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PRUDENTIAL
Staff Pension Scheme
Defined Contribution Section

Market commentary from the DC Section Investment Consultant

July 2025

Your journey

Investment Markets and PSPS Funds Update – July 2025

Introduction

This paper is addressed to the Trustee of the Prudential Staff Pension Scheme ("Scheme") DC Section and provides a regular update on the performance of PSPS funds and investment markets.

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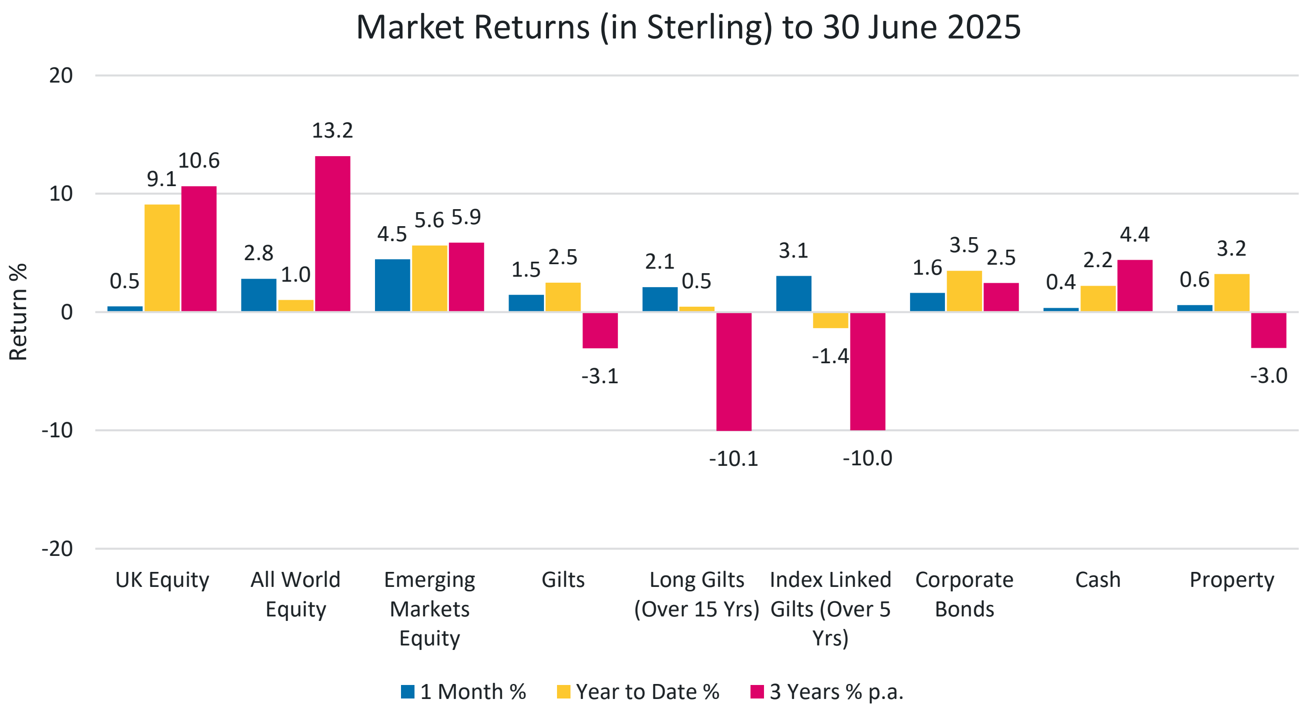
Performance of Investment markets



Note: Property one month in arears. Source: LSEG Datastream

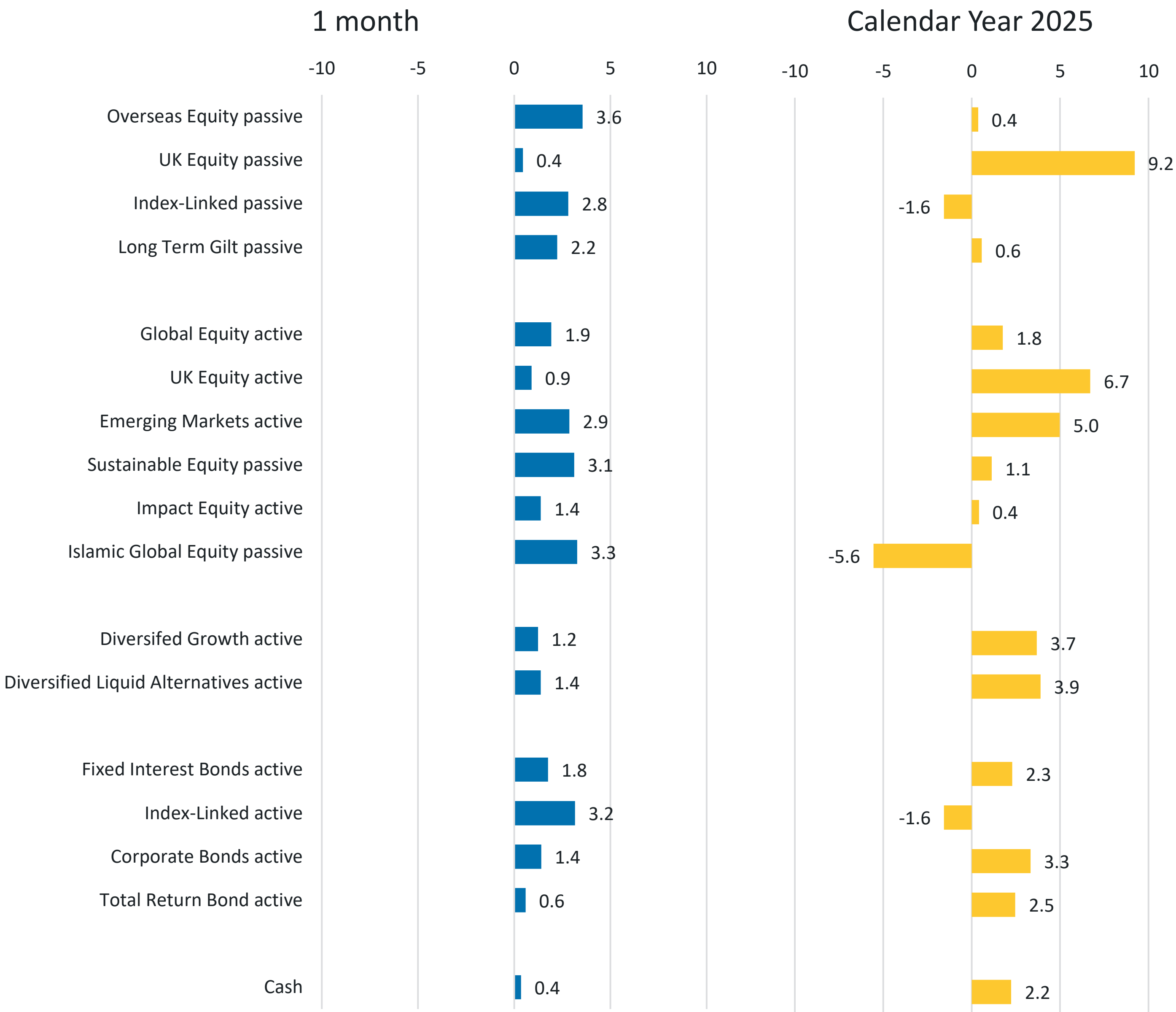
Indices: FTSE All Share, FTSE All World £, FTSE All Emerging £, FTSE British Govt Over 15Y, FTSE British Govt Index Linked Over 5Y, iBoxx Sterling Non-Gilts, SONIA, MSCI UK Monthly property

June highlights

- Global equities rose 9.4% in Q2 (in local currency terms). June was a significantly volatile month but markets seem to have shrugged off tariff concerns, recovering from the fall seen in the aftermath of the 2 April Liberation Day announcements. Equities rose as trade tensions eased and investors' risk appetite improved. Tech stocks led the way, with growth outperforming value stocks.

- Sovereign bond yields were mixed, while credit spreads tightened amid improved market sentiment, having risen sharply in early April. Speculative-grade credit markets outperformed their investment-grade counterparts.
- Data released in June showed US GDP contracted at an annualised rate of 0.5% in Q1, although PMI data suggests peak pessimism seen in April may have passed. The UK and eurozone economies expanded at a solid pace in Q1, at 0.7% and 0.6%, respectively.
- UK inflation rose more than expected, to 3.4%, while US and eurozone figures cooled to 2.4% and 1.9%, respectively.
- The US Federal Reserve (Fed) held rates steady at 4.25–4.50% pa amid trade policy uncertainty, while the Bank of England (BoE) proceeded with a 0.25% pa rate reduction to 4.25% pa. The European Central Bank (ECB) delivered two 0.25% rate cuts, taking its deposit rate to 2.0% pa.
- The trade-weighted US dollar fell 5.0% as fiscal risks and policy uncertainty weighed on sentiment towards US dollar exposure. Gold rose 5.1% amid heightened economic uncertainty and US dollar weakness. Oil prices had a volatile month given tension in the Middle East but ultimately fell 9.5% due to large supply increases and a weak global outlook.

The chart below shows the **estimated** performance (net of annual fees) of the PSPS funds for **June 2025** and for the **calendar year 2025**. Please note that these are estimates of fund performance and not official performance figures from the fund provider. Longer term historical performance can also be found in appendix 1.



Please note –One day price lag on underlying funds of Overseas Equity Passive Fund. Unit prices of underlying component funds sourced from Bloomberg or Fund manager websites.

What is the impact on DC Section members?

All funds posted positive returns over the month of June.

Equity funds have generally recovered their falls of earlier in the year, UK and Emerging Markets equities have been the strongest for the calendar year to 30 June 2025.

Multi-asset and bond funds (with the exception of index-linked gilts) are positive over the first 6 months of 2025.

Lifestyle Returns

We show the estimated performance of the Multi-Asset Lifestyle in appendix 2 for periods to 31 March 2025. In the lifestyle, the allocation of members' investments across certain PSPS funds is adjusted automatically depending on each member's period to targeted retirement date, moving from riskier to less risky assets as members approach retirement. Therefore, the returns for members will vary across age groups and between members with different period to retirement. In the appendix we show the estimated returns for 3 different types of members, based on their periods to retirement.

Members who are in the legacy Active and Passive Lifestyles Targeting Annuity Purchase and are in the de-risking phase (less than 10 years to retirement), will have been exposed to gilts and index-linked gilts to a significant extent that have produced negative returns over 2024. These legacy lifestyles are designed for people seeking to purchase an annuity at retirement with their DC pot. Typically, falling gilt values (and higher yields) is accompanied by improved annuity rates, offsetting the negative performance.

Note on Currency

For the PSPS funds which invest in non-UK assets, the funds bear currency risk (i.e. the effect of changes in the value of currencies and in particular the change in value of the currency in which the assets are invested relative to sterling). Therefore, the return from these funds is driven both by the change in valuation of the assets themselves and the translation of that value from the local currency to sterling.

Market Commentary –June 2025

The global economy

The final Q1 GDP reading showed the US contracted at an annualised pace of 0.5%, marking a larger-than-anticipated decrease and a fall from the 2.4% growth in Q4. However, the figure was distorted by a surge in imports as firms and consumers front-loaded purchases before the imposition of tariff increases. Underlying domestic demand remained firm in Q1, with consumer spending and business investment still growing at a robust pace. Flash US PMI data suggest peak pessimism seen in April may have passed as easing tariff concerns lifted sentiment, although confidence for the year ahead remains low. Business activity continued to grow, but at a lower level than at the start of the year, while tariffs are widely being blamed on rising input prices.

UK GDP grew at a solid 0.7% in Q1, up from 0.1% in Q4 2024, led by services and a rebound in production. UK PMI data released in June suggested a recovery in private sector output after the dip seen in April. There was a marginal increase in business activity driven by an expansion in service sector activity, despite the continued weakness in the manufacturing sector. The eurozone economy grew more than expected at an annualised pace of 0.6% in Q1, its fifth straight expansion. PMI data suggested a marginal growth of private sector output, with the manufacturing production having expanded for four consecutive months.

UK year-on-year headline CPI inflation rose to 3.4% in May, up from 2.6% in March and above forecasts. This jump partly reflects Ofgem's energy-price-cap hike. Core inflation, which excludes volatile food and energy prices, rose marginally to 3.5%, as goods and services inflation quickened. In contrast, US headline CPI cooled to 2.4%, but recent PMIs suggest tariffs are lifting goods prices. The eurozone's headline CPI fell to 1.9% in May, marginally below the ECB's target rate. Core inflation in both the US and eurozone remains higher, at 2.8% and 2.3%, respectively.

The BoE cut rates by 0.25% in May, taking the interest rate to 4.25% pa. To some extent, the BoE is looking through the recent rise in inflation, as at least a portion of this is due to energy prices and may, therefore, be temporary. However, given signs of a weakening labour market, markets expect a further 0.25% cut in 2025 – one more than they anticipated at the start of the year. The Fed held rates at the 4.25–4.50% pa range, acknowledging the two-sided risks that trade uncertainty poses to inflation. An easing of the worst-case fears about the impact of trade policy on growth prompted markets to price in two or three 0.25% cuts this year, down from around four in April. The ECB delivered two 0.25% rate cuts, taking its deposit rate to 2.0% pa, with markets expecting one further 0.25% cut this year.

Fixed income markets

Sovereign bond yields were mixed in a volatile month
US 10-year sovereign bond yields were broadly flat in Q2, while broader developed market sovereign bond yields generally fell, in a volatile month for government bonds. US 10-year yields initially fell in early April but ended the quarter flat at 4.2% pa, amid growing concerns over the long-term sustainability of US government debt. A US credit downgrade by Moody's, followed by an approval of President Trump's expansionary budget expected to contribute towards record issuance, led to longer-term yields remaining elevated due to fiscal concerns.

UK 10-year yields were also whipsawed by the volatility in the US bond market; they rose as high as 4.8% pa, but ultimately ended the quarter 0.2% pa lower, at 4.5% pa. German 10-year yields followed a similar pattern, ending the quarter 0.1% pa lower, at 2.6% pa.

Japan's plan to curb bond issuance contributed towards Japanese 10-year bond yields falling 0.1% pa to 1.4% pa. However, longer-dated Japanese yields rose as persistent domestic inflation has spurred expectations of a normalisation in monetary policy. Alongside the country's enormous debt burden, this caused 20-year yields to rise 0.1% pa to 2.4%.

Ten-year implied inflation, as measured by the difference between nominal and inflation-linked bond yields, fell 0.1% pa, 0.4% pa and 0.2% pa, in the US, UK and Germany, to 2.3% pa, 3.0% pa and 1.7% pa, respectively.

Credit spreads tightened and speculative-grade credit outperformed
Credit markets rose sharply in early April as markets digested the potential negative growth impact of tariffs. However, many of these moves were retraced as President Trump announced a 90-day pause on reciprocal tariffs, followed by progress on trade deals with various countries, with credit markets generally ending the quarter tighter.

Global investment-grade credit spreads ended the quarter marginally down at 0.9% pa, with US equivalents falling 0.1% pa to 0.9% pa, while European investment-grade spreads were flat at 0.9% pa. Having retraced much of the widening in the aftermath of President Trump's Liberation Day tariffs, global investment-grade credit spreads are now at levels seen at the start of the year.

Despite the sharp widening of speculative-grade credit spreads in early April, an improvement in market sentiment led to global credit markets ending the quarter 0.4% pa tighter, at 3.2% pa. US speculative-grade spreads outperformed European counterparts, with US spreads falling 0.5% pa to 3.0% pa, while European equivalents fell 0.1% pa to 3.2% pa.

Given a larger fall in spreads and their shorter duration, speculative-grade credit markets outperformed investment-grade credit markets, with investors moving back into risk assets as sentiment improved.

Global equities

Asia Pacific ex-Japan and North American equities outperformed

The FTSE All-World Total Return Index returned 9.4% in local currency terms in Q2 – a significantly volatile quarter for markets given tariff policy uncertainty and rising tensions in the Middle East. Global equities initially sold off in the wake of the 2 April Liberation Day tariff announcement, as US reciprocal tariffs far exceeded expectations, before recovering as trade tensions eased and investors' risk appetite improved. This recovery, which began after President Trump delayed the imposition of tariffs, gained momentum as the US struck a trade deal with China.

An easing of trade tensions and strong Q1 earnings helped technology to notably outperform in Q2. A softening of worst-case growth fears also saw the economically sensitive consumer discretionary and industrial sectors outperform. Asia Pacific ex-Japan was the top-performing region, benefiting from softening US-China trade tensions and a falling dollar. North American equities outperformed, supported by their large exposure to the outperforming tech sector, while the proposed tax-cutting budget supported domestically-focused US stocks.

Other regions delivered positive returns, but lagged global equities

Given North America's large proportion of global equities and strong return, all other regions lagged the broader global equity market, despite delivering positive returns. Japanese equities rose on easing trade tensions and an overweight to the outperforming industrials and consumer discretionary sectors.

Europe ex-UK delivered a solid return but was still the worst-performing region, reversing the trend over the year to date, with falling growth expectations and business sentiment. UK equities also lagged due to their underweight exposure to the outperforming technology sector and above-average exposure to underperforming sectors like consumer staples and energy.

Tech stocks led growth to outperform value, while cyclicals generally outperformed defensives

In a reversal of the year-to-date pattern, technology's outperformance led growth stocks to strongly outperform value stocks in Q2. The MSCI ACWI Growth Total Return Index rose 15.1% (in local currency terms), while its value counterpart was up 4.0%. Improved sentiment was reflected in the pattern of sectoral performance: after technology, the best-performing sectors were consumer discretionary and industrial. Healthcare was the worst performer as the US administration's proposed drug-price reforms weighed on pharmaceutical companies. Energy stocks were close behind, with energy prices falling on concerns over slowing global growth and oversupply. Consumer staples, basic materials, utilities, telecoms and financials all also underperformed, in that order.

Currencies, commodities and property

The trade-weighted US dollar fell 5.0% in Q2, as fiscal risks rose and policy uncertainty weighed on investors' appetite for unhedged US dollar exposure. Equivalent euro and pound measures rose 4.0% and 1.2%, respectively, while the Japanese yen fell marginally.

Gold rose a further 5.1% to reach fresh real-term highs, given the heightened economic uncertainty and US dollar weakness prompted by President Trump's trade war. Oil prices endured a volatile quarter amid escalating tensions in the Middle East but ultimately ended 9.5% lower, due to larger-than-expected supply increases, trade tensions weighing on the global demand outlook, and an Israel-Iran ceasefire announced in late June.

Mark Jaffray	David Millar
Partner	DC Investment Consultant

For and on behalf of Hymans Robertson LLP

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Exchange rates may also affect the value of an overseas investment. As a result, an investor may not get back the amount originally invested. Past performance is not necessarily a guide to future performance.

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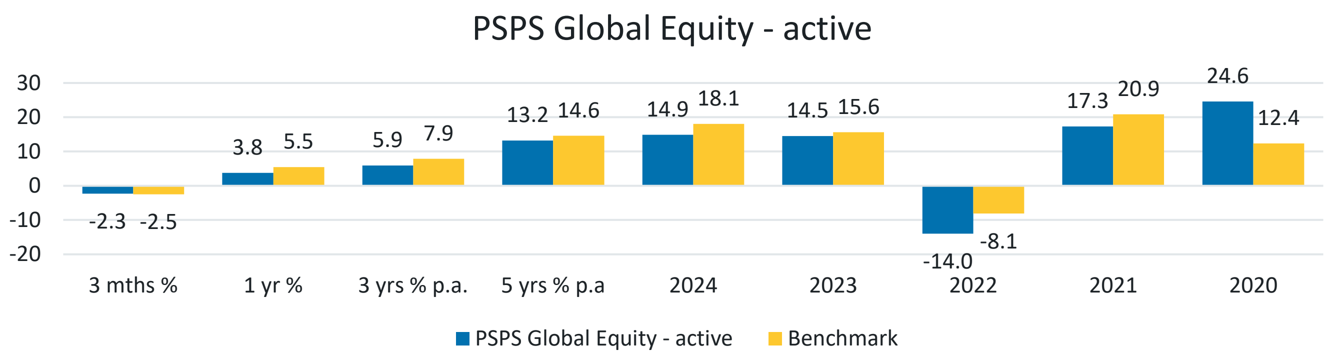
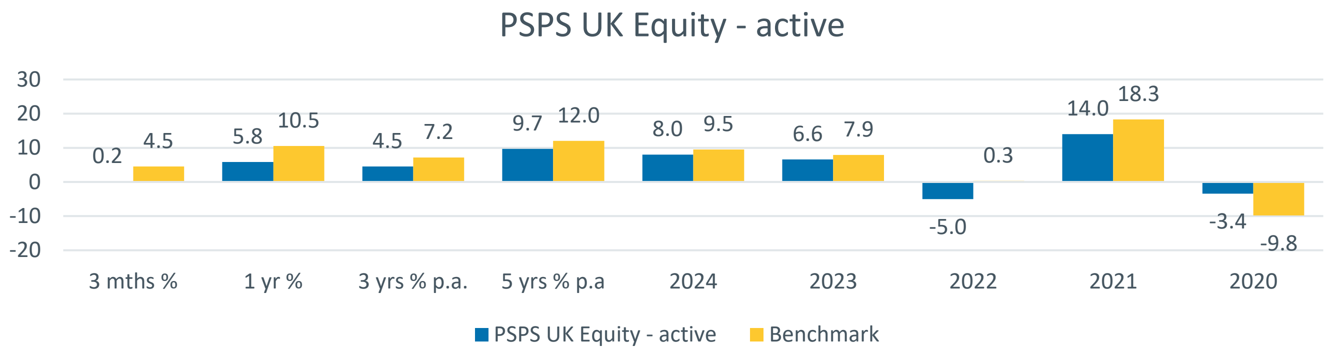
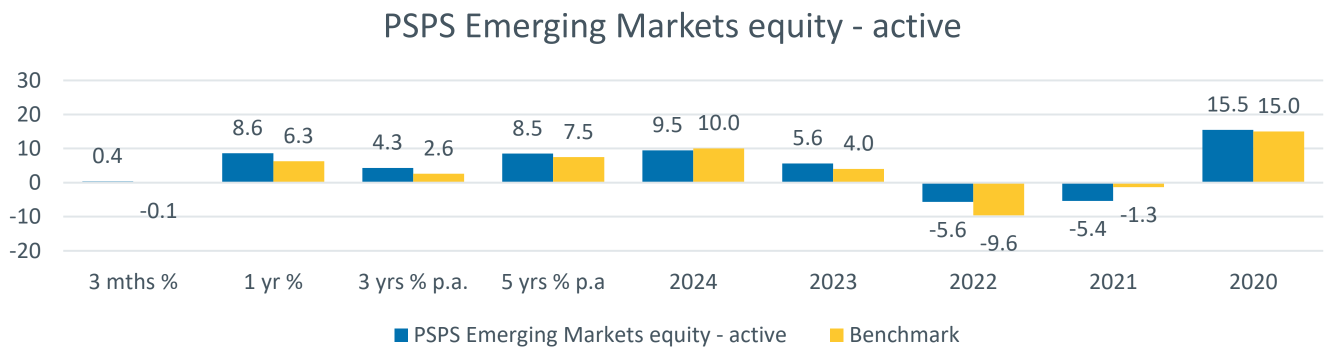
Appendix 1

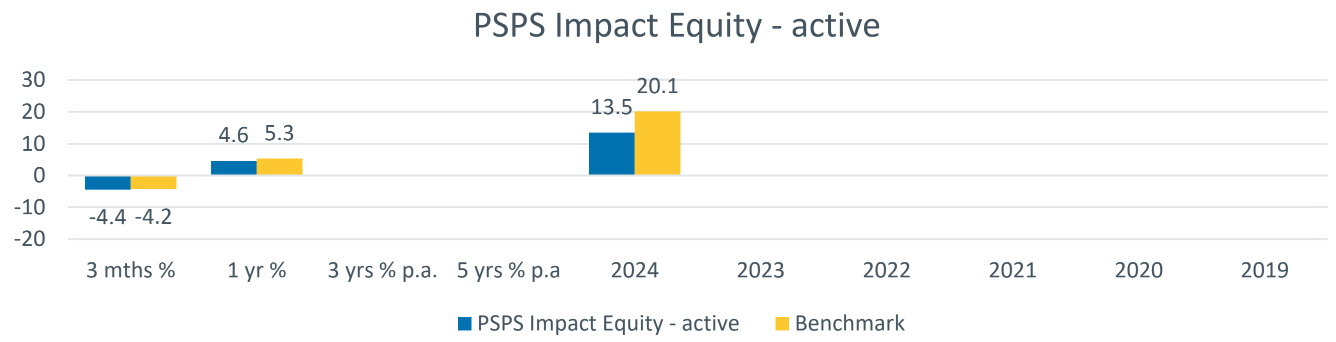
Performance of PSPS Funds (to 31/3/25)

The charts below summarise the performance (gross) of the PSPS funds and their benchmarks showing historic calendar years and the current calendar year to latest available quarter end date (updated quarterly). Official performance data from fund provider shown below is to end March 2025. (Source The Prudential Assurance Company Limited).

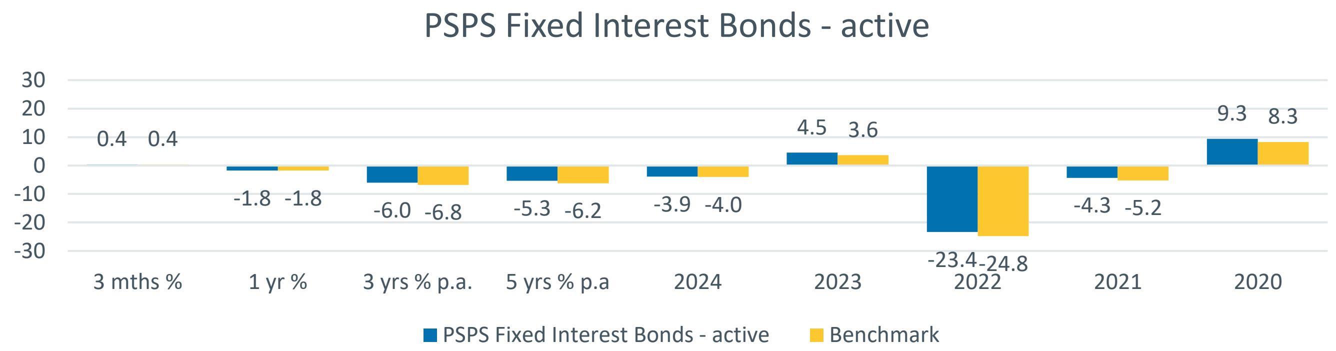


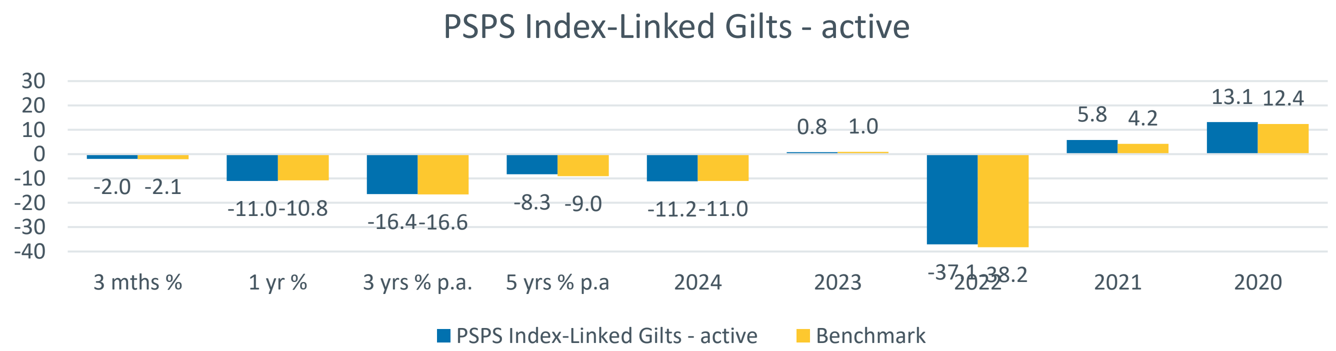


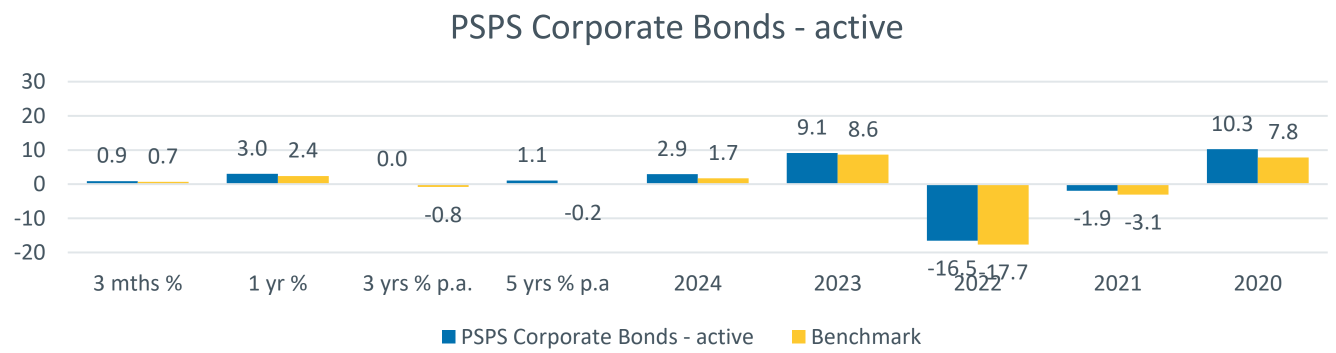


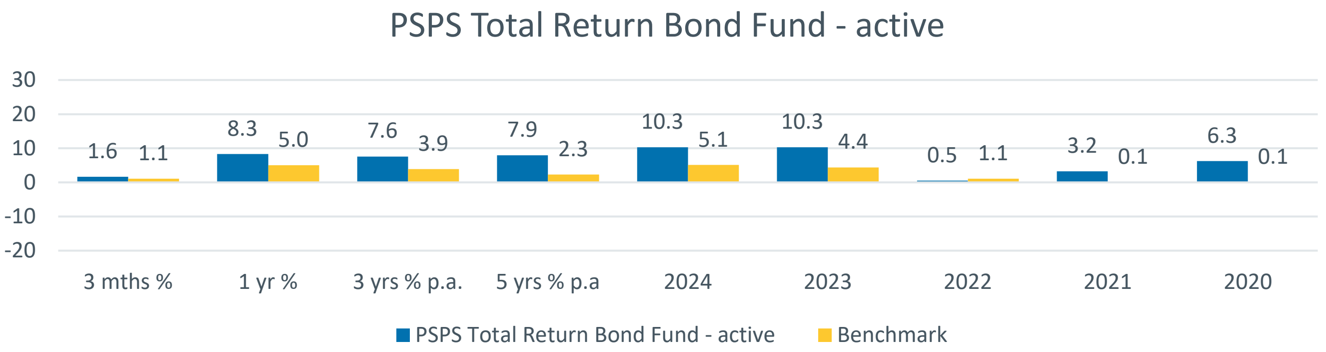


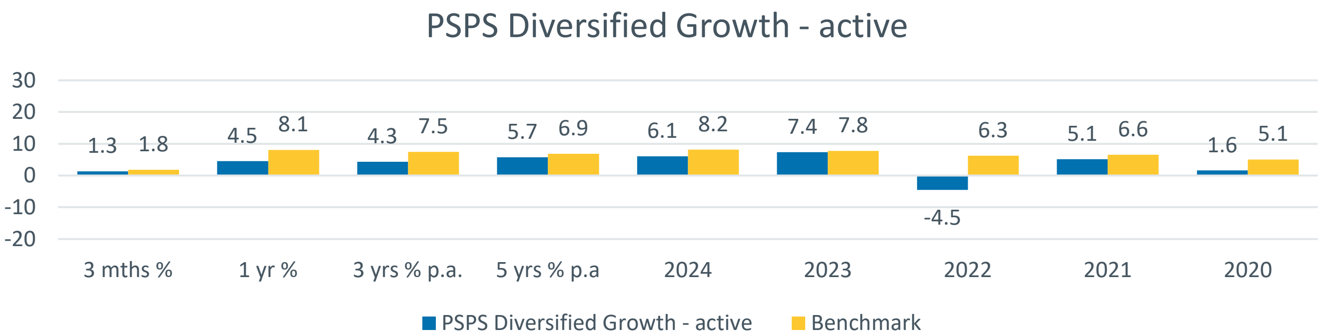
PSPS Impact Equity – active launched 11th May 2023

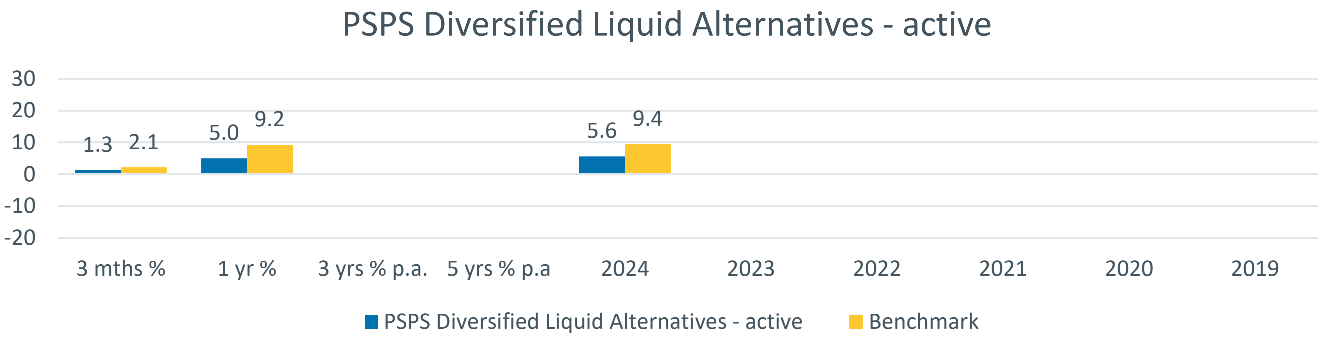




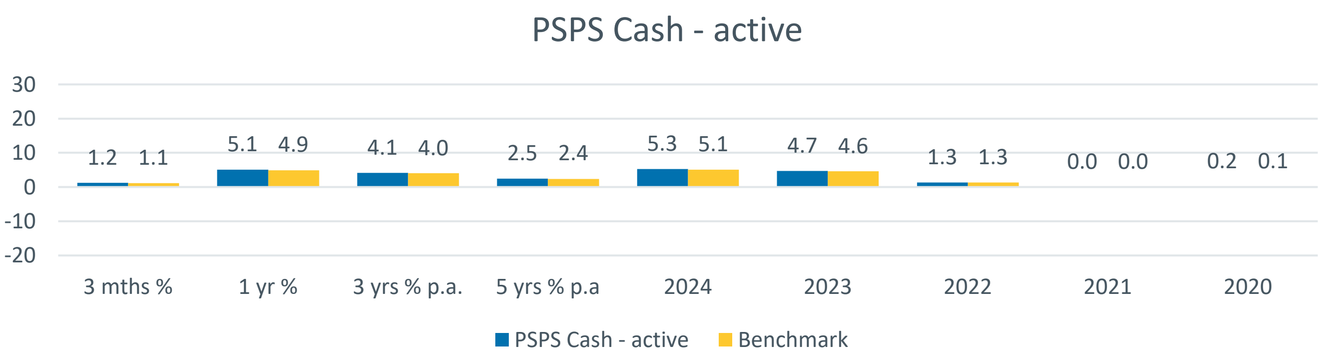


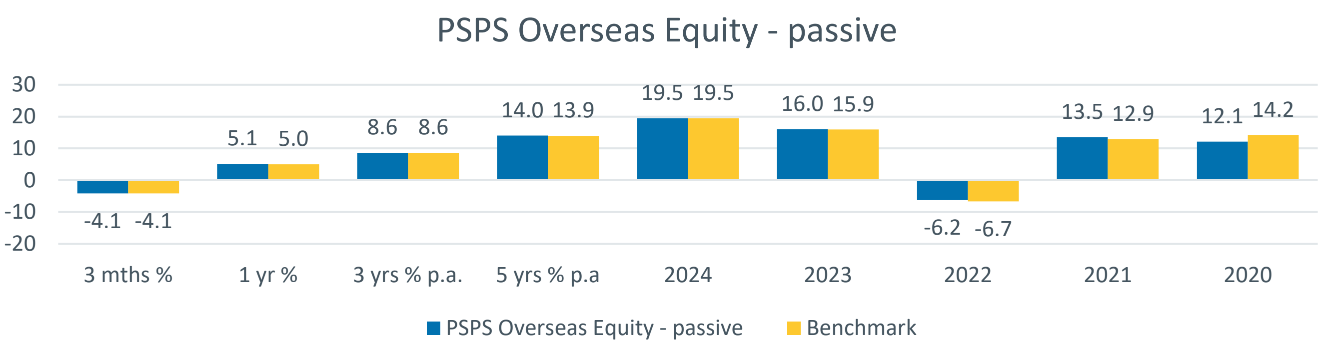






PSPS Diversified Liquid Alternatives – active launched 11th May 2023




PSPS Overseas Equity - passive
30
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0
-10
-20
-4.1 -4.1
5.1 5.0
8.6 8.6
14.0 13.9
19.5 19.5
16.0 15.9
-6.2 -6.7
13.5 12.9
12.1 14.2
3 mths %
1 yr %
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5 yrs % p.a
2024
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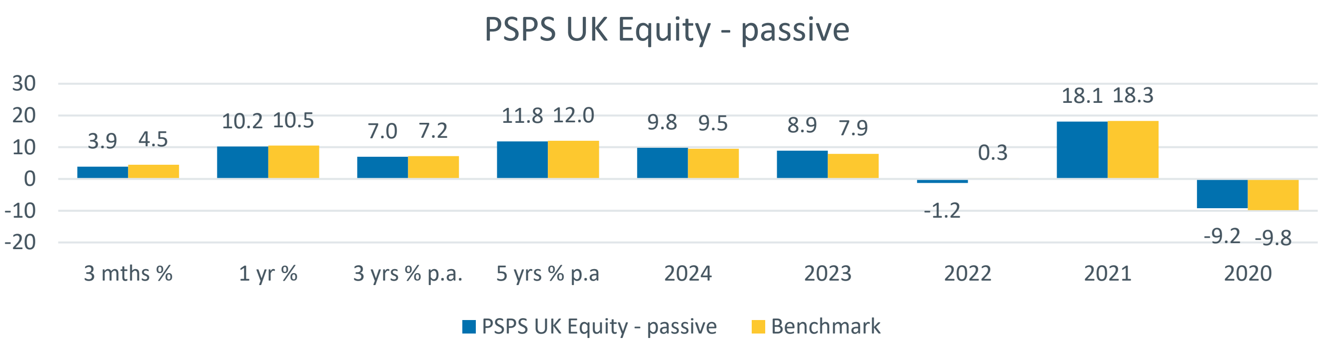
2022
2021
2020
PSPS Overseas Equity - passive
Benchmark


PSPS UK Equity - passive
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9.8 9.5
8.9 7.9
-1.2 0.3
18.1 18.3
-9.2 -9.8
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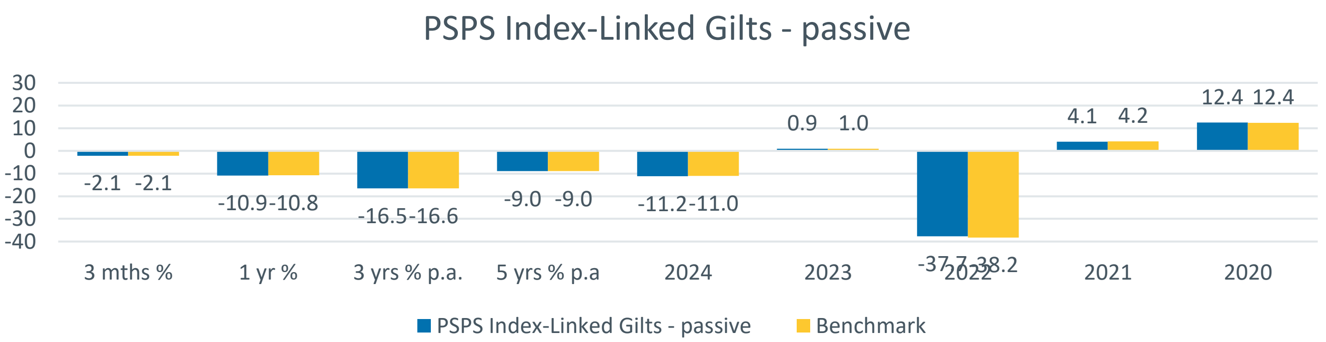
PSPS UK Equity - passive
Benchmark


PSPS Index-Linked Gilts - passive
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10
0
-10
-20
-30
-40
-2.1 -2.1
-10.9-10.8
-16.5-16.6
-9.0 -9.0
-11.2-11.0
0.9 1.0
-37.7-38.2
4.1 4.2
12.4 12.4
3 mths %
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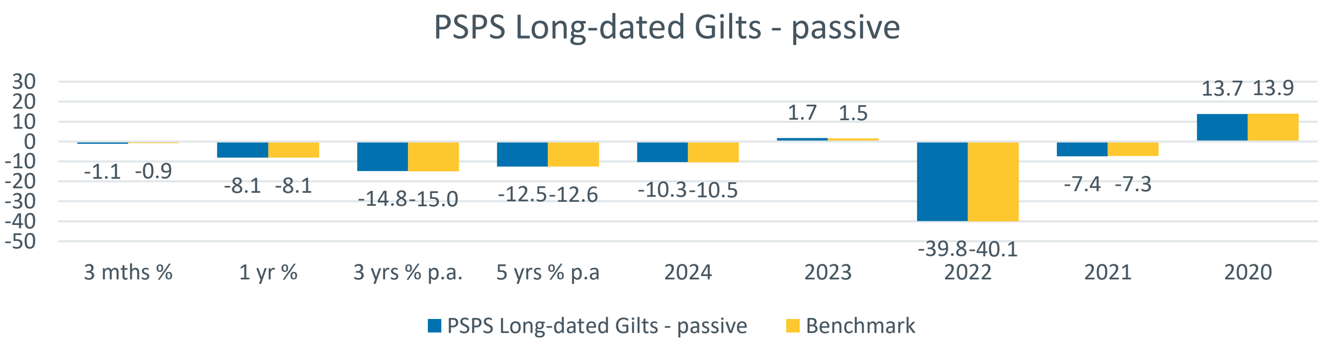
PSPS Index-Linked Gilts - passive
Benchmark


PSPS Long-dated Gilts - passive
30
20
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0
-10
-20
-30
-40
-50
-1.1 -0.9
-8.1 -8.1
-14.8-15.0
-12.5-12.6
-10.3-10.5
1.7 1.5
-39.8-40.1
-7.4 -7.3
13.7 13.9
3 mths %
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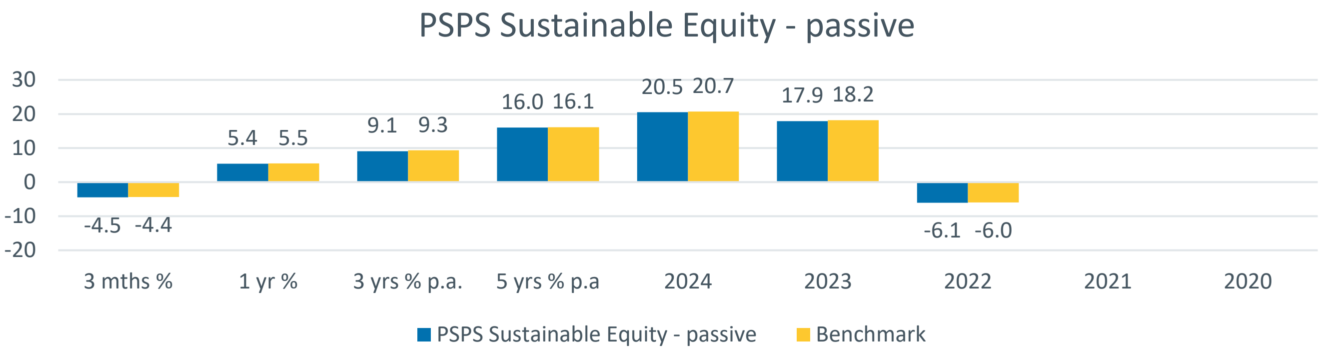
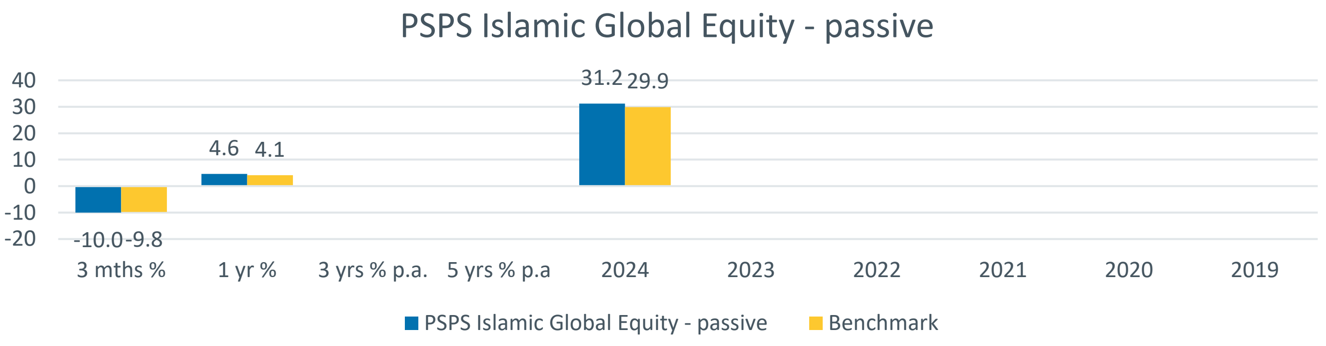
PSPS Long-dated Gilts - passive
Benchmark



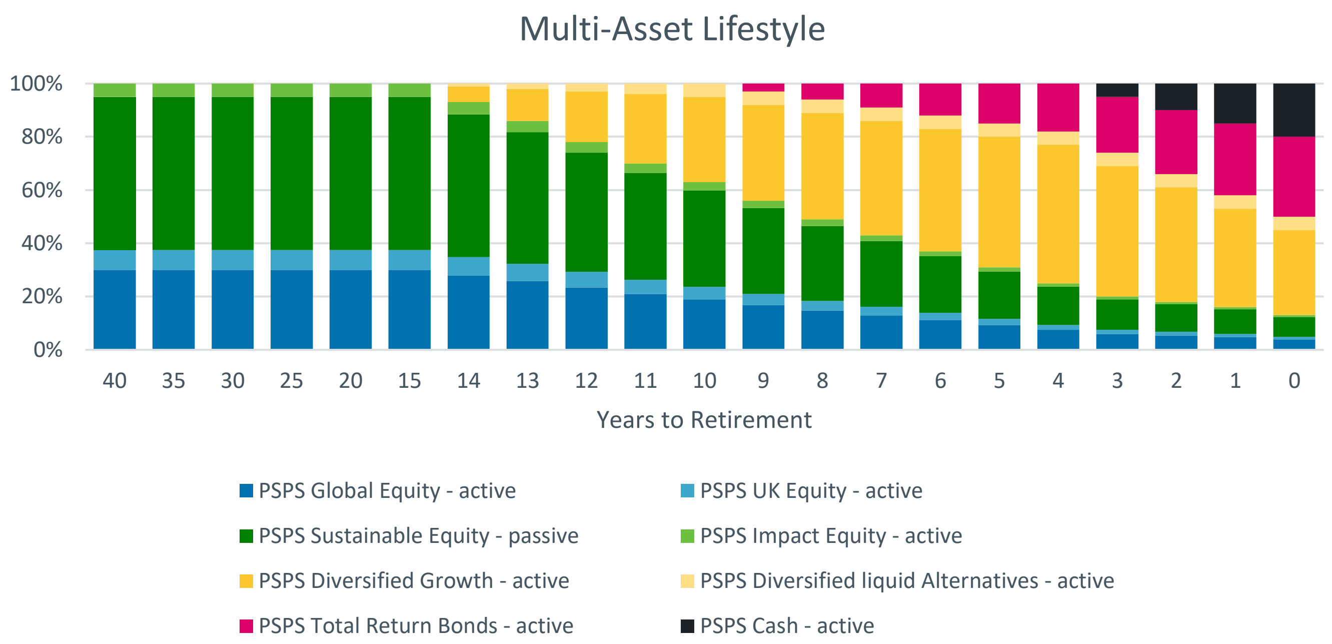


PSPS Islamic Global Equity – passive launched 11th May 2023

Appendix 2

Appendix 2 - Lifestyle Performance

The Multi-Asset Lifestyle strategy automatically adjusts members' investments across certain PSPS funds based on their periods to targeted retirement date as illustrated below, moving from riskier to less risk assets as retirement approaches.



Because the allocation to certain funds varies from member to member based on the period to retirement, returns for individual members will vary depending on their period to retirement. Therefore it is not possible to state a single figure for the lifestyle return but instead we have estimated three returns that are representative of different types of members based on their period to retirement.

We have selected a member with 30 years to retirement whose returns will reflect members earlier in their career and is a reasonable assumption of the return for any member who is over 15 years from retirement. We then also show the returns for members 10 and 3 years from retirement who will have begun the process of moving from riskier to less risk assets.

Member - Years to Target Retirement Age	3 Months %	12 Months %	3 Years % p.a.	5 Years % p.a.
30 Years	-3.5	5.0	7.9	13.3
10 Years	-1.7	5.0	6.9	10.4
3 Years	0.4	5.5	5.9	7.8

Performance based upon Lifestyle and years to retirement. Asset allocations will vary in line with the lifestyle chart shown (above). Actual performance for individual members will vary. Figures are illustrative and are not actual performance experienced. Performance has been estimated for a member at certain periods to retirement (as at date to which performance is estimated, i.e. quarter end date referred to in table above) based on the approximate returns achieved historically on a quarter-by-quarter basis through being invested in the current lifestyle strategy (introduced in May 2023 and shown in the chart, above) and its predecessor lifestyles.