November
2021

XPS Investment News

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

Pension Scheme funding falls despite strong month for equities

Month in brief

- Q3 earnings reporting season kicked off with strong corporate earnings reports supporting equity prices
- Inflation continues to rise prompting central banks to consider increasing interest rates
- Gilt yields fell significantly on news of reduced future issuance

Global equity markets posted gains reversing the falls seen during September. The Q3 earnings reporting season kicked off with strong corporate earnings reports despite worries on inflation, energy costs, supply chain issues and the outlook for China's property sector. Whilst global government bond yields generally rose, UK gilt yields fell sharply at the end of the month as the Chancellor reported much lower future gilt issuance in his Budget than expected.

In the US, the S&P500 equity index had its best month since November 2020 driven by strong corporate earnings reports (with 82% of companies beating expectations).

Global oil prices continued their climb to their highest level in over three years with gas prices remaining at elevated levels, on expectations of increasing demand from shifting from higher-priced coal and natural gas, combined with no signal of additional OPEC+ supplies.

Post-Brexit tensions initially eased after the EU offered to scale back customs checks on goods and food arriving in Northern Ireland. However, towards the end of the month, France seized a UK fishing boat raising tensions. Turning to the pandemic, global cases have continued to increase in recent days, and in the UK there were over 50,000 new cases reported in a single day for the first time since mid-July.

The latest UK and US CPI figures showed annual price rises of 3.2% and 5.3% respectively, both significantly above target. There is a growing acknowledgement that high post pandemic inflation may be with us for longer than previously thought.

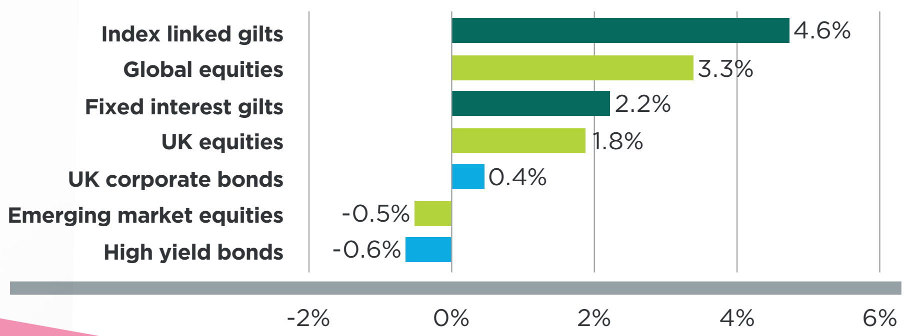
The Bank of England kept the bank rate at 0.1% at its MPC meeting at the start

Ben Rogers
Investment Consultant

Click to watch
Ben's November update

Index linked gilts were the strongest performer over the month

One Month to 31 October 2021



Source: Refinitiv Datastream

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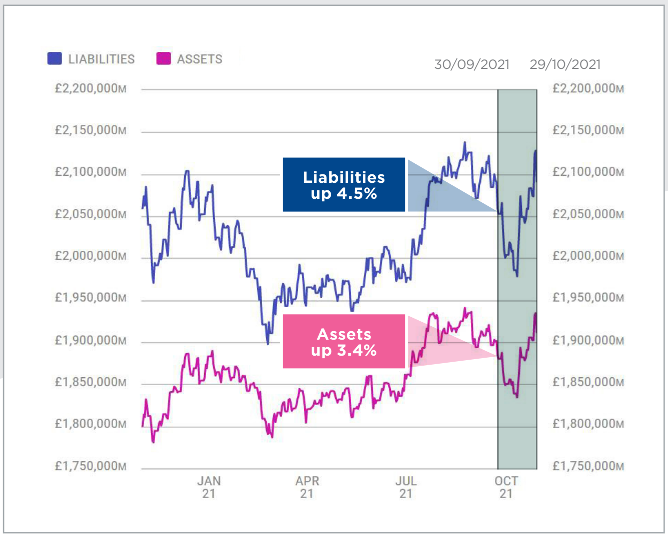
of November, but may still be the first major central bank to begin raising rates in the coming months.

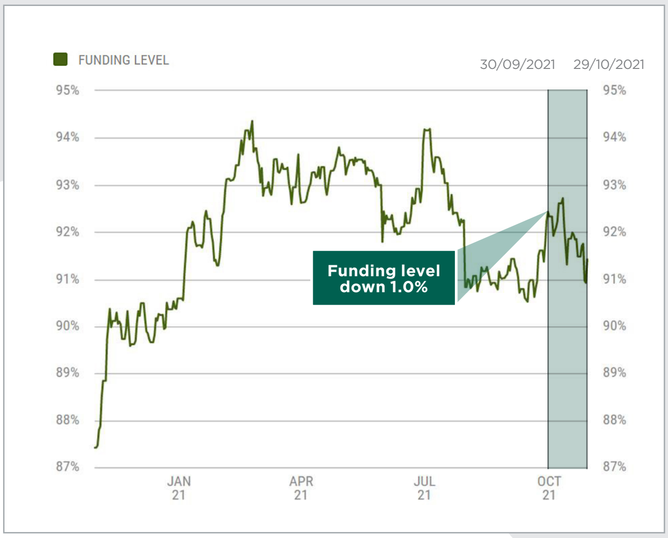
The 10-Year US Treasury yield reached its highest level since mid-May as investor sentiment brightened on strong earnings, hopes of a continued economic recovery and expectations of higher short-term rates following the Fed's September meeting.

UK gilt yields were volatile due to inflation concerns. However, news in the Budget that future gilt issuance would be significantly lower than previously indicated meant gilt yields tumbled at the end of the month. Credit spreads widened a little, meaning corporate bonds underperformed similar gilts.

The UK issued its second Green Gilt on 21 October for £6bn at a yield around 0.02% p.a. lower than a similar 'brown' bond. The EU also kicked off its €250bn 'NextGenerationEU' green bond program and raised €12bn. The issuances were well received and indicated an abundant demand for green bonds.

The estimated aggregate funding position of UK DB pension schemes on a long-term target basis fell over October owing to an increase in liability values driven by falls in gilt yields outweighing positive asset performance.





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 Ben Rogers.

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Alternatively, please speak to your usual XPS Investment contact.

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