

September  
2023

# XPS Investment News

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

## Month in brief

- Global equities suffered their biggest weekly drop since March before rebounding on US interest rate optimism
- Gilt yields soared almost reaching highs of October 2022 before falling back
- UK government borrowing was lower than expected in July fuelling speculation of possible tax cuts to come
- China sought to boost confidence with capital market reforms in response to concerns over growth

## Equity markets fight back in the final week of August to recover some ground on earlier losses

In mid-August, during its worst week since the banking crisis of March, the FTSE All-World index fell by 2.6% but global equities rebounded in the last week of month in anticipation of a slowdown in US job creation, easing pressure on the Federal Reserve.

A weaker jobs market in the US would make further interest rates rises later this year less likely, but the market rally late in the month wasn't quite enough to push global equities into positive territory for August.

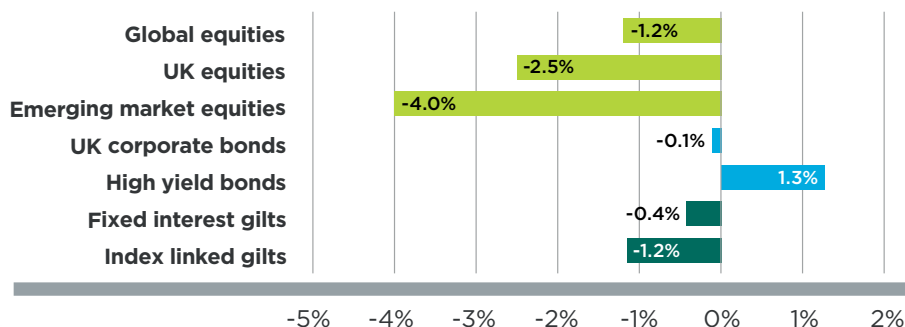
In the UK, long dated gilt yields briefly exceeded 5% mid-month, almost reaching their highs of last October, only to fall back towards the end of the month. At £4.3bn, government borrowing in July was around £700m lower than predicted. Borrowing for the financial year has reached £57bn but remains £11bn lower than the amount previously predicted by the Office for Budget Responsibility in March.

The news led speculators to suggest that Chancellor Jeremy Hunt could unveil tax cuts in the Autumn budget in the hope of improving the chances of re-election for the Conservatives with a general election expected to take place in 2024.

Further interest rate rises by the Bank of England later this year looked increasingly likely over August with UK core inflation (which excludes volatile food and energy prices) constant at 6.9% between June and July. The market is pricing for a further 0.5% rate rise before the end of the year and Governor Andrew Bailey reiterated his stance that rates would not be brought down until there was 'solid evidence'

## High yield bonds were the strongest performer over the month

One Month to 31 August 2023



Source: Refinitiv Datastream

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Ieva's September update

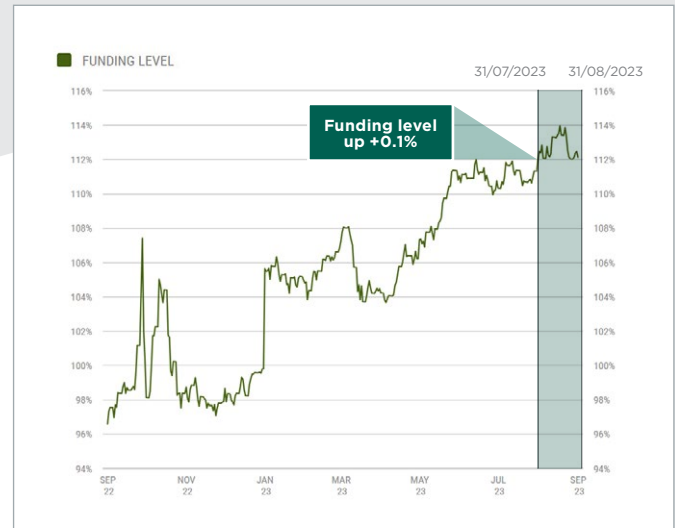
that rising prices were slowing down.

In Asia, concerns mounted over the resilience of the Chinese economy. China's enormous property sector has yet to recover from the pandemic and, with record youth unemployment and dwindling foreign investment, the Chinese government announced a raft of capital market reforms during the month aimed at reigniting investor confidence in the Chinese market.

Whilst global equities were negative for the month overall, regional performance around the globe was mixed. UK equities underperformed in the expectation of further monetary policy tightening to come before the end of 2023. Emerging markets had an especially tough month, weighed

down by the sluggish economic outlook for China. In bond markets, UK credit performance was marginally negative. Global high yield bonds on the other hand posted a strong month on the back of growing belief that the Federal Reserve will execute a 'soft landing' in the fight against inflation. Fixed interest and index-linked gilts both delivered negative returns.

Aggregate UK DB pension scheme funding ended the month much where it started it, but the path during the month was bumpy in light of the significant volatility in government bond yields. Yields ended slightly higher than the start of the month and liability values fell as a result, but the impact on pension scheme funding was almost completely offset by underperformance from growth assets.



Source: XPS DB:UK [www.xpsgroup.com/services/xps-pensions/xps-dbk-funding-watch](http://www.xpsgroup.com/services/xps-pensions/xps-dbk-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 Ieva Masevičiūtė.**



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