December 2022

XPS Investment News

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

Month in brief

- Markets performed strongly with most major asset classes delivering positive returns in November
- The Bank of England has forecast the longest recession since records began for the UK economy
- US inflation was down significantly as the Federal Reserve signaled a possible relaxing of its aggressive monetary policy
- UK DB Pension Scheme funding was down as gilt yields fell in November

Rebecca Helme
Senior Associate

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Rebecca's December update

Markets rebound but Bank of England forecasts long recession

Jeremy Hunt's attempt to get markets back onside with the autumn budget appears to have worked but the Bank of England has warned the UK will be in recession well into 2024.

The Chancellor of the Exchequer referenced the Office for Budget Responsibility (OBR) 10 times during his autumn statement as he sought to boost the market's confidence in the UK Government's long-term spending plans. Mini-budget tax cuts were swapped for £50bn of tax increases and spending cuts. Markets were largely unmoved in the immediate aftermath of his announcements.

The Bank of England is predicting unemployment in the UK to double over a two-year period of falling growth for the economy. Interest rates were raised to 3% in early November, the biggest increase for over 30 years, as the Bank continues to grapple with soaring prices.

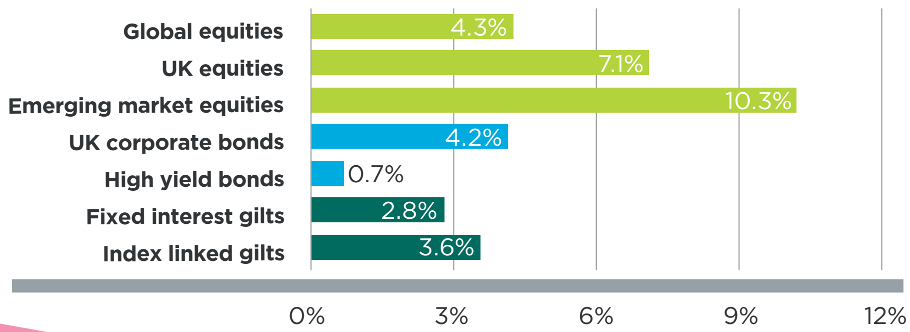
UK inflation rose again in October with the Consumer Prices Index climbing to 11.1% - 0.4% higher than expectations. The OBR has warned of the greatest erosion of living standards in the UK for generations as the lingering impact of the pandemic and the ongoing war in Ukraine continue to build inflationary pressures. The OECD has predicted that the UK economy will shrink by more than any of the other G7 economies.

In the US, inflation was down in October by 0.5% to 7.7%. Markets reacted positively to the Federal Reserve Chairman's comments that the US may begin to relax its aggressive interest rate approach to combating rising prices as early as December.

Inflation in the eurozone fell by 0.6% in October to 10.0% but President of the

Emerging market equities were the strongest performer over the month

One Month to 30 November 2022



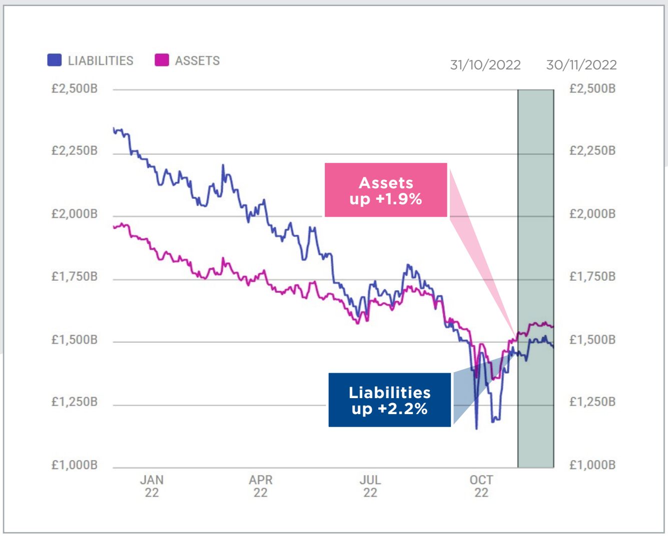
Source: Refinitiv Datastream

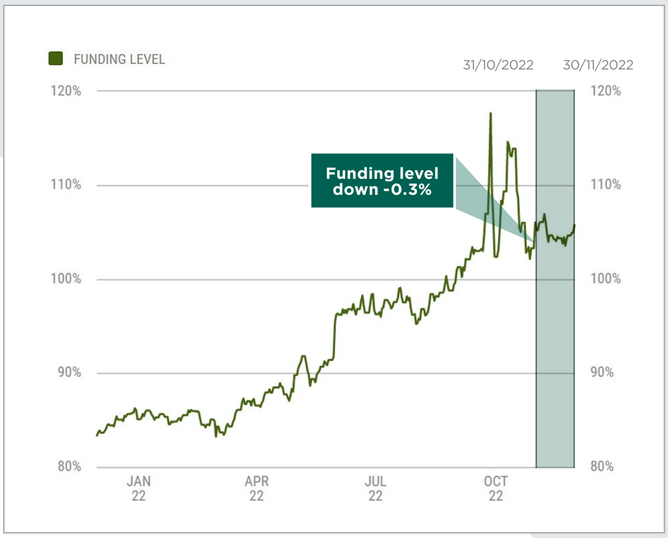
European Central Bank, Christine Lagarde, was sceptical that the peak in inflation had come and gone. The Federal Reserve, Bank of England and European Central Bank all meet again in mid-December to discuss interest rate policy.

Emerging markets rebounded strongly over the month despite market concerns towards the end of November surrounding rising coronavirus cases in China. There have been widespread protests against the Chinese Government's 'zero-Covid' policy and imposition of city-wide lockdowns.

Most major asset classes delivered positive returns over November. Global equities reacted positively to falling inflation in the US and UK shares rebounded from a volatile October in the aftermath of the mini-budget. Sterling appreciated versus the US Dollar, which would have dampened returns to a Sterling investor meaning that currency hedged investors will have seen even stronger performance. UK corporate bonds performed well, with falling borrowing costs also driving stronger returns and restoring confidence.

Despite growth assets performing well, the aggregate funding position of UK DB Pension Schemes is expected to have fallen over the month due to falling fixed interest and index-linked gilt yields increasing liabilities. Funding positions remain strong however with pension schemes continuing to be fully funded on a low risk basis on aggregate.





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 Rebecca Helme.

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