June
2021

XPS Investment News

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

Month in brief

- Equity markets were broadly flat over the month
- Index-linked gilt yields fell amidst increasing inflationary pressures
- The funding level of a typical scheme is unlikely to have changed materially

Ben Rogers
Investment
Consultant

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Ben's June update

Markets slow amidst growing inflationary pressures

Global equities were broadly flat over the month, with the continued positive uptrend following positive economic data being tempered by growing inflation concerns

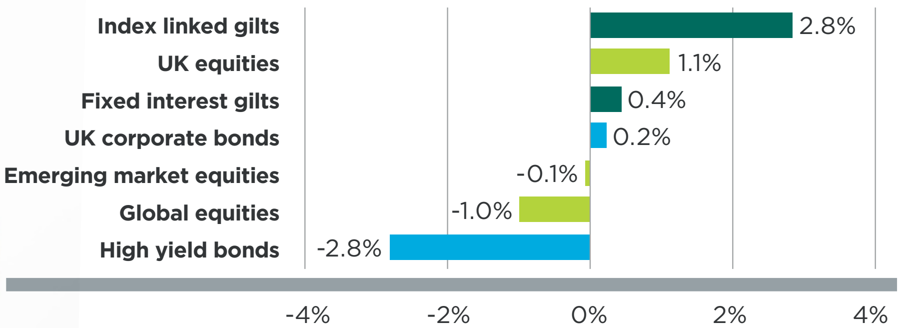
In the UK, the Office for National Statistics (ONS) reported a 1.5% year-on-year rise in CPI inflation, the highest rate of price growth for a year, however the Bank of England followed expectations by keeping base interest rates at 0.1% and leaving the total levels of bond-buying unchanged, albeit at a slower purchasing rate. Economic growth and unemployment numbers improved as the UK lowered its COVID-19 alert level and restrictions were eased, with Government keeping a close eye on the increasing levels of the Indian variant within the country.

It was a similar story in the US, with CPI inflation rising 4.2% year-on-year to April, the largest annual increase since 2008. Throughout the month the US Federal Reserve (Fed) sought to reassure investors that inflationary pressures were likely to be temporary, and that it would maintain its accommodative monetary policy stance. At the end of the month, Joe Biden announced a $6trn spending plan for the 2022 fiscal year, with a significant proportion of this dedicated to tackling climate change – these plans will be subject to Congress approval.

Elsewhere, comments from the European Central Bank (ECB) remained dovish despite speculation of it tapering its bond-purchasing programme. Chinese regulators signalled a crackdown on the use of digital coins, and values of cryptocurrencies fell sharply as a result. In the Middle East, a ceasefire was reached between Israel and the Palestinian militant Hamas, after 11 days of fighting. Confidence in global tourism was partially restored following

Index Linked Gilts were the strongest performer over the month

One Month to 31 May 2021

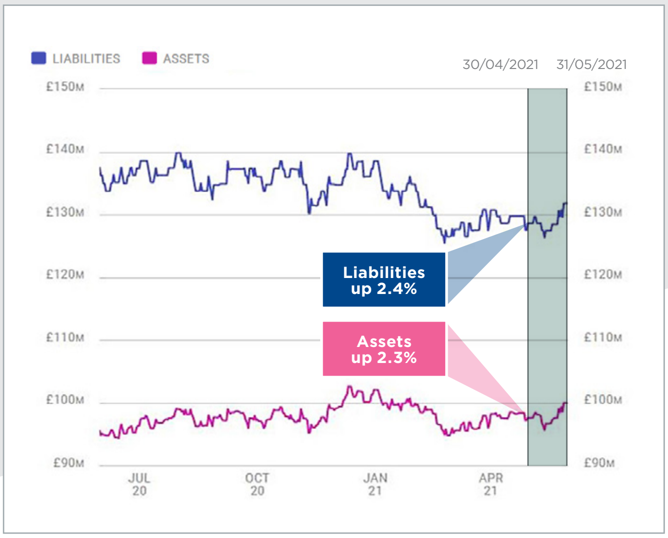


Source: Refinitiv Datastream

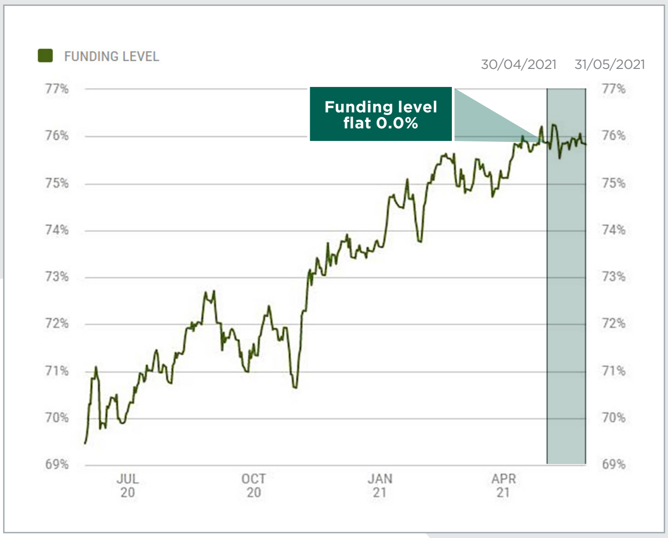
support for vaccination passports from tourism ministers from the G20 countries.

Index-linked bond yields fell over the month in light of increasing inflationary pressures, albeit nominals remained broadly flat. Investment grade credit spreads remained low, with Amazon setting a record for the lowest additional level of interest above US Government bonds than any US company had managed previously – as low as 0.1% for the shortest dated bonds. In the high yield bond market, returns were negative as credit spreads started to increase due to inflation concerns, having undergone a strong rally since April 2020, albeit some of the downturn can be attributed to the appreciation of sterling over the month.

We would expect there to be minimal change to the funding level of a typical scheme over the month, with rising inflation expectations offsetting any gains in asset value.



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 Ben Rogers.

Ben Rogers
Investment Consultant

t 01483 330172 e ben.rogers@xpsgroup.com

Alternatively, please speak to your usual XPS Investment contact.

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