

June
2024

XPS Investment News

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

Month in brief

- UK CPI inflation fell to 2.3% in April
- The UK economy grew by 0.6% over Q1
- The Bank of England is now poised to cut interest rates
- UK DB pension scheme funding was flat as rising liabilities offset returns from growth assets

UK interest rates are poised to fall but picture in the US remains far from certain

The UK Consumer Prices Index (CPI) rose by just 0.3% more than the Bank of England's 2% target in the 12 months to April, its lowest growth rate for almost 3 years, leading many to speculate that the Bank of England will cut interest rates at its next meeting on 20 June.

Lower gas and electricity prices were the key contributor behind the fall in CPI inflation over April with food inflation also falling for the thirteenth consecutive month. The Bank of England Deputy Governor, Ben Broadbent, has hinted that the Bank of England sits on the precipice of its first interest rate cut in over 4 years. At the early May meeting, two of the nine members of the Monetary Policy Committee (MPC) voted to cut interest rates in a signal that sentiment is shifting within the MPC towards lowering rates over the summer.

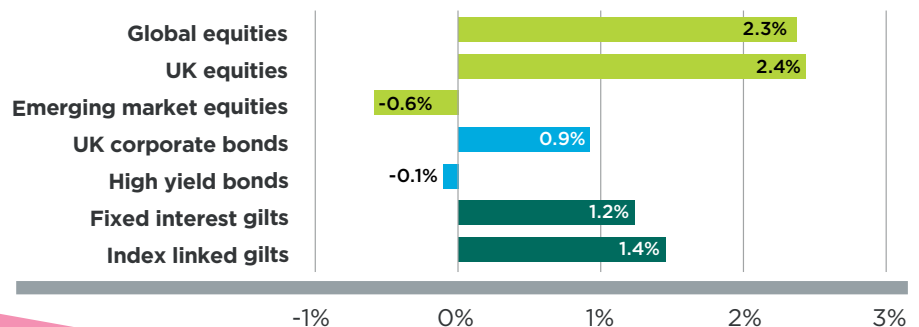
During May, the International Monetary Fund (IMF) published a recommendation that UK interest rates should be cut from 5.25% currently to 3.5% by the end of 2025. The recommendation came after the IMF

again upgraded its growth forecast for the UK from 0.5% to 0.7% over the whole of 2024 and predicted economic growth of 1.5% next year for the UK. The UK economy grew at its fastest rate in 2 years over the first quarter of 2024, growing by 0.6%, meaning that the technical recession in the second half of 2023 became one of the mildest on record.

In the United States, inflation remains stickier, falling from 3.5% to 3.4% over April. Expectations of US interest rate cuts have been repeatedly pushed back as the US economy has remained buoyant despite elevated borrowing costs. Despite only a modest fall in inflation, there were some other encouraging signs that the Federal Reserve might seek to cut interest rates.

UK equities were the strongest performer over May

One Month to 31 May 2024



Source: Refinitiv Datastream

Joe Dempsey
Associate



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Joe's June update

Jobs growth – a signal of the resilience of the US economy – has been a closely observed measure during this interest rate cycle and came in lower than expected during April. Unemployment also rose marginally to 3.9% over March and consumer spending also cooled. Mixed economic data has offered little clarity of when the US central bank will finally be able to initiate long-awaited interest rate cuts.

Despite elevated borrowing costs, the US stock market has contributed significantly to the growth of the global equity market in recent months. The main contributor has been computer chipmaker Nvidia, whose market cap soared again over May after it reported bumper first-quarter earnings. Record highs for the FTSE 100 have seen a resurgence in the London Stock Exchange to become

the most active stock exchange in Europe year-to-date. UK equities outperformed as a result.

In bond markets, UK corporates performed strongly over May with credit spreads tightening slightly. High yield bonds have rallied strongly since mid-2023 but have waned somewhat since the end of the first quarter of 2024. Fixed interest and index-linked gilts both delivered positive returns.

Aggregate UK DB pension scheme funding on a low-risk basis was flat over May as returns from growth assets were offset by rising liabilities as gilt yields fell late in the month. Long-term inflation expectations were broadly neutral over the month.



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 Joe Dempsey.



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Alternatively, please speak to your usual XPS Investment contact.



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