December
2020

XPS Investment News

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

UK equities have best month since 1989… off the back of encouraging COVID-19 vaccine news

Month in brief

- Ongoing vaccine progress boosts risk market sentiment
- Joe Biden defeated Donald Trump and is to become US President
- The Government concluded its RPI consultation and confirmed that RPI is to merge with CPIH from 2030

Equity markets soared over the first half of November, helping global equities and UK equities to their strongest months since 2008 and 1989, respectively.

This rally was driven in the first instance by the relatively strong initial clarity around the result of the US presidential election, and was buoyed over the month by increasingly positive signs of a smooth transition of power from Donald Trump to Joe Biden. Fears dissipated of the election result causing widespread unrest and tensions around the US. The rally was also fuelled by the encouraging results that have come from multiple COVID-19 vaccine trials and the crucial role that these vaccines are now expected to have in getting the world somewhat back to normality, despite a worsening global coronavirus death rate.

These developments over the month overshadowed concerns around the tight restrictions in place and the detriment that these measures are likely to have caused economies and public finances worldwide.

The UK Government and Bank of England both launched significant further stimulus to support the economy after imposing a second nationwide lockdown at the beginning of the month. These measures included an extension of the furlough scheme and the purchase of another £150bn of government bonds. A £4.6bn package was also set out to tackle the threat of mass unemployment. Estimated figures announced by the Chancellor, Rishi Sunak, paint a tough picture for the UK economy; it is expected to contract by

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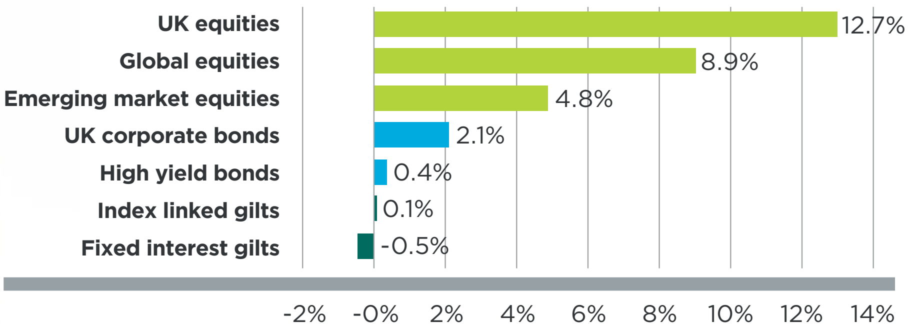
Daniel's December update

UK equities were the strongest performer over the month

One Month to 30 November 2020



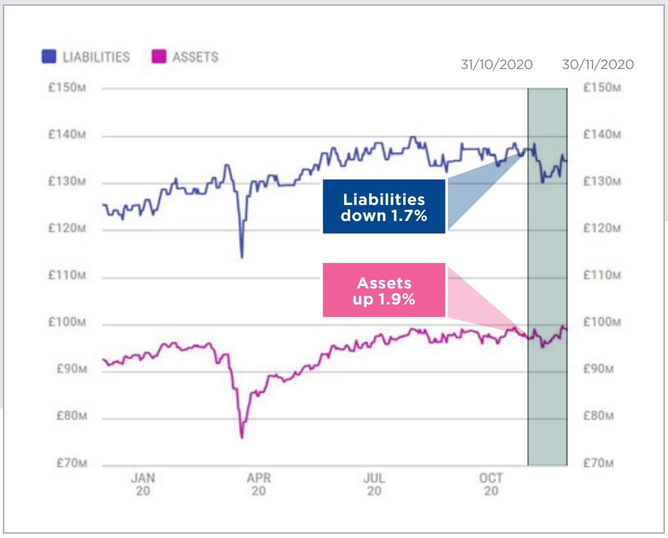
Source: Refinitiv Datastream

11.3% in 2020 with output not expected to return to pre-crisis levels until Q4 2022, and unemployment is expected to reach 7.5% next spring. A Brexit deal continues to be discussed and differences remain on both sides with fishing rights a notable sticking point.

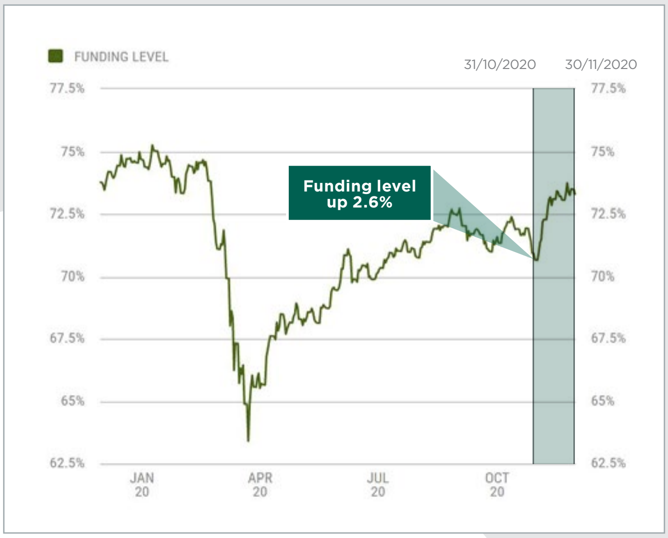
Credit markets also rallied over the month, as credit spreads tightened and prices were pushed higher.

Following a period of consultation, the Government announced that it is to proceed with suggested reforms to the Retail Price Index ('RPI'), aligning it with the Consumer Price Index including owners' occupied housing costs ('CPIH'), but not before 2030. Overall, the market reaction to this announcement was relatively muted, confirming suspicions it was already 'priced in'. However this will still have significant implications for many schemes. Find out more on this in XPS's two-page note which gives more detail **here**.

UK Gilt yields fluctuated notably but increased over the period, which would have led to a fall in scheme liabilities. This, coupled with a material increase in asset values, would have led to an improvement in the funding level of a typical 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 Daniel Wood.

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Alternatively, please speak to your usual XPS Investment contact.

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