

June
2022

XPS Investment News

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



Month in brief

- Equity markets continue to struggle to shake off inflationary pressures despite rallying at the end of May
- Oil prices hit a 2 month high in the final days of the month after the EU agreed a plan to stop the majority of its Russian oil imports
- The UK Consumer Prices Index reached 9% in the 12 months to April
- Long dated UK gilt and index-gilt yields finished the month more than 1% higher than where they started 2022



Tom Potter
Investment
Associate



Click to watch
Tom's June update

Inflation headwinds continue to stifle global markets

Global and emerging market equities finished the month marginally down. Index linked gilt yields rose rapidly at the end of the month.

The S&P 500 briefly dropped into bear market territory (a 20% fall from its most recent peak) but rose back out almost immediately to spark a market rally in the final week of May. UK equities had a more positive month, returning 0.7%. The outlook for equities remains uncertain, with heightened levels of volatility, as inflationary headwinds and global growth concerns are expected to persist for some time.

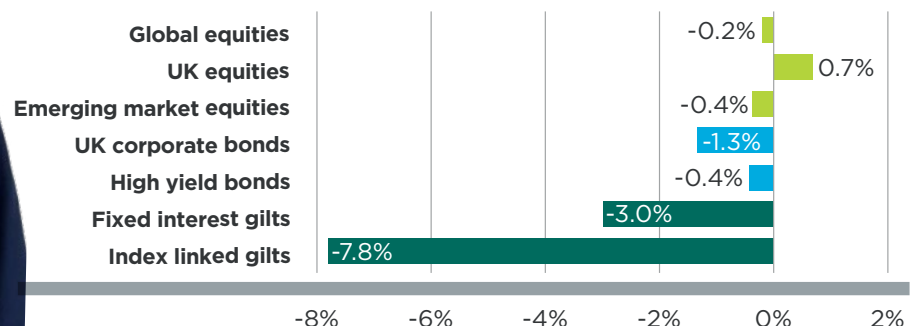
Both investment grade and high yield corporate bonds continued to struggle during May, driven by a combination of rising gilt yields and widening credit spreads on the back of worsening global economic forecasts. The World Bank is now predicting a worldwide economic contraction with a series of coronavirus lockdowns in China fuelling its concerns.

After much debate, and resistance from some members, EU leaders settled on a plan to try and immediately reduce the reliance on Russian oil and gas across the continent. The price of Brent crude oil rose to its highest level for over 2 months in the aftermath of the announcement, compounding inflationary pressures across the UK, US and Europe.

UK CPI hit yet another all-time high in April with the Governor of the Bank of England admitting that the combination of double-digit inflation and a potential recession later this year is an increasing possibility. Expectations for long term future inflation have fallen back in recent weeks though and are now broadly at the same level they started the year.

Most asset classes returned negatively over the month

One Month to 31 May 2022



Source: Refinitiv Datastream



Eurozone inflation hit a record high of 8.1% in May and US inflation came in slightly under expectations at 8.3%. This was down on the previous month but higher than anticipated.

Gilt yields in the UK have experienced their sharpest rise since 1994 from their recent trough in December 2021. Fixed interest and index-linked gilts again posted negative returns over the month. Index-linked gilts were especially hampered by their longer maturity and a moderate reduction in future inflation expectations.

Some pension schemes will have seen significant improvements in their funding position in recent months with rising gilt yields driving down long term liabilities, this is despite the falls experienced in equity markets.

In May alone, the aggregate funding position of UK DB Pension Schemes improved by over 3% and its possible that your scheme is better funded than you thought. Check out our May Investment Briefing for more information on what rising gilt yields could mean for your de-risking journey. Click [here](#) to read the paper.



Source: XPS DB:UK www.xpsgroup.com/services/xps-pensions/xps-dbuk-funding-watch

The charts above are based on data from The Pensions Regulator, the PPF 7800 Index and the XPS data pool. The assumptions used in the UK:DB long-term target basis include a discount interest rate of gilt yields plus 0.5%. The assumed asset allocation is 16.9% equities, 20.0% corporate bonds, 6.9% multi-asset, 5.1% property, 3.8% private markets and 47.3% in liability driven investment (LDI) with the LDI overlay providing a 60% hedge on inflation and interest rates.

To discuss any of the issues covered in this edition, please get in touch with Tom.



Tom Potter
Investment Associate

0118 918 5084

thomas.potter@xpsgroup.com

Alternatively, please speak to your usual XPS Investment contact.



Important information: Please note the information and opinions expressed herein do not take into account the circumstances of individual pension funds and accordingly may not be representative of the circumstances affecting your fund. This note, and the work undertaken to produce it, is compliant with TAS 100, set by the Financial Reporting Council. No other TASs apply. The note has been written on the basis that decisions will not be based on its contents. Appropriate advice should be obtained before any decisions are made. The information expressed is provided in good faith and has been prepared using sources considered to be reasonable and appropriate. While information from third parties is believed to be reliable, no representations, guarantees or warranties are made as to the accuracy of information presented, and no responsibility or liability can be accepted for any error, omission or inaccuracy in respect of this. This document may also include our views and expectations, which cannot be taken as fact. The value of investments and the income from them can go down as well as up as a result of market and currency fluctuations and investors may not get back the amount invested. Past performance is not necessarily a guide to future returns. The views set out in this document are intentionally broad market views and are not intended to constitute investment advice as they do not take into account any client's particular circumstances.

Please note that all material produced by XPS Investments is directed at, and intended solely for the consideration of, professional clients within the meaning of the Financial Services and Markets Act 2000 (FSMA). Retail or other clients must not place any reliance upon the contents.

This document should not be distributed to any third parties and is not intended to, and must not be, relied upon by them. Unauthorised copying of this document is prohibited.

© XPS Pensions Consulting Limited, Registered No. 2459442. XPS Investment Limited, Registered No. 6242672. XPS Pensions Limited, Registered No. 3842603. XPS Administration Limited, Registered No. 9428346. XPS Pensions (RL) Limited, Registered No. 5817049. XPS Pensions (Trigon) Limited, Registered No. 12085392. All registered at: Phoenix House, 1 Station Hill, Reading, RG1 1NB. XPS Investment Limited is authorised and regulated by the Financial Conduct Authority for investment and general insurance business (FCA Register No. 528774). XPS Investment Limited is authorised and regulated by the Financial Conduct Authority for investment and general insurance business (FCA Register No. 528774).