May
2023

XPS Investment News

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

Month in brief

- **Stubborn UK CPI inflation was down only slightly to 10.1% in March**
- **Bank of England increase the Bank rate by 0.25% to 4.5%**
- **UK DB pension scheme funding was up in April as gilt yields rose**

UK equities post a strong month despite double digit inflation and bleak outlook for 2023

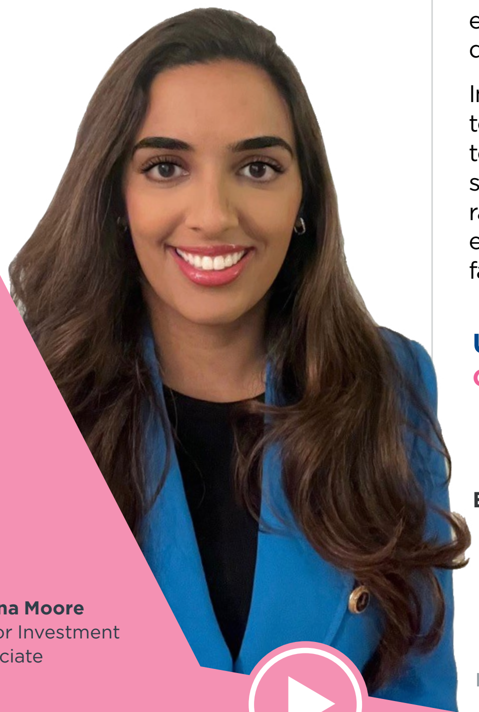
The International Monetary Fund (IMF) expects the UK economy to shrink by 0.3% this year. The IMF has warned that the UK's exposure to high gas prices, rising interest rates and sluggish trade performance will see it become one of the worst performing of the G20 major economies.

The forecast for the UK economy came against the backdrop of gloomy predictions for the global economy over the next 5 years. The IMF has forecast global growth of just 3% by the end of 2027 – the slowest period of growth since 1990 – with 90% of advanced economies expected to shrink this year due to rising borrowing costs.

In early May, the Federal Reserve voted to raise interest rates by a further 0.25% to a range of 5.00% - 5.25%. Many speculators expect this to be the final rate hike in the Fed's cycle with the expectation that inflation globally will fall sharply over the remainder of 2023.

The European Central Bank also voted to raise interest rates by 0.25%, slowing the pace of their recent hikes.

The Fed's hike came in the context of 12-month inflation in the US falling from 6.0% to 5.0% over March – to the lowest for over 18 months. In the UK, on 11 May the Bank of England increased the Bank rate by 0.25% to 4.5%, the twelfth successive rise since December 2021. The Consumer Prices Index fell from 10.4% to 10.1% over March but a much faster decline is needed to get back to the Bank of England's target of 2% any time soon. A notable warning came from the Bank of England that

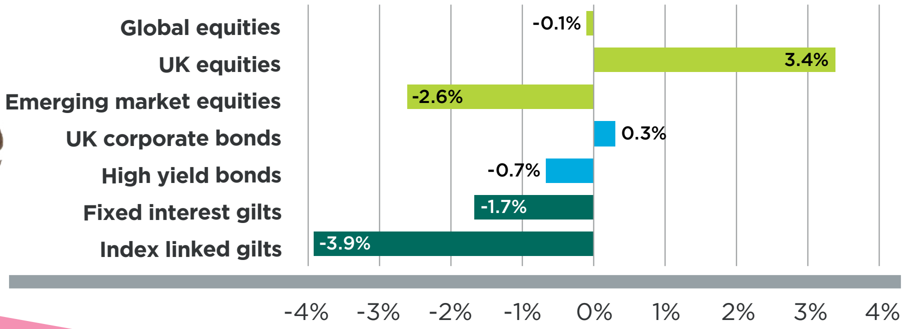


Serena Moore
Senior Investment Associate

Click to watch
Serena's May update

UK equities performed strongly over the month

One Month to 30 April 2023



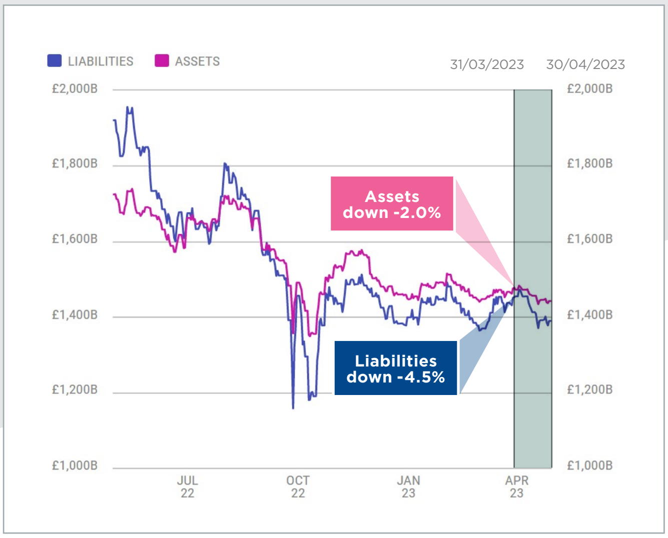
Source: Refinitiv Datastream

companies and households should expect to be "worse off" due to inflation.

Equity performance was mixed over the month with global equities finishing April just lower than where they started and emerging market equities lagging. UK equities performed well, with the UK having side-stepped a banking crisis combined with hopes of interest rates nearing their peak in the cycle.

UK corporate bonds delivered positive returns as credit spreads tightened but high yield bond values fell modestly. Long-dated nominal and real yields rose over April meaning that gilts posted negative performance.

This was generally positive for aggregate UK DB pension scheme funding, with a notable improvement in funding levels. Despite mixed returns from growth assets, liabilities fell significantly as gilt yields rose and long term inflation expectations fell.



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 Serena Moore.

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Alternatively, please speak to your usual XPS Investment contact.

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