

August
2022

XPS Investment News

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

Month in brief

- Developed market equities rebounded in July but emerging markets were down
- Fears remain for worldwide economic growth as the US economy shrinks for the second quarter in a row
- The UK Consumer Prices Index hit another record high in May
- Tensions over gas supply in Europe remain elevated as Russia cuts off supply to more countries

Markets start the second half of 2022 on stronger footing

July was the strongest month of the year so far for global equity markets, with corporate bonds and gilts also posting positive returns.

The slowdown in global economic growth remains a significant concern though. The US entered a 'technical recession' as real GDP growth was negative for the second quarter in a row. The US uses a broader definition of recession which takes into account a number of economic measures. As such the US does not consider this milestone alone to qualify as economic recession yet the outlook remains ominous nonetheless.

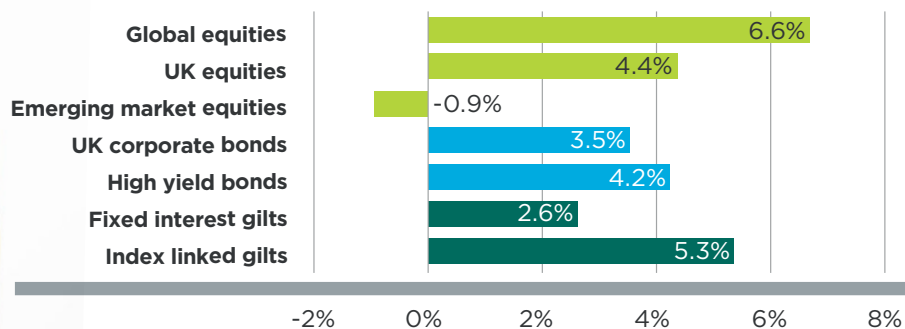
Emerging market equities fell in value with China publishing growth figures showing that the economy shrank sharply over the second quarter of the year as its 'zero-Covid' policy saw major cities put under full or partial lockdowns during the period. A spokesperson for the Chinese government also suggested that China was unlikely to hit its annual growth target of 5.5% this year.

Inflation across the globe continues to be driven up by the fallout from Russia's invasion of Ukraine which has pushed up food and energy prices. The first ship since February to carry grain out of Ukrainian ports departed on the 1st of August and it is hoped that Ukraine's deal with Russia to resume exports will ease food shortages and lower the price of grain.

US inflation reached 9.1% in June and eurozone inflation hit another all time high of 8.6%. The European Central Bank raised interest rates for the first time in over a decade in response and plans to raise interest rates again later this year having now completed its asset repurchase program.

Despite the Federal Reserve raising interest rates by 0.75% during July, equity markets had benefitted from comments made by Chairman Jerome

Global equities were the strongest performer over the month One Month to 31 July 2022



Source: Refinitiv Datastream

Ben Rogers
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Ben's August update



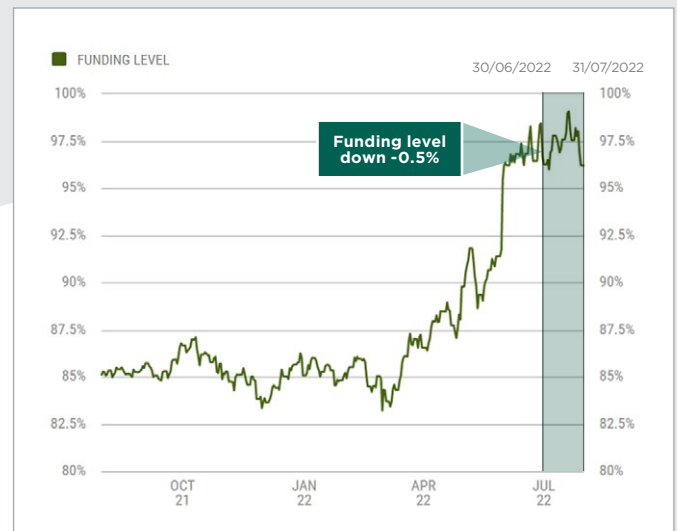
Powell towards the end of the month implying that the Fed is looking for opportunities to ease up on monetary tightening at the right time. Further rate hikes are still expected for later this year.

The UK economy is predicted by the IMF to grow at the slowest rate of the G7 members over 2023. In making its prediction, the IMF cited “unusually higher inflation” in the UK than in Europe or the US, where the Consumer Prices Index reached yet another record high of 9.4% in the 12 months to May.

In July, Russia shut off gas supplies to Latvia having

already cut off supplies to Poland, Bulgaria, Finland, the Netherlands and Denmark earlier this year for their refusal to pay in roubles. Germany has been forced to re-open some of its coal-fired power stations to plug the energy gap left by Russia’s decision to reduce capacity in the main gas pipeline to Europe – Nord Stream 1 – to just 40%.

The aggregate funding position of UK DB pension schemes fell marginally in July. The impact of the small fall in long-dated gilt yields more than offset the strong asset returns witnessed over the month.



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 Ben Rogers.



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