March
2019

XPS Investment News

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

Calm before the storm?

Month in brief

- **Developed equities and listed property continue their positive starts to the year**
- **A perceived reduced likelihood of a no-deal Brexit buoys the pound**
- **US GDP exceeds expectations, but the growth outlook for Europe remains mixed**
- **Funding levels improve marginally as a result of a small rise in gilt yields**

Guy Plater
Principal

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Guy's March update

UK equities, listed property and Sterling currency appreciated in value over February, largely attributable to the perceived reduced likelihood of a no-deal Brexit on 29 March. Following a concession by Theresa May, it is now a distinct possibility that Article 50 will be extended if Theresa May cannot garner sufficient support by the 12 March Parliament vote. However, a no-deal cannot be ruled out.

There was bad news for UK industry with Honda announcing plans to close down its Swindon plant, causing job losses for around 3,000 people, and Nissan's production in Sunderland is to be reined in. Whether a consequence of Brexit or not, these are big blows to the UK automotive sector.

GDP figures released over the month showed the UK economy in 2018 had its worst performance since the financial crisis and the Bank of England predicts a further slowdown at the start of 2019.

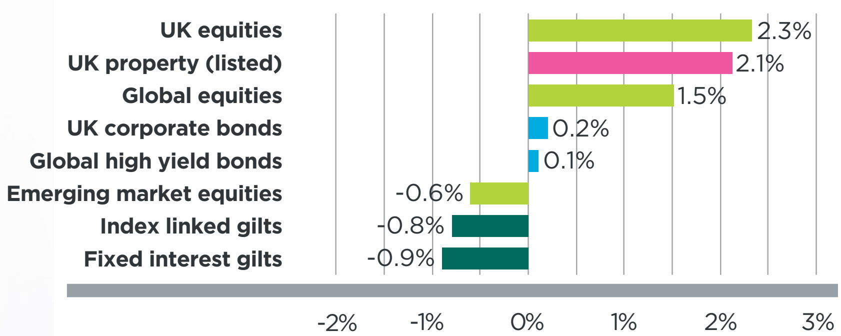
On the credit side, the returns of UK investment grade corporate bonds were relatively flat, reflecting the mixed UK news.

Over the water, progress is being made with the US/China trade talks. Tariffs on $200bn of imports from China were due to step up from 10% to 25% on 2 March, but this has been paused as part of constructive discussions, contrasting with a somewhat abrupt ending to President Trump's nuclear summit with Kim Jong-un.

The released Q4 2018 US GDP figures were more positive than expected but the growth outlook for Europe remains mixed after the Eurozone Purchasing Managers' Indices (PMI) highlighted that manufacturing remains weak, particularly in Germany, but the service component of the PMI reflected signs of improvement.

UK equities were the strongest performer over the month

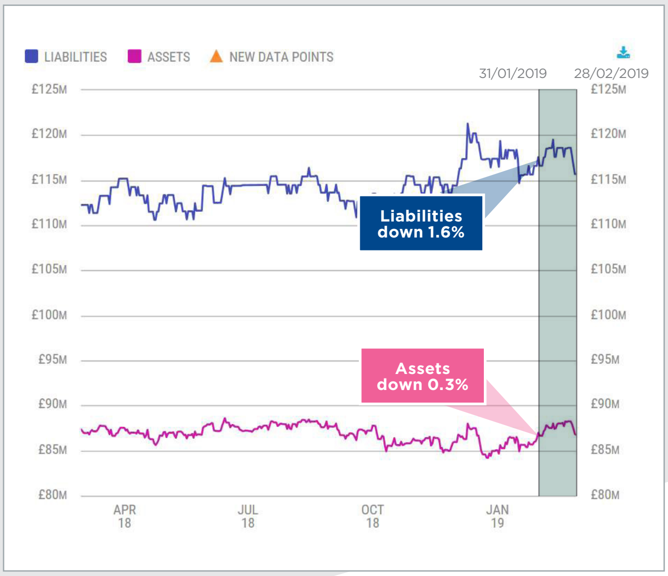
One Month to 28 February 2019



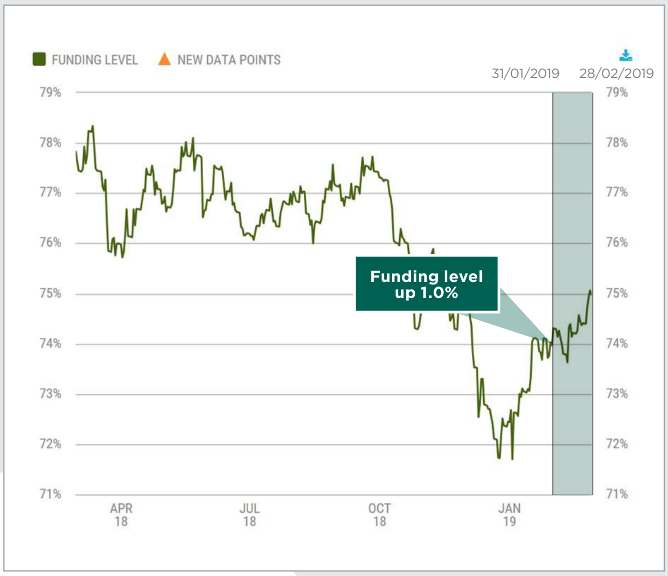
Source: Thomson Reuters Datastream

A typical pension scheme's funding position is estimated to have marginally improved over the month.

Assets are expected to have remained largely flat, with liabilities falling as a result of a small rise in gilt yields.



Source: XPS Radar



Source: XPS Radar

The typical scheme used has an assumed asset allocation of 27% equities, 34% corporate bonds, 11.6% multi-asset, 4.8% property and 25% in liability driven investment (LDI) with the LDI overlay providing a 50% 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 Guy Plater.

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Alternatively, please speak to your usual XPS Investment contact.

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