

Markets react to fiscal plans unveiled in the Autumn Budget

Month in brief

UK gilt yields climbed over October as details of Budget measures emerged

US stocks dipped over the second half of the month but responded positively to Donald Trump's election win in early November

High yield bonds enjoyed a strong month with a soft landing for the US anticipated

UK DB pension scheme funding rose in October as liabilities fell

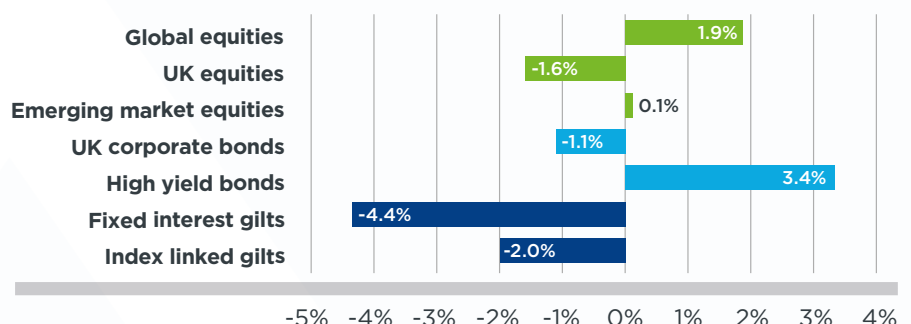
Chancellor of the Exchequer Rachel Reeves set out the Labour government's fiscal plans in October. UK gilt yields had begun to creep up in anticipation of the Budget and climbed further still in the final days of the month.

The yield on a 10-year UK government bond rose from 4.0% to 4.4% over October as markets braced for – and then reacted to – the inaugural Budget of the new Labour government. The definition of public sector net debt was changed to take account of assets and liabilities such as public sector pensions and student debt. This change opened the door to additional borrowing for the government that would allow them to still meet fiscal objectives. Markets viewed this as a signal that more debt than expected might be issued by the UK government in the future. £40bn of tax increases were also announced by Chancellor Reeves with employer National Insurance contributions picking up most of the tab. UK equities lost ground over October and Sterling fell by 0.8% against the Dollar on the final day of the month. The Bank of England reduced the Bank rate by 0.25% on 7 November to 4.75%.

In the US, strong initial returns dipped off in the second half of the month when investors were spooked by a disappointing quarterly earnings outlook from Microsoft combined with uncertainty in run up to the US election. The impact of the US election result on both US and global markets will be closely watched after Donald Trump emerged victorious. A further cooling in US inflation saw the 12-month rate fall from 2.5% to 2.4% to the end of September. This saw the Federal Reserve respond as expected by lowering interest rates by 0.25% to a range of 4.5% - 4.75% on the 7 November.

High yield bonds were the strongest performer over October

One Month to 31 October 2024



Click to watch Kirsteen's two-minute video.

Kirsteen Morrison
Investment Consultant

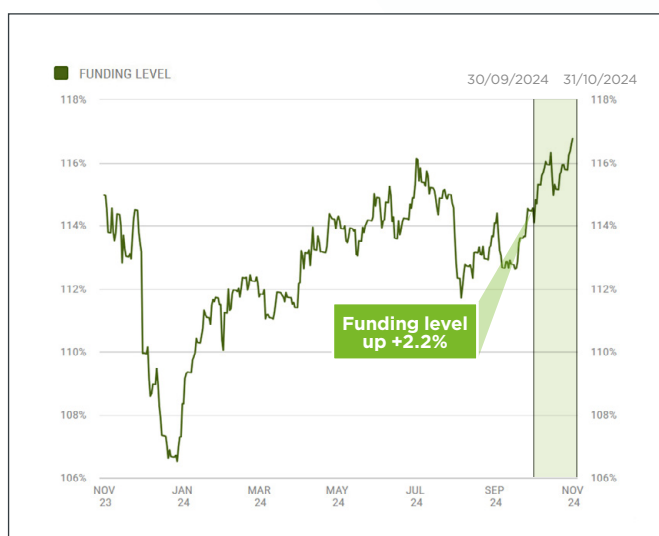
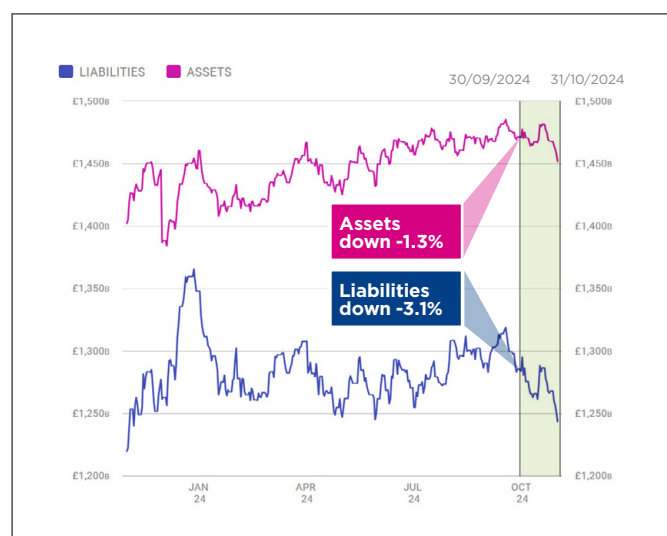


Emerging market performance was largely flat in October. As the odds of a Trump win began to shorten, concerns over his aggressive stance on tariffs unnerved investors in net exporters to the US across Europe and the Asia Pacific region. The performance of emerging market stocks has also become highly sensitive to the success of Chinese fiscal stimulus. Chinese stocks initially fell in early October but rebounded later in the month with share buybacks reaching record highs as Beijing pushes efforts to revive its waning stock market.

Across the other major asset classes, high yield bonds enjoyed a strong month having rebounded from a sell-off over August and September triggered by fears

of weak US jobs growth. With a soft-landing for the US economy and falling interest rates now anticipated by markets, demand for global high yield bonds has outstripped new supply as investors look to capitalise on attractive overall yields and the additional spread from high yield risk is now at its lowest level since before the global financial crisis of 2008. UK corporate bonds performed negatively over October due to gilt yields increasing despite credit spreads contracting.

Aggregate UK DB pension scheme funding on a low-risk basis rose over October thanks to rising gilt yields reducing the present value of liabilities despite long-term inflation expectations picking up 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.

Find out more

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



Kirsteen Morrison
Investment Consultant

kirsteen.morrison@xpsgroup.com



xpsgroup



@xpsgroup

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 Investment 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 Investment 2024. 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. Penfida Limited, Registered No. 8020393. 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).