August 2019

XPS Investment News

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

Month in brief

- **Markets fell sharply at the start of August as a result of intensified tensions between the US and China**
- **Brexit concerns lead to falls in the pound**
- **Hints of additional monetary stimulus in Europe drive sovereign yields lower**
- **Further decline in UK Property following political uncertainty**
- **Funding levels relatively flat over the quarter**

Beatrice Stanoescu
Senior Investment Associate

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Beatrice's August update

Brexit concerns come back to the forefront

Boris Johnson was elected as the UK's Prime Minister and has struck a hard tone on Brexit, vowing that the UK will leave the EU without a deal should the EU be unwilling to compromise. There is growing market concern that the UK will drop out of the EU without a deal and as a result, sterling hit a two year low versus the dollar.

The UK's economic data appears to be deteriorating; growth in services has slowed and PMI surveys in June suggest an economy close to recession.

The market now expects the Bank of England to cut rates in 2019 although the Monetary Policy Committee announced the bank rate being maintained at 0.75% on 1 August and its expectation that rates will rise after any Brexit deal that resolves uncertainties.

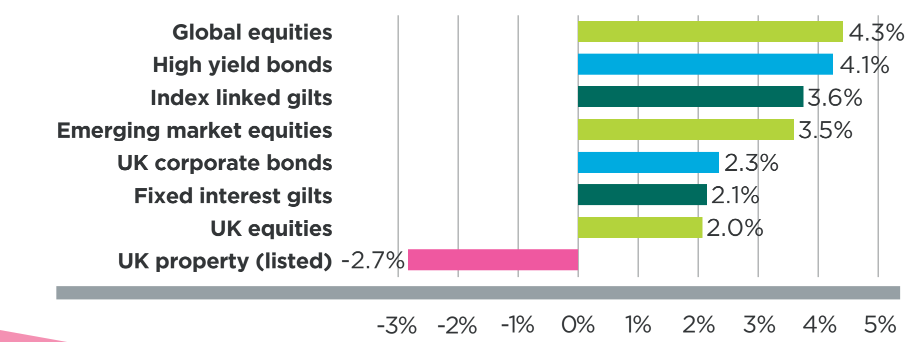
At the start of the month US equity markets saw new highs after Donald Trump and Xi Jinping agreed to resume trade negotiations although the position remains fluid. US stock markets remain buoyed by positive earnings reports and investors' expectation that the Federal Reserve would cut rates on 31 July which it did. The 0.25% cut was the first since the end of 2008.

European bond yields sank to unprecedented lows, with more countries entering negative yield territory, including previously thought of 'emerging market' countries such as the Czech Republic and Hungary which would be expected to have higher yields. The European Central Bank's hints at rate cuts and a return to its bond-buying program continues to drive this fall in yields.

There was a further decline in UK Property and it was reported that the number of homes sold in the UK has dropped. Political uncertainty affecting the confidence of both buyers and sellers was believed to be a large contributor to the decline.

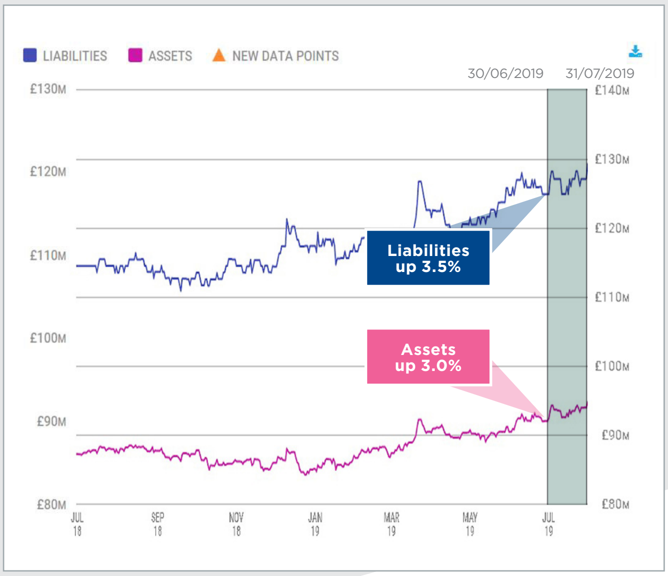
Global equities were the strongest performer over the month

One Month to 31 July 2019

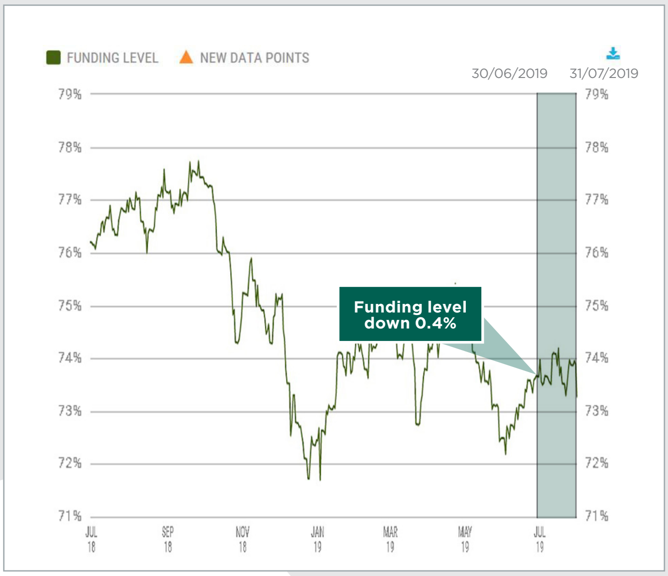


Source: Thomson Reuters Datastream

A marginal decrease in gilt yields offset by positive equity and bond performance meant that the funding level of a typical pension scheme would have stayed relatively flat over the month.



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 Beatrice Stanoescu.

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