June
2020

XPS Investment News

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

Risk markets continue their rally

Month in brief

- **Equity and credit markets returned strongly over May owing to positive sentiment**
- **Sino-American tensions returned to the spotlight**
- **The UK sold its first ever negative yielding conventional gilt**
- **Published figures show the UK economy shrank at a record 5.8% over March**

Equity and credit markets performed strongly over May, continuing the risk market rally that began at the end of March.

Markets reacted to positive news around the declining death rate and new infection rate of COVID 19 in developed countries globally, which meant that these countries were able to continue making progress in reversing the restrictive social measures that were put in place. Many investors are betting on a sharp, V-shaped, bounce back of global economic activity. The large amount of monetary and fiscal stimulus that remains available to countries globally also continues to buoy markets.

This rally, however, continues to be at odds with the reality that millions of businesses around the world remain shut and the economic data released that suggests that many countries are approaching their worst recessions in memory. The scale of the impact was highlighted by the total number of unemployment benefit applications experienced in the US which eclipsed 40 million since the pandemic began, although the rate of new claims has fallen for 8 consecutive weeks. Germany also plunged into a technical recession over the month.

At home, the UK economy shrank at a record 5.8% in March, which was its fastest monthly decline on record. The number of people claiming unemployment benefits soared to 2.1 million in April, the biggest month-on-month increase in out of work benefits claims since records began.

Matthew Fossey
Senior Investment Associate

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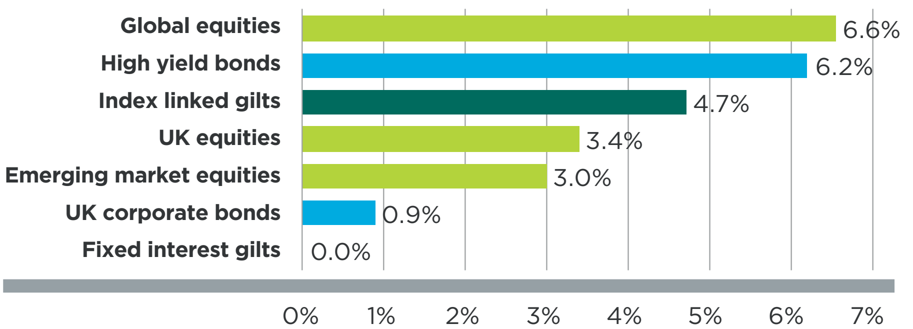
Matthew's June update

Global equities were the strongest performer over the month

One Month to 31 May 2020



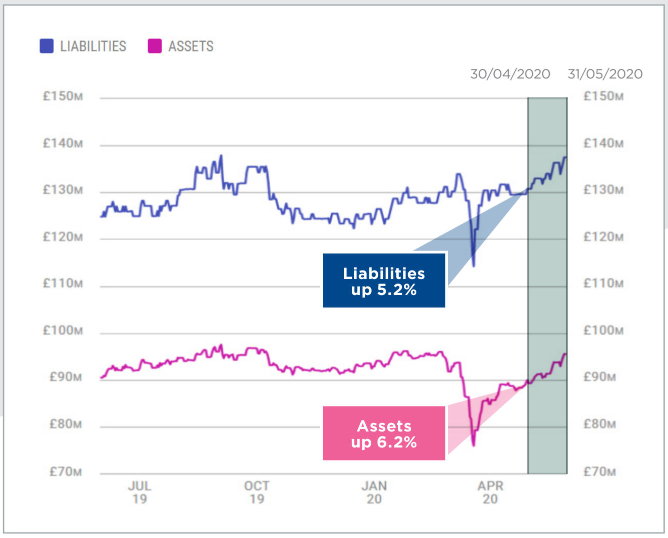
Source: Refinitiv Datastream

Sino-American tensions returned to the spotlight. The Trump administration continues to blame China for the coronavirus pandemic and has also strongly opposed China's move to impose a new national security law on Hong Kong, threatening to retaliate with a range of measures. China's intentions have also re-ignited large scale protests in Hong Kong.

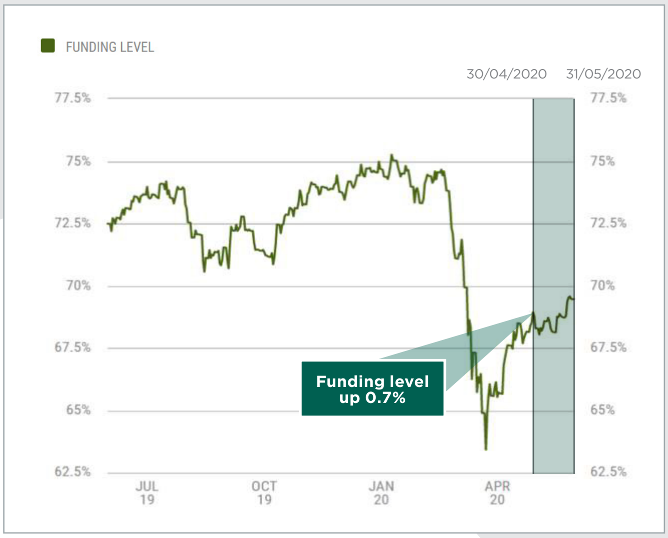
The UK broke new ground during the month after they sold a conventional UK Gilt at a negative yield for the first time ever. The DMO issued £3.8bn of 3 year gilts yielding -0.003%. The sale was oversubscribed, highlighting the robust demand for these securities.

12 month UK CPI Inflation tumbled from 1.5% in March to 0.8% in April – the lowest inflation rate since August 2016. This wasn't the result of falling prices in April 2020, which were flat, rather it was primarily the result of a higher inflation month, April 2019, falling out of the 12 month period.

Strong asset performance outweighed an increase in liabilities over the month, leading to an overall improvement in the funding level of 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 Matthew Fossey.

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Alternatively, please speak to your usual XPS Investment contact.

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