November 2022

XPS Investment News

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

Month in brief

- **Sterling rallied and government borrowing costs fell after Rishi Sunak was appointed as the new UK Prime Minister**
- **The IMF welcomed the reversal of the infamous mini-budget as the UK saw inflation rise again in September**
- **US inflation was down but Eurozone inflation hit another record high of 10.7% in October**
- **Asian markets struggled as Japanese Yen hit a 30-year low and Chinese equities suffered big losses**

Gabriel McKeown
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Gabriel's November update

New Prime Minister and mini-budget U-turn stabilises UK markets

Liz Truss' tenure as UK Prime Minister lasted a mere 44 days before her resignation on 20 October. Rishi Sunak was confirmed as her replacement and markets seemed to welcome the U-turn on the mini-budget policies, signalling an end to the enormous uncertainty that had plagued markets in the previous weeks.

Long-dated government bond yields fell from 4.0% to 3.8% over October having risen to 5.2% mid-month.

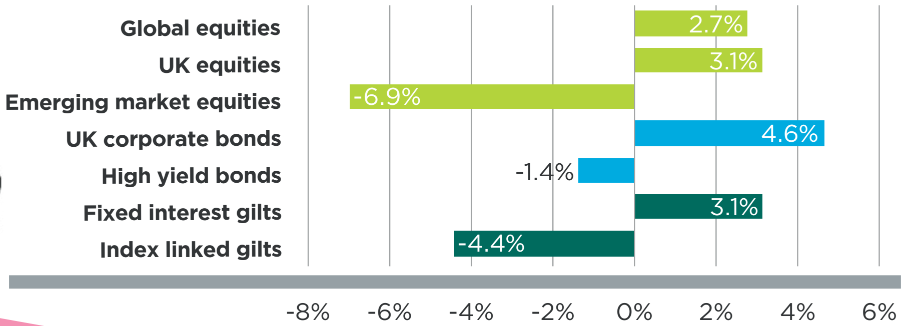
Many pension schemes had to reduce their interest rate and inflation hedging at the peak in yields and suffered losses when they fell back. The total impact that this had on pension scheme funding levels is currently unknown.

The IMF – who had condemned the infamous mini-budget – were quick to praise its unwinding as a "commitment to financial discipline" from the UK Government. Sterling finished the month in positive territory, rising to $1.15.

The UK economy remains far from a sure footing however. The Consumer Prices Index rose again in September to reach 10.1% with rising food prices driving further increases in the month. UK house prices fell for the first time in over a year in October – a further sign of looming economic slowdown. Despite this, longer term inflation expectations fell. In early November, the Monetary Policy voted to raise interest rates by 0.75% which was largely in line with expectations.

The Federal Reserve also raised interest rates by 0.75% in the US for the fourth consecutive meeting. US CPI was down 0.2% in September to 8.3% but concerns lingered around the slowdown of the US

UK corporate bonds were the strongest performer over the month
One Month to 31 October 2022



Source: Refinitiv Datastream

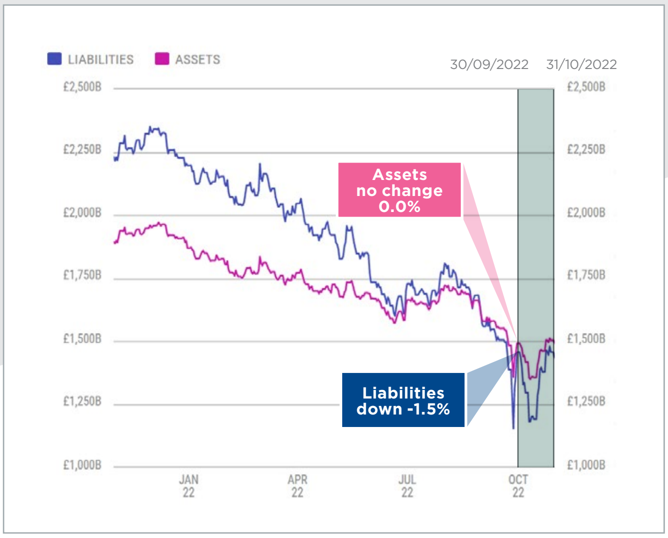
economy as it was reported that the US labour market grew at its slowest rate since April 2021 over September.

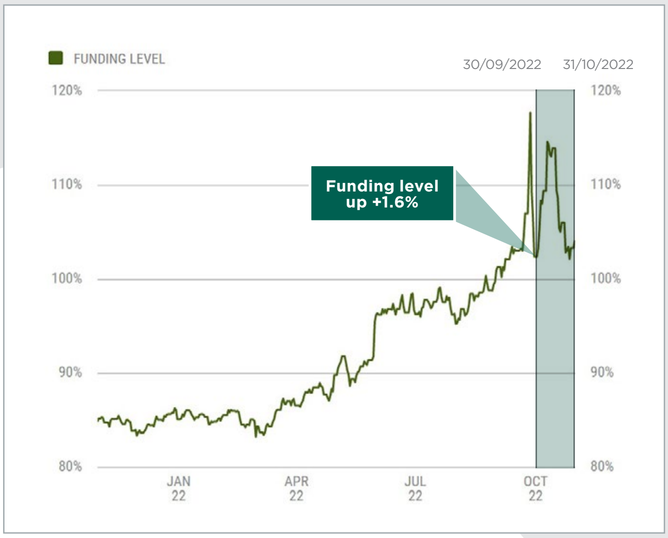
Elsewhere, Eurozone inflation reached another record high in October of 10.7% prompting speculation that the European Central Bank would raise interest rates by 0.75% for the third time in six weeks when the Governing Council meets again at the beginning of December.

In Asian markets, the Bank of Japan resisted raising its interest rate from -0.1% despite the growing weakness of Japanese Yen. The Chinese stock market reacted negatively to the reappointment of President Xi Jinping who has championed a zero-covid policy in the country which investors fear could continue to hinder growth.

October was a mixed month for major asset class performance. Developed equities performed well but a struggling Chinese market hindered emerging markets. UK corporate bonds were boosted by falling borrowing costs and stronger Sterling. Index-linked gilts significantly underperformed fixed interest gilts due to falling longer term inflation expectations.

UK DB Pension Scheme funding levels were highly volatile again in October. Despite this, long-term liabilities ended the month slightly down on where they started and flat returns from growth assets saw the aggregate funding level on a low risk basis rise modestly to 104%.





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 Gabriel McKeown.

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Alternatively, please speak to your usual XPS Investment contact.

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