XPS Group

September 2024

Investment News

Our market round-up and news affecting UK investments

Global equities recover after a shaky start to August

Month in brief

Global equity markets reacted strongly to conflicting US economic data released over August

The Federal Reserve now looks almost certain to cut interest rates ahead of the November election

The UK consumer prices index rose by 2.2% to July

UK DB pension scheme funding remains broadly unchanged

Equity market volatility hit a 4-year high in August as the market reacted first to weaker than expected jobs growth in the US then to encouraging retail sales data as investors deliberated whether or not the US economy would tip into recession.

The S&P 500 index fell by 8% in the first week of August as weak jobs data pointed towards an economic slowdown in the US. This was coupled with the emergence of disappointing profit figures from several of the large tech companies that had driven the market rally thus far in 2024. Optimism on Wall Street was renewed when the Census Bureau revealed that US retail sales had jumped by 0.7% more than was forecasted over July. The market rally that followed was enough to see the S&P 500 wipe out all of its earlier losses in August. US consumer prices rose at the slowest pace in more than three years in the 12-months to July with the Federal Reserve all but certain to initiate long awaited interest rate cuts starting in September ahead of November's election.

Meanwhile UK consumer prices rose by 2.2% in the 12-months to July, up from 2% in June. The Bank of England (BOE) is predicting inflation will rise to 2.75% later this year and will fall below 2% in 2025. Markets are pricing in two further rate cuts in 2024 after the Bank rate was cut from 5.25% to 5% on 1 August. However, persistent services inflation and wage growth might be cause for the BOE to adopt a more hawkish stance at its September meeting and leave borrowing costs unchanged for now.

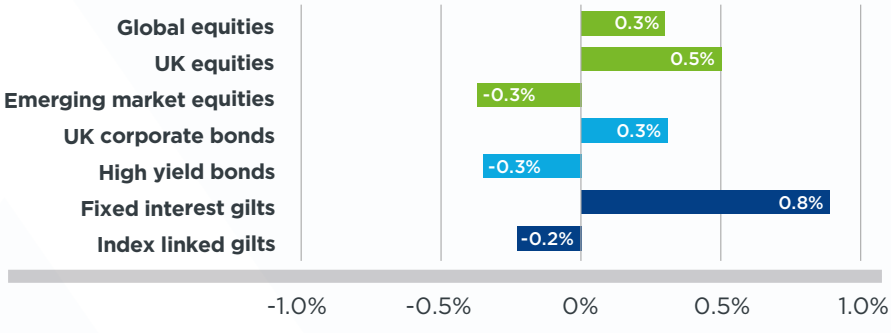
Click to watch Cindy's two-minute video.

Cindy Lo
Investment Associate



Returns were mixed across the major asset classes in August

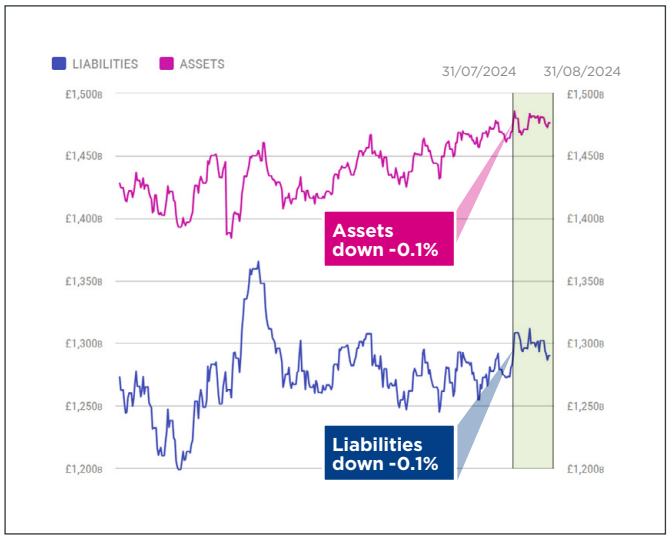
One Month to 31 August 2024

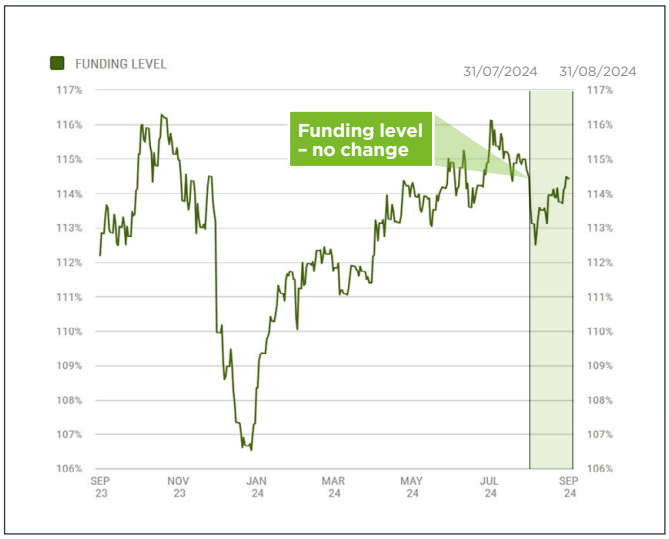


The UK economy grew by 0.6% over the second quarter of the year and is the fastest growing G7 economy in 2024. But Sir Keir Starmer has warned of the alarming state of the UK's finances ahead of a "painful" October budget as Chancellor Rachel Reeves looks to balance an estimated £22bn overspending gap left behind by the previous Government.

Emerging market investors who have sought returns away from struggling China thus far in 2024 began to pull back from Indian stocks over August due to concerns over inflated valuations. In bond markets, UK corporate bonds enjoyed a fourth consecutive month of positive performance but much of the strong performance of high yield bonds in July was wiped out over August. Fixed interest gilts posted positive returns whereas index linked gilts slipped into negative territory as a result of longer-term inflation expectations coming down over August.

Aggregate UK DB pension scheme funding on a low-risk basis remained broadly level over the month having fallen over the first half of August as yields fell causing liabilities to rise. A reversal in yields coupled with growth asset returns saw funding return to parity by the end of 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.

Find out more

To discuss any of the issues covered in this edition, please get in touch with Cindy Lo. Alternatively, please speak to your usual XPS contact.



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