May
2020

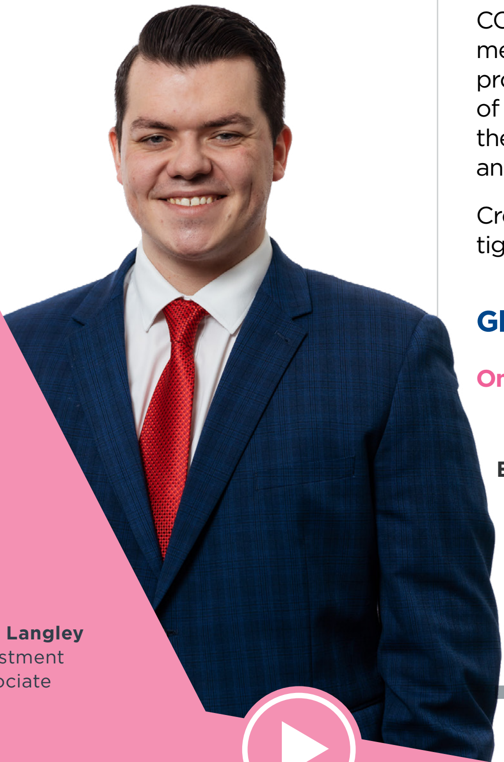
XPS Investment News

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

Markets rebound strongly but volatility continues

Month in brief

- Risk assets rebounded strongly over the month
- This was at odds with data released across Europe and the US, which showed the extent of the shock experienced to economic activity
- US oil prices crashed temporarily into negative territory for the first time in history



Kyle Langley
Investment Associate

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Kyle's May update

Risk markets remained volatile over April and rebounded strongly over the month, reversing some of the material falls experienced from late February to the end of March.

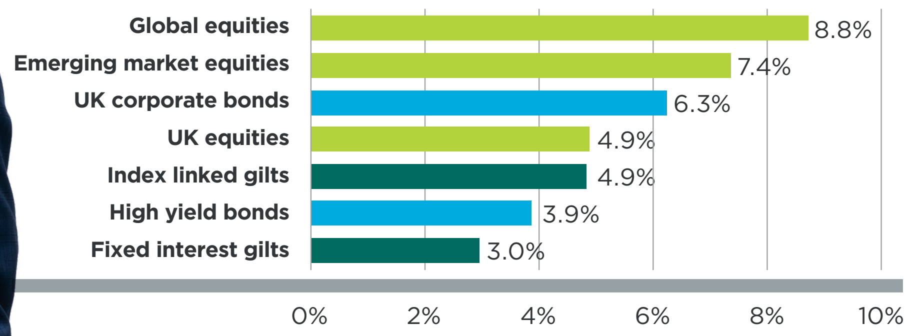
US stocks posted their biggest monthly rally since 1987 helping global equities to have their best month since 2011. Markets remain spurred by the speed and scale of monetary and fiscal policy measures globally that continued to be added to over the month. Investors seem to be betting on a fairly rapid return of activity to pre-crisis levels, encouraged by the slowing spread of COVID-19. China lifted their lockdown measures and others began the process of planning the gradual lifting of restrictions as they looked to begin the process of returning to normal life and reviving economic activity.

Credit spreads also rebounded, tightening materially over the month from highs near the end of March, reflecting investor sentiment that the widespread support available to industries and businesses should help many to weather the storm. The US Federal Reserve also took the unprecedented step of including corporate debt rated 'high yield' by credit ratings agencies within its quantitative easing program; an area previously thought to be off-limits. The European Central Bank is now also expected to follow suit.

However, these market movements came at odds with the release of economic data over the period that has largely been worse than expected. Data showed that the US economy

Global equities were the strongest performer over the month

One Month to 30 April 2020



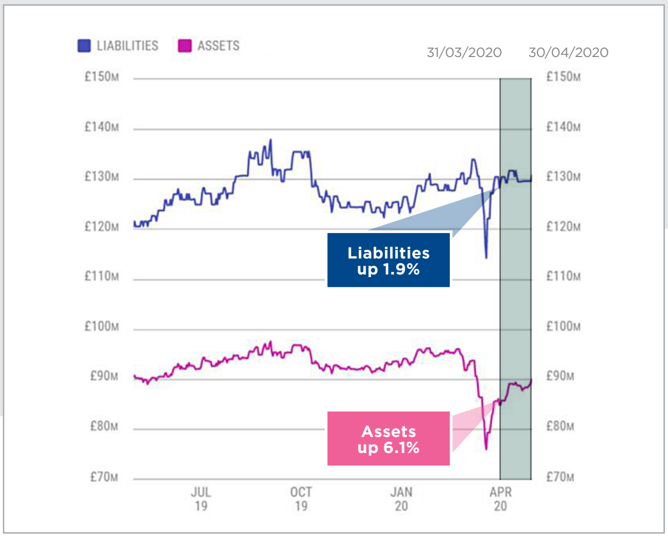
Source: Refinitiv Datastream

contracted by 4.8% annualised over the first quarter and the Eurozone contracted at its quickest pace on record. The IMF has forecasted a global decline in economic output of 3%, a scale not been seen since the Great Depression.

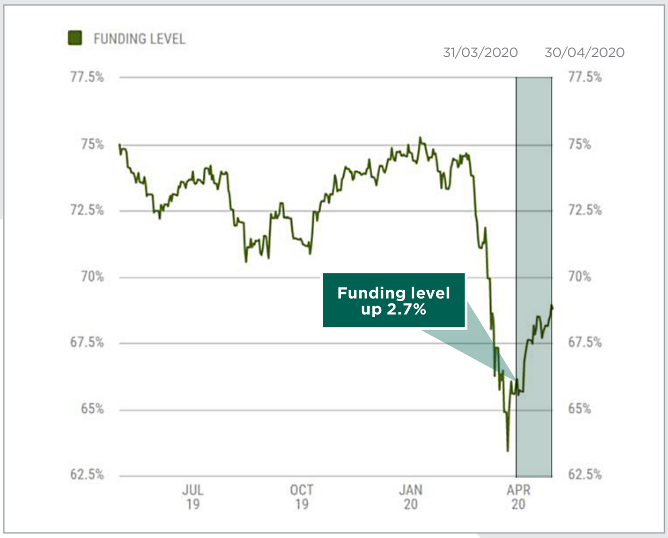
Huge swaths of the global economy remain under restrictive measures and unemployment continues to rise materially. Large uncertainty also remains around the continued economic impact that the virus will have, which will be dependent upon how effective countries continue to be at stemming the spread of the virus whilst re-vamping economic activity.

Industry specific news released over the month highlighted the scale of the impact the virus is having. Most notably, US oil prices crashed temporarily into negative territory for the first time in history as global supply far outweighed demand leading to storage issues. This extreme price fall occurred despite Russia and Saudi Arabia agreeing to end their oil price war.

Strong asset performance outweighed a marginal increase in liabilities over the month, leading to an overall improvement in the funding level for a typical pension scheme.



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 Kyle Langley.

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Alternatively, please speak to your usual XPS Investment contact.

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