November 2019

# XPS Investment News

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

## Month in brief

- Global equities took a hit at the beginning of September but went on to rally, in part, due to positive stimulus from the US Federal Reserve
- Brexit was delayed once more to 31 January 2020
- Sterling appreciated, detracting from returns for Sterling investors
- Gilt yields rise substantially benefiting liability values

Ben Wright
Investment Associate

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Ben's November update

# Funding levels rise despite volatile asset performance

September started with sharp falls in global equity markets, with most recovering to end the month up in local currency terms following positive monetary stimulus.

The International Monetary Fund pointed to the negative effect that the US's trade wars were having on global growth, cutting its global growth forecast for the year. Communication around the US trade war with China suggested that the two countries were close to finalising parts of a limited trade deal, which would see the US hold off on further tariff increases in exchange for Chinese concessions. The EU, however, was subject to the imposition of further tariffs from the US.

In the US, the Federal Reserve implemented its third rate cut of the year in response to uncertainty around the US's economic outlook. Despite having their lowest unemployment rate for 50 years and solid wage growth, figures released at the end of the month showed that business investment, personal consumption and imports had all slowed over the third quarter. The S&P 500 hit a new record towards the end of the month boosted by the rate cut.

UK voters will be going to the polls in December, after MPs backed Boris Johnson's calls for a pre-Christmas snap election intended to break the Brexit deadlock. The EU granted the UK a further extension of the Brexit deadline from 31 October to 31 January 2020.

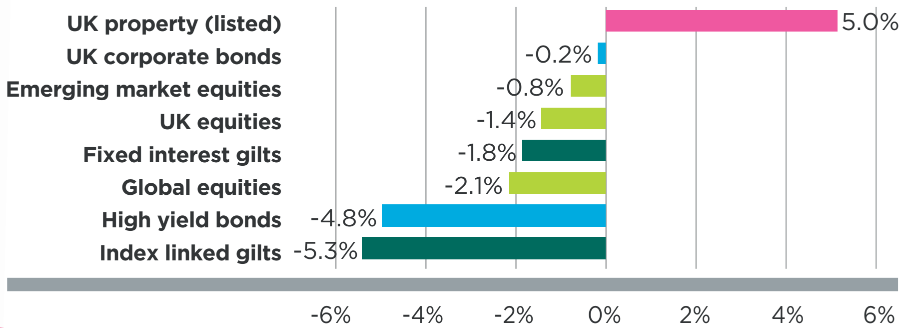
Sterling strengthened materially over the month against the US Dollar, as the perceived likelihood of a no-deal Brexit reduced. This detracted from overseas investment returns for Sterling investors over the second half of the month.

In the Middle East, Saudi Aramco, the world's most profitable company, confirmed that it is going to launch it's long-awaited IPO.

Gilts yields rose substantially during the month, which reflected in negative gilt and sterling corporate bond returns.

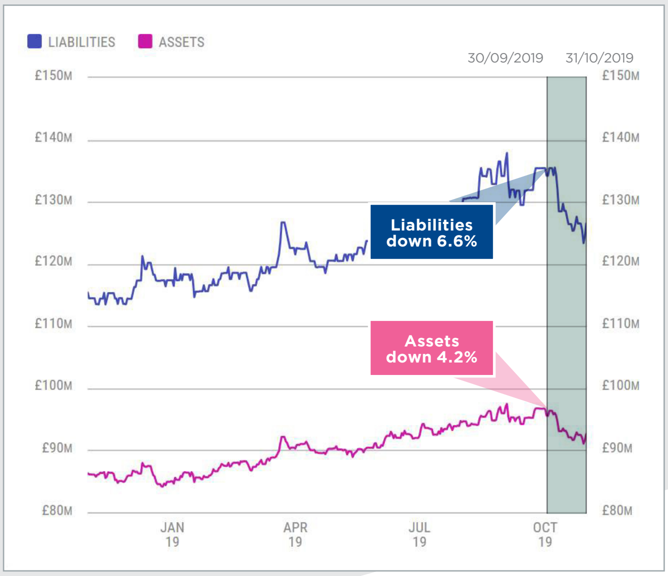
### UK property (listed) was the strongest performer over the month

**One Month to 31 October 2019**

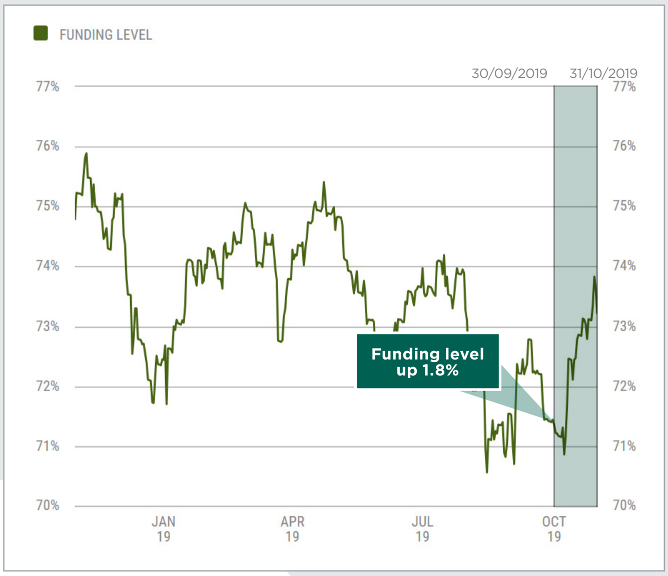



**Source**: Refinitiv Datastream

Although a typical scheme's assets would have fallen over the month, gilt yields rose strongly meaning that the funding level of a typical scheme would have improved over the period.




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 Ben Wright.

**Ben Wright**
**Investment Associate**

t 020 3994 4947    e ben.wright@xpsgroup.com

## Alternatively, please speak to your usual XPS Investment contact.

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