

May
2021

XPS Investment News

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

Month in brief

- Positive investor optimism around the global rebound continued and helped global equities to a strong month
- Corporate bond spreads remained low and stable
- The funding level of a typical scheme would have increased over the quarter



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Kashif's May update

Continued economic recovery drives equities but prompts concerns of overheating

Continued investor optimism around the global economy's recovery from the pandemic helped global equities to another strong month. Vaccine supply problems experienced earlier on in the year, particularly in Europe, seem to have now been overcome.

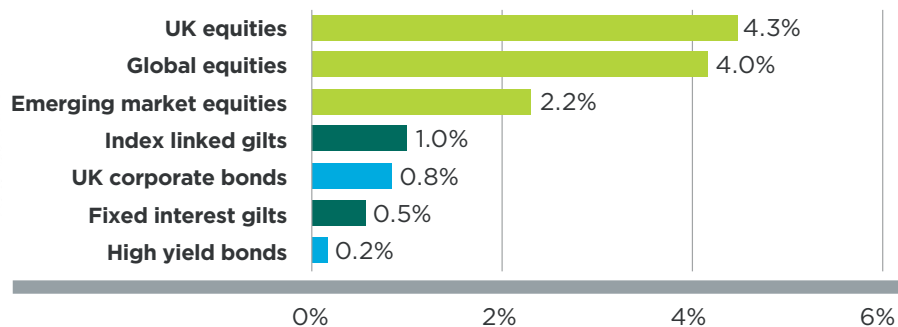
Investor optimism was also supported by the economic data released by the UK and US over the month. UK companies have reported surging demand for both goods and services, which have been, in some cases, materially stronger than forecasts. Additionally, hiring accelerated at its fastest rate since August 2017 leading to a fall in unemployment. This was driven by new recruitment rather than workers being recalled from furlough, suggesting that the jobs market could recover very quickly and reflecting upbeat forecasts. US economic data painted a similar picture and US equities continued to push to new highs, even in the face of US President, Joe Biden's proposed tax increases.

India on the other hand has suffered the worst daily infection rate of any country so far. Despite being the world's largest vaccine manufacturer and having issued the third highest number of vaccinations of any country, its vast population dwarfs the scale of the vaccine program. Infection rates also persist in Brazil. The return on Emerging Market equities was still moderately positive.

Another issue being eagerly watched by investors is the risk of policy makers reigning in support measures too soon. However, governments and central banks continue to stand by their ultra-dovish policy – keeping interest rates low; the Federal Reserve

UK equities were the strongest performer over the month

One Month to 30 April 2021



Source: Refinitiv Datastream

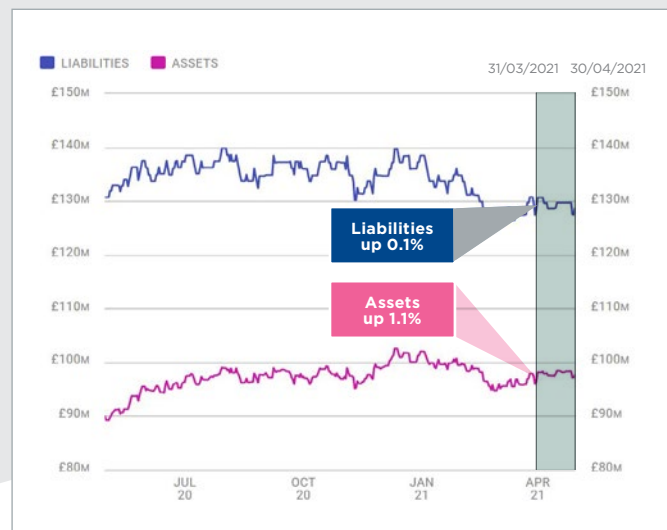


communicated that they were still a long way away from withdrawing support for the US economy, even after the central bank upgraded its view of the recovery. Uncertainty remains in this regard, with observers continuing to keep a keen eye on near term inflation, a rise of which would be a sign of the economy overheating.

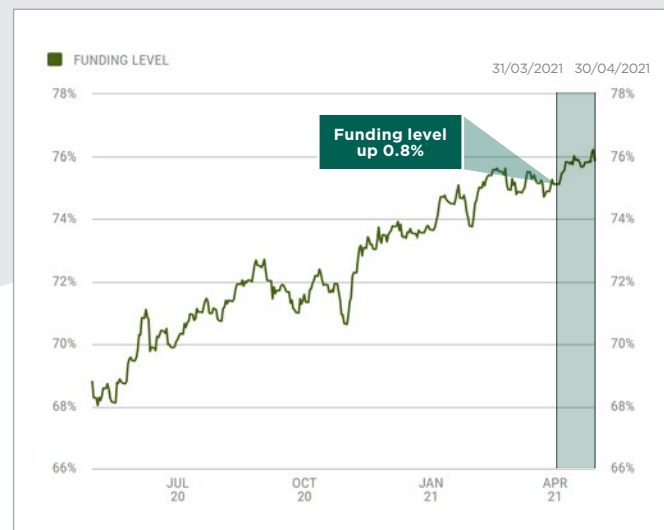
Both high yield and investment grade credit spreads remain low and stable leading to steady returns for bond investors over the month given the wider optimism.

On environmental matters, Joe Biden pledged to reduce US greenhouse gas emissions by 50-52% by 2030 relative to 2005 levels, and achieve net zero emissions by 2050. This announcement commits the US to a significant acceleration of their push to cut emissions and tackle the climate crisis.

The funding level of a typical scheme would have increased over the month, owing to growth in asset values and a modest decline in long term inflation expectations following a spike during the first quarter of 2021.



Source: XPS Radar



Source: XPS Radar

The typical scheme used has an assumed asset allocation of 24% equities, 33.8% corporate bonds, 12.6% multi-asset, 5% property and 24.6% in liability driven investment (LDI) with the LDI overlay providing a 60% hedge on inflation and interest rates. This example scheme was 80% funded in 2015.

To discuss any of the issues covered in this edition, please get in touch with Kashif Husen.



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