from non-financial companies and demand has more than kept up with supply for an asset class highly attractive to pension scheme investors. Despite spreads contracting, which is positive for performance, UK corporate bonds posted negative returns over February as a result of rising gilt yields.

Continued economic resilience to higher interest rates in the US has fostered an encouraging environment for high yield bonds of late and February saw a fourth consecutive month of positive performance. Similar to investment grade bonds, demand for high yield bonds has been prevalent and issuance has been strong despite currently elevated borrowing costs.

Aggregate UK DB pension scheme funding on a low-risk basis rose again over February, building on a positive start to 2024 for pension schemes. Gilt yield movements were more subdued in February but a modest increase saw liabilities fall. Meanwhile assets grew slightly thanks to returns from equities.



Source: XPS DB:UK www.xpsgroup.com/services/xps-pensions/xps-dbuk-funding-watch

The charts above are based on data from The Pensions Regulator, the PPF 7800 Index and the XPS data pool. The assumptions used in the UK:DB long-term target basis include a discount interest rate of gilt yields plus 0.5%. The assumed asset allocation is 16.9% equities, 20.0% corporate bonds, 6.9% multi-asset, 5.1% property, 3.8% private markets and 47.3% in liability driven investment (LDI) with the LDI overlay providing a 60% hedge on inflation and interest rates.

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

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Alternatively, please speak to your usual XPS Investment contact.

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