



**PRUDENTIAL**

**Staff Pension Scheme**

Defined Contribution Section

# Market commentary from the DC Section Investment Consultant



November 2024

*Your journey*

# Investment Markets and PSPS Funds Update – November 2024

## Introduction

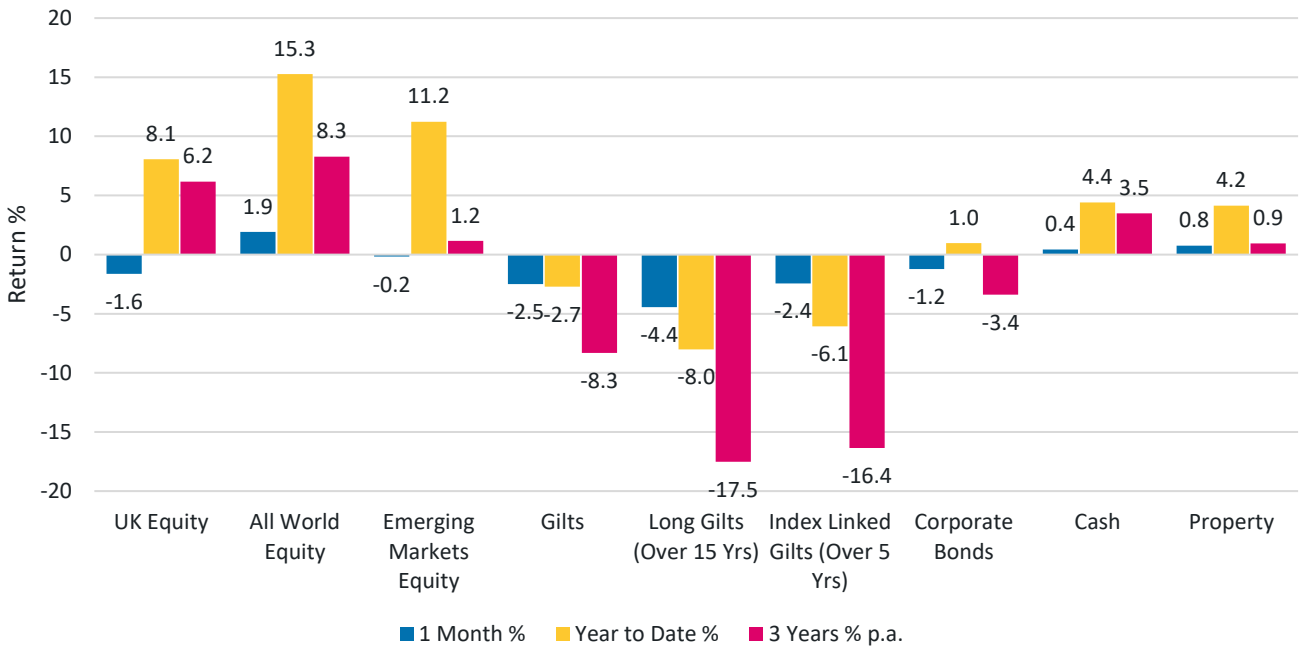
This paper is addressed to the Trustee of the Prudential Staff Pension Scheme (“Scheme”) DC Section and provides a regular update on the performance of PSPS funds and investment markets.

This paper should not be released or otherwise disclosed to a third party except as required by law or with our prior written consent, in which case it should be released in its entirety. This paper may be shared with DC Section members of the Scheme on a non-reliance basis. We accept no liability to any third party unless we have expressly accepted such liability in writing.

Where the subject of this note refers to legal or tax matters, please note that Hymans Robertson LLP is not qualified to give such advice therefore we recommend that you seek independent advice on these matters.

## Performance of Investment markets

Market Returns (in Sterling) to 31 October 2024



Note: Property one month in areas. Source: Datastream

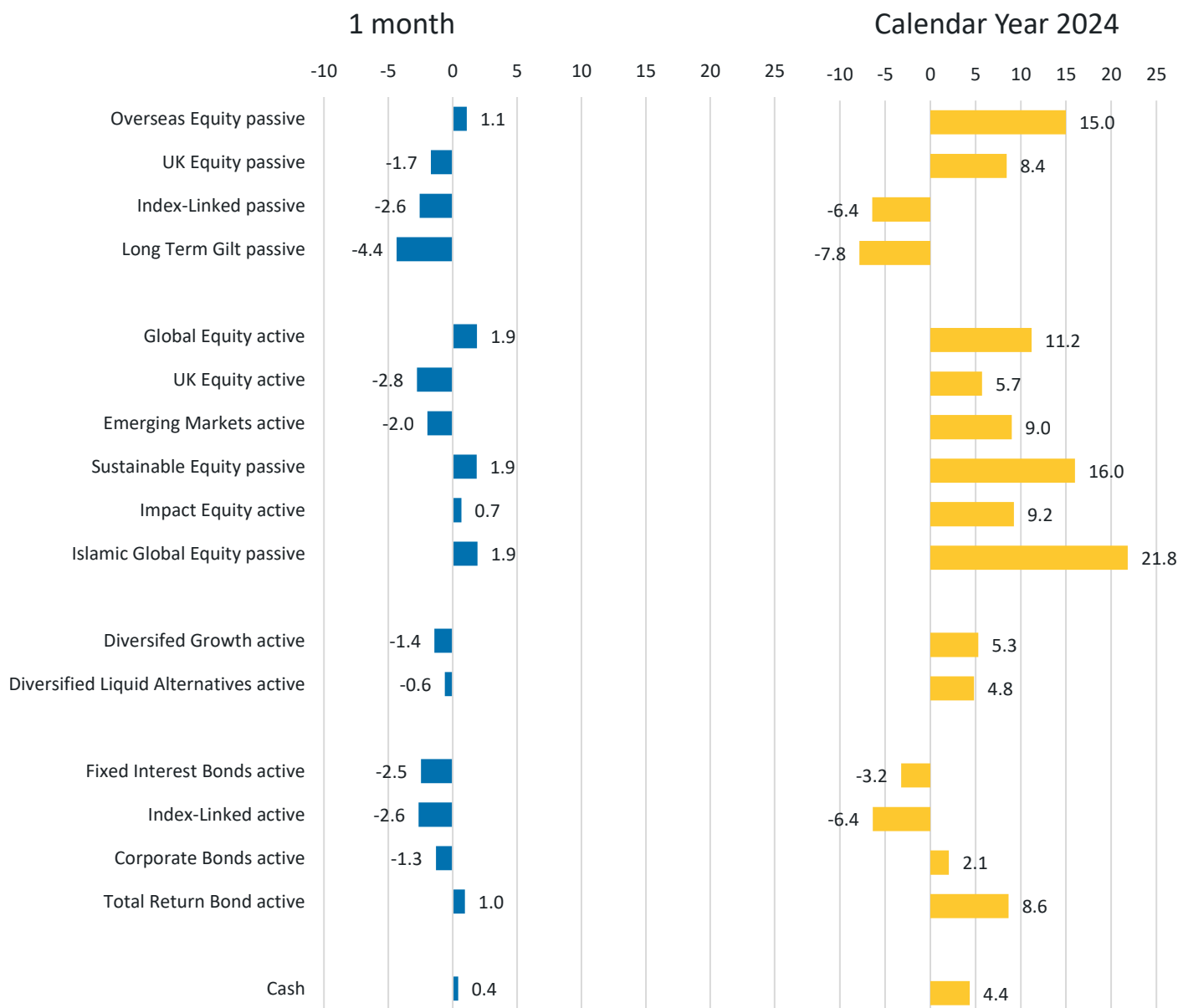
Indices: FTSE All Share, FTSE All World £, FTSE All Emerging £, FTSE British Govt Over 15Y, FTSE British Govt Index Linked Over 5Y, iBoxx Sterling Non-Gilts, SONIA, MSCI UK Monthly property

## October highlights

- Bets that strong US economic data and a potential Trump victory would keep interest rates higher for longer pushed up US and global sovereign bond yields in October.
- UK gilt yields also rose throughout October, jumping at the end of the month as the government’s autumn budget delivered a larger-than-expected increase in net spending and borrowing.

- Global equities fell 1.1% as optimism around rate cuts unwound and the extent to which earnings outperformed expectations fell to its lowest level in recent quarters.
- Japan outperformed as renewed yen weakness supported exporters. Europe ex-UK and emerging markets underperformed, weighed on by manufacturing weakness and a stronger US dollar, respectively.
- Despite equity market weakness, global credit spreads tightened as fundamentals remained intact.
- The trade-weighted dollar rose 3.2% in October, reflecting US economic strength and the potential for more protectionist trade policy, should Trump win the presidency. The equivalent sterling and Japanese measures fell 2.1% and 4.8%, respectively, as some prior gains against the dollar unwound.
- Despite escalating tensions in the Middle East, oil prices rose a modest 1.7% in October as demand forecasts remained weak. Gold prices continued their ascent, rising a further 4.1%, as geopolitical tensions boosted investor demand.

The chart below shows the **estimated** performance (net of annual fees) of the PSPS funds for **October 2024** and for the **calendar year 2024**. 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?

Most funds fell back slightly over the month except global equity funds which posted positive returns. The Total Return Bond fund also had a positive return over the month.

Strong positive returns across most funds over the calendar year with equities strongest. Of the other funds, the Total Return Bond Fund has performed strongest over 2024.

### Lifestyle Returns

We show the estimated performance of the Multi-Asset Lifestyle in appendix 2 for periods to 30 June 2024. 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.

## 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 – October 2024

### The global economy

Initial estimates suggest the US economy expanded at an annualised quarterly pace of 2.8% in Q3. Though this was below expectations, and the 3% pace set in Q2, the data suggest the US economy has continued to grow at a robust pace. Furthermore, the September jobs report released in October showed the economy added far more jobs than expected at the end of Q3. Forecasts suggest UK growth has slowed from the above-trend pace in H1 2024, with estimates that the UK economy grew 0.3% in Q3. In contrast, initial releases suggest eurozone GDP growth accelerated to 0.4% quarter-on-quarter in Q3, from the subdued pace in H1 2024. Meanwhile, the Chinese economy grew 0.9% in Q3. While the figures confirm the economy continues to grow, the pace is relatively subdued, below the official 5% annual growth target. Looser monetary and fiscal policy could pave the way for stronger growth in 2025, but property market weakness remains a major drag on domestic consumption.

Flash US PMI data released in October indicated another solid rise in business activity, with robust growth in output and sales. Growth was, however, driven solely by the service sector, as manufacturing output contracted for a third month running. Notably, confidence in the longer, year-ahead outlook improved, as companies hope a more stable post-election environment will be supportive for growth, particularly in the manufacturing sector. While still consistent with modest growth, UK surveys suggest business activity expanded at the slowest pace for nearly a year, as uncertainty ahead of the budget weighed on business confidence and spending decisions. Provisional eurozone data showed that business activity marginally declined for the second month in a row, amid weakening demand, with business confidence hitting an 11-month low. Globally, strong service sector activity continues to contrast with much weaker conditions in the manufacturing sector.

US headline CPI inflation slowed to 2.4% year-on-year in September. Meanwhile, the measure fell below target in the UK and eurozone for the first time in 3 years, to 1.7% and 1.8%, respectively. Core inflation is still higher, at 3.3%, 3.2% and 2.7% in the US, UK and eurozone. The subsequent eurozone flash release showed headline eurozone inflation rose to 2.0% year-on-year in October, but this was largely expected due to base effects, as last year's sharp declines in energy prices are no longer factored into annual rates.

Amid ongoing disinflation, the European Central Bank delivered its third cut of this cycle, reducing the deposit rate by 0.25% pa to 3.25% pa, in line with market expectations. The impact of greater near-term spending announced in the UK budget led markets to price in a slower pace of rate cuts from the Bank of England. Before the budget, markets were fully pricing five 0.25% pa cuts over the following 12 months; at the end of October, that had fallen to three. Amid strong US economic data and rising odds of a Trump victory, markets dramatically scaled back the number of cuts expected over the next year or so. At the end of September, US interest rate futures markets were expecting the federal funds rate to be cut to 3.0% pa by the end of December 2025, from its current midpoint of 4.8% pa. By the end of October, markets were expecting rates to be cut to 3.6% pa.

## Fixed income markets

### **Sovereign bond yields rose alongside interest rate expectations**

US 10-year Treasury yields rose significantly – by 0.5% pa, to 4.3% pa – as strong US economic data and improving odds of a Trump presidency fuelled expectations that interest rates would stay higher for longer. There's a growing market consensus that Trump's agenda, which includes across-the-board tariffs on imports and a crackdown on immigration, could be a more inflationary policy mix than Harris's.

UK 10-year gilts also rose throughout October and jumped following the autumn budget, ending the month 0.5% pa higher, at 4.5% pa. The government unveiled larger borrowing and near-term spending than expected, with markets anticipating a slower pace of Bank of England (BoE) rate cuts as a result. Despite a far more benign inflationary outlook, equivalent German yields also rose, by 0.3% pa, to 2.4% pa.

UK 10-year implied inflation, as measured by the difference between conventional and inflation-linked bonds of the same maturity, increased by 0.2% pa, to 3.6% pa, as markets digested higher near-term government spending. The equivalent US and eurozone measures both rose 0.1% pa, to 2.3% pa and 1.8% pa, respectively.

### **Credit spreads tightened**

Credit spreads tightened over October, continuing the year-to-date trend. Global investment-grade credit spreads fell 0.1% pa, to 0.9% pa, and speculative-grade spreads fell 0.3% pa, to 3.0% pa. Tighter credit spreads most likely reflect both strong yield-driven demand and benign default forecasts (consistent with a soft economic landing) made by the major credit rating agencies.

## Global equities

### **Growth underperformed value, while financials was the top-performing sector**

The FTSE All World Total Return Index fell 1.1% in local-currency terms in October, as optimism around rate cuts unwound and the extent to which earnings outperformed expectations reduced. US equities gave up their gains for October on the final trading day, dragging global indices lower, as some notable tech stocks disappointed increasingly high expectations. Option-implied volatility, as measured by the VIX index, also rose as investors braced for uncertainty ahead of the US presidential election.

Global growth stocks slightly outperformed value stocks but still fell 0.9% during the month. Health care, basic materials and consumer staples were the largest underperformers from a sectoral perspective, while consumer discretionary and utilities also underperformed. Buoyed by strong earnings results, which surpassed prior expectations by a wide margin, and rising interest rate expectations, financials was the best-performing sector. Telecoms and energy were the only other two sectors to deliver positive returns.

### **Europe ex-UK, Asia Pacific ex-Japan and emerging markets all notably underperformed**

Europe ex-UK was the worst-performing region, with the trade-sensitive market affected by rising odds of a Trump win, subdued activity in China and ongoing weakness in the manufacturing sector. Despite Chinese policymakers unveiling further measures to support the ailing property market and boost domestic consumption, emerging and Asian markets underperformed, as a stronger dollar weighed on market sentiment.

### **Japanese and North American stocks outperform**

Having been the worst-performing region in Q3, Japan was the only region to produce positive returns in October. The exporter-heavy market benefited from a depreciating yen, as dovish comments from Japan's new prime

minister further led investors to bet on a slower pace of interest rate rises from the Bank of Japan (BoJ). Sentiment also improved following reassurances from the BoJ that it would closely consider market stability in future policy decisions, given the sharp sell-off in Q3.

North American equities fell 0.7% but still outperformed global equity markets. While some disappointing tech earnings and uncertainty associated with the US election have dampened sentiment more recently, relative economic strength, as evidenced by September's blockbuster jobs report released in October, continues to underpin the market versus peers.

### Currencies and commodities

The trade-weighted dollar rose 3.2% in October, its largest monthly gain in two years, driven by expectations that strong economic data and a Trump victory will keep interest rates higher for longer. The equivalent sterling and Japanese measures fell 2.1% and 4.8%, respectively, as some prior gains against the dollar unwound. The UK budget perhaps weighed on the former, while a re-widening of interest-rate differentials between the US and Japan negatively impacted the latter.

Despite ongoing concerns around escalating tensions in the Middle East, oil prices rose by only 1.7%, as subdued Chinese activity and global manufacturing weakness weighed on demand. Gold prices continued to rise, increasing 4.1% to reach new highs, as geopolitical tensions supported investor demand.

Mark Jaffray

David Millar

Partner

DC Investment Consultant

For and on behalf of Hymans Robertson LLP

**GENERAL RISK WARNING**

Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investments in developing or emerging markets may be more volatile and less marketable than in mature markets.

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.

This communication has been compiled by Hymans Robertson LLP® (HR) as a general information summary and is based on its understanding of events as at the date of publication, which may be subject to change. It is not to be relied upon for investment or financial decisions and is not a substitute for professional advice (including for legal, investment or tax advice) on specific circumstances. It contains confidential information belonging to Hymans Robertson LLP (HR) and should not be disclosed to any third party without prior consent from HR, except as required by law.

HR accepts no liability for errors or omissions or reliance on any statement or opinion. Where we have relied upon data provided by third parties, reasonable care has been taken to assess its accuracy however we provide no guarantee and accept no liability in respect of any errors made by any third party.

© Hymans Robertson LLP 2024. All rights reserved.

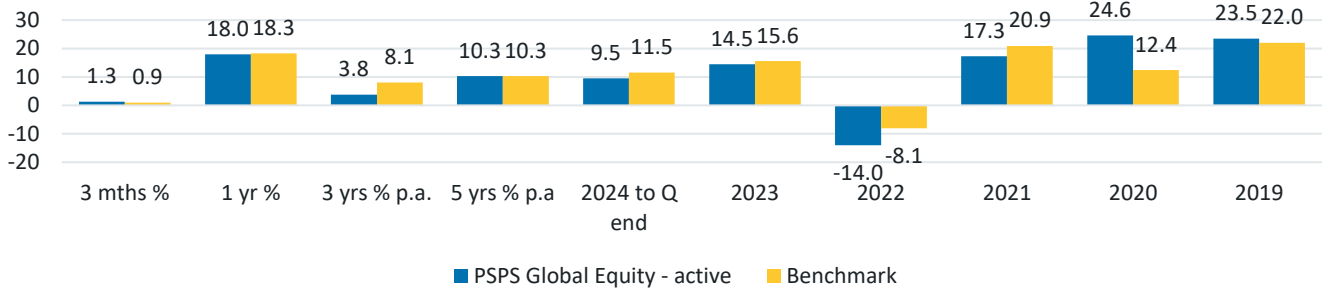


# Appendix 1

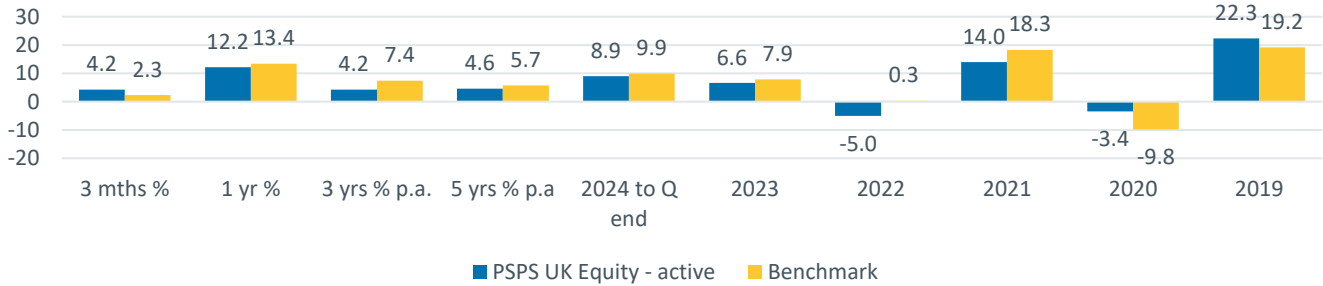
## Performance of PSPS Funds (to 30/06/24)

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 June 2024. (Source The Prudential Assurance Company Limited).

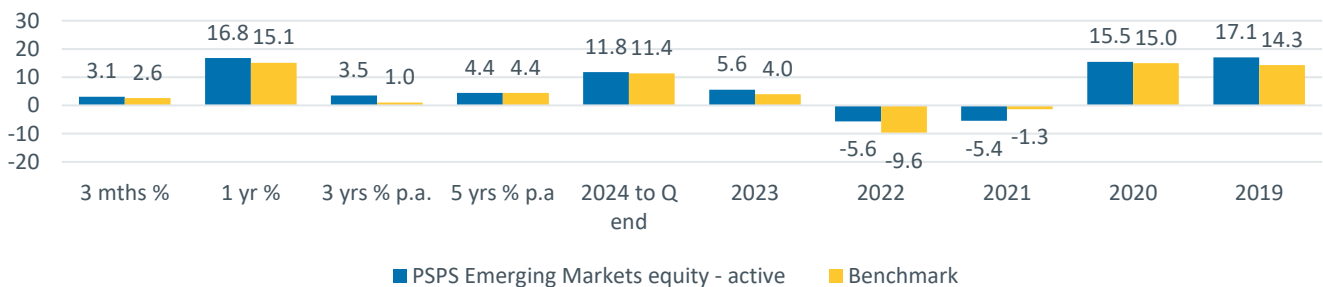
PSPS Global Equity - active



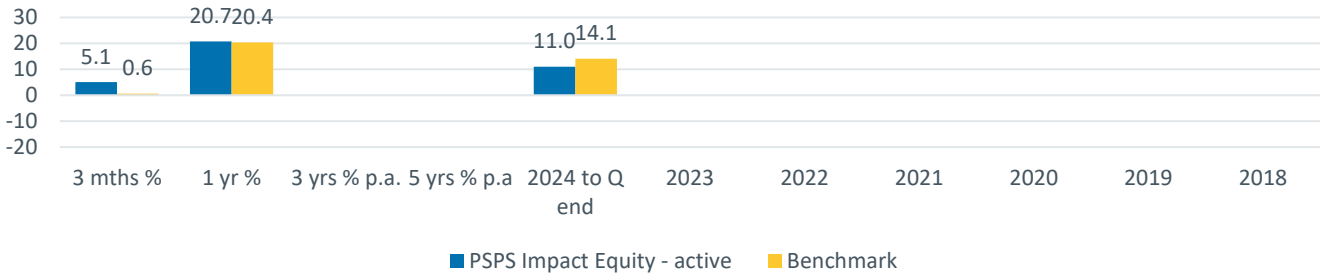
PSPS UK Equity - active



PSPS Emerging Markets equity - active

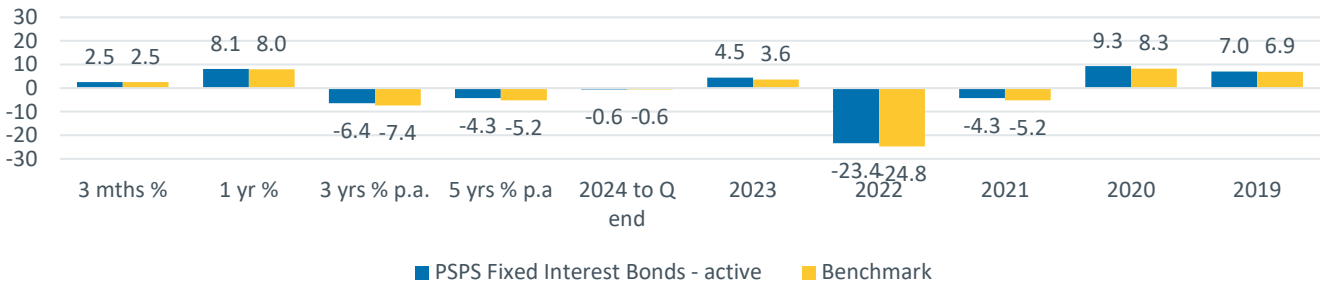


### PSPS Impact Equity - active

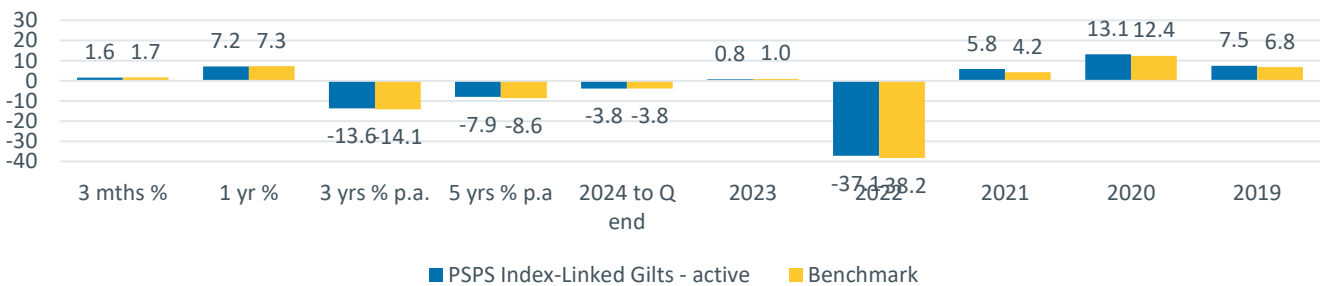


PSPS Impact Equity – active launched 11th May 2023

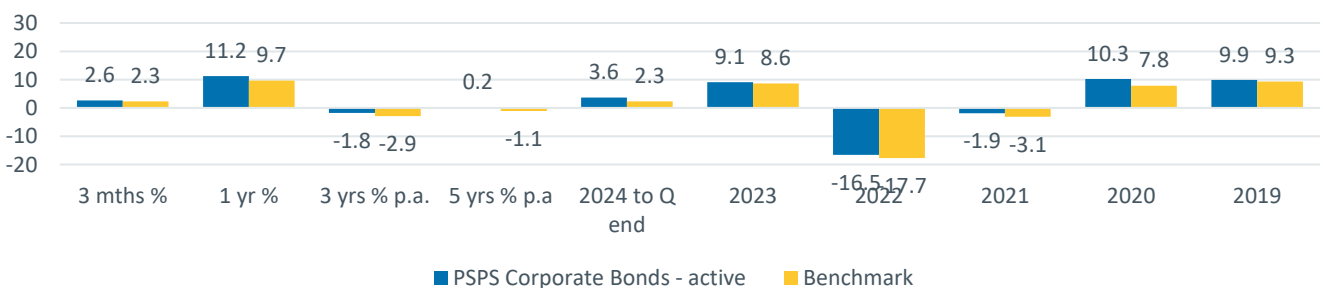
### PSPS Fixed Interest Bonds - active



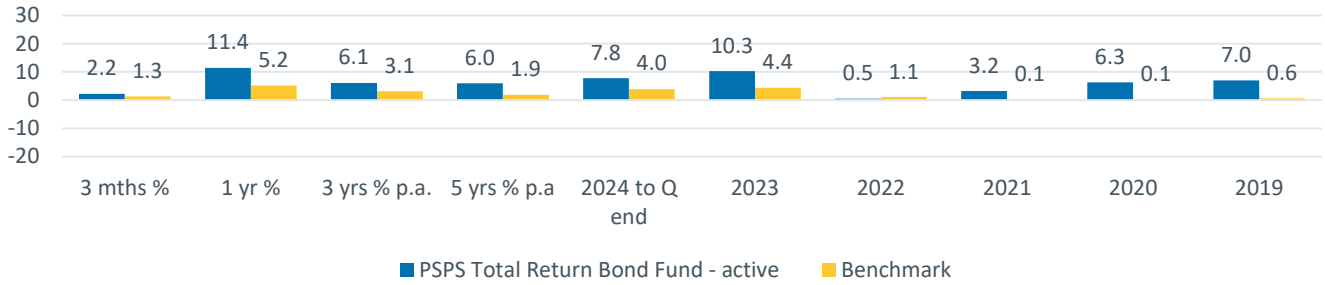
### PSPS Index-Linked Gilts - active



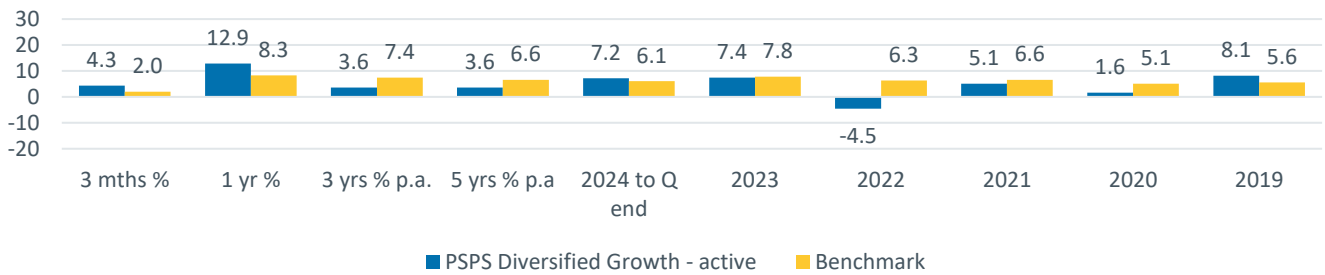
### PSPS Corporate Bonds - active



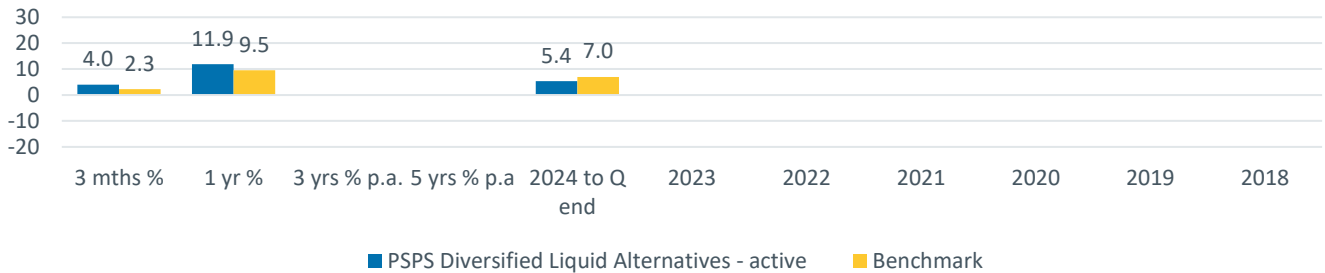
### PSPS Total Return Bond Fund - active



### PSPS Diversified Growth - active

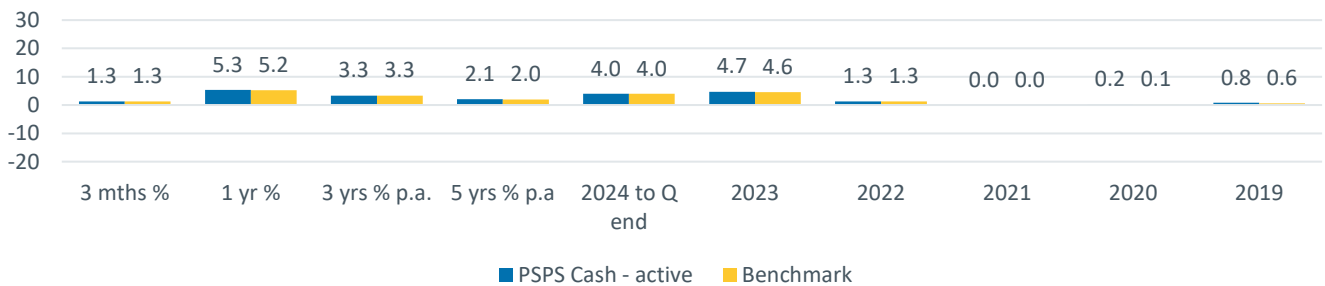


### PSPS Diversified Liquid Alternatives - active

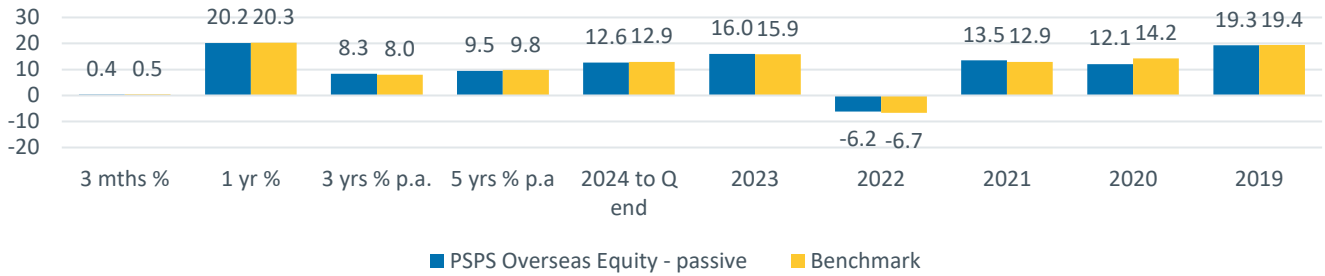


PSPS Diversified Liquid Alternatives – active launched 11th May 2023

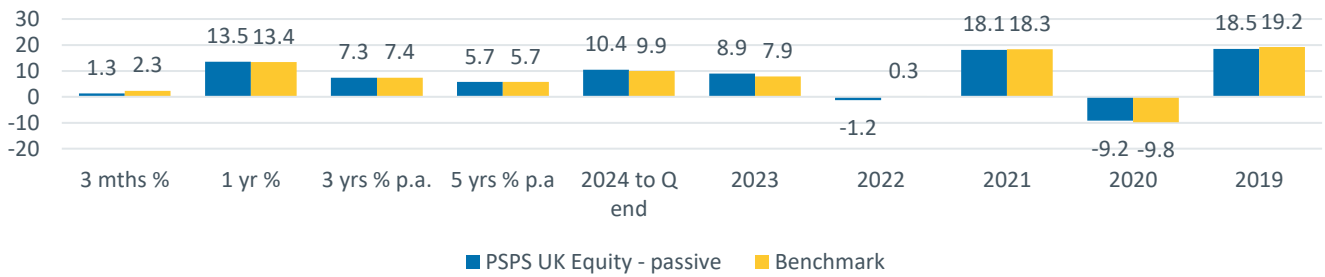
### PSPS Cash - active



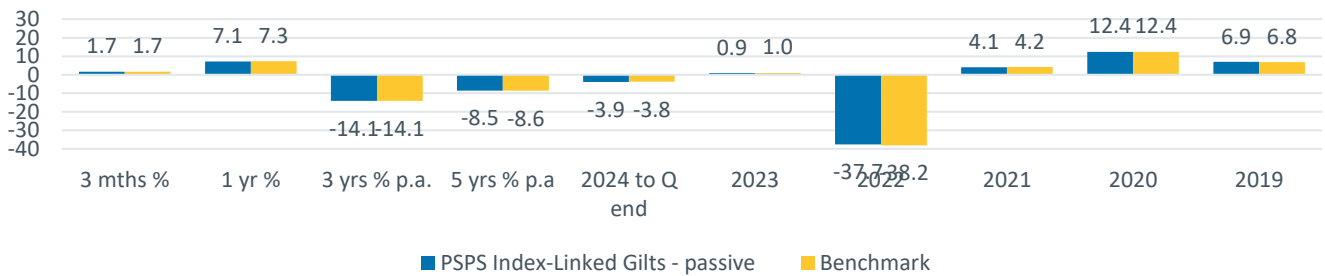
### PSPS Overseas Equity - passive



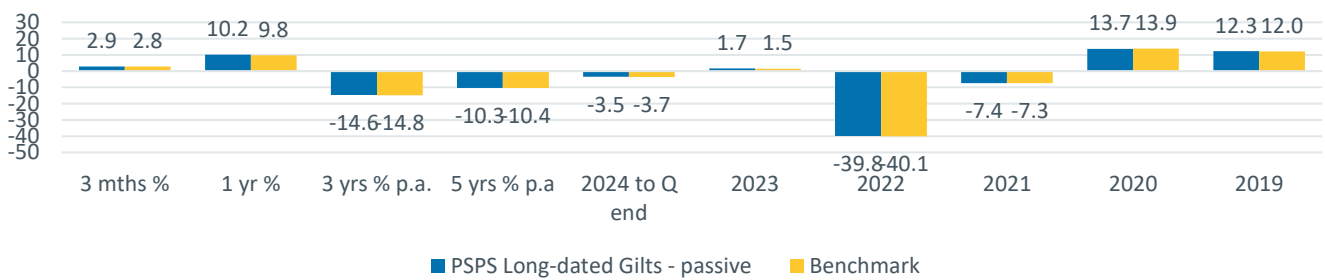
### PSPS UK Equity - passive



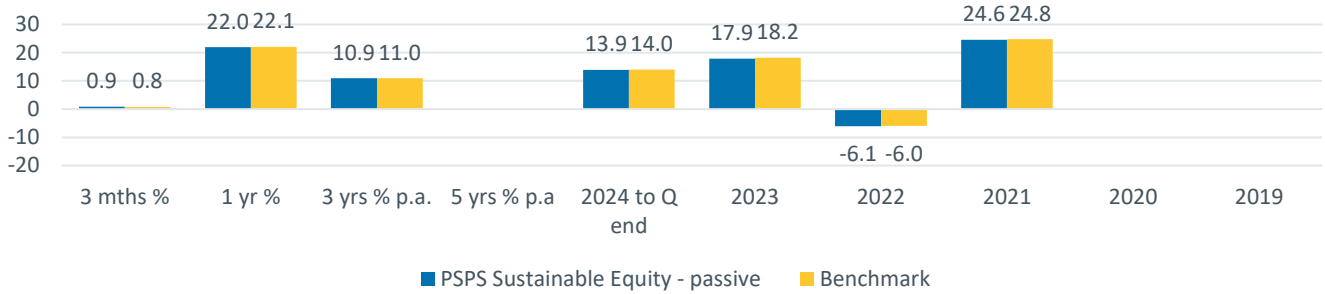
### PSPS Index-Linked Gilts - passive



### PSPS Long-dated Gilts - passive

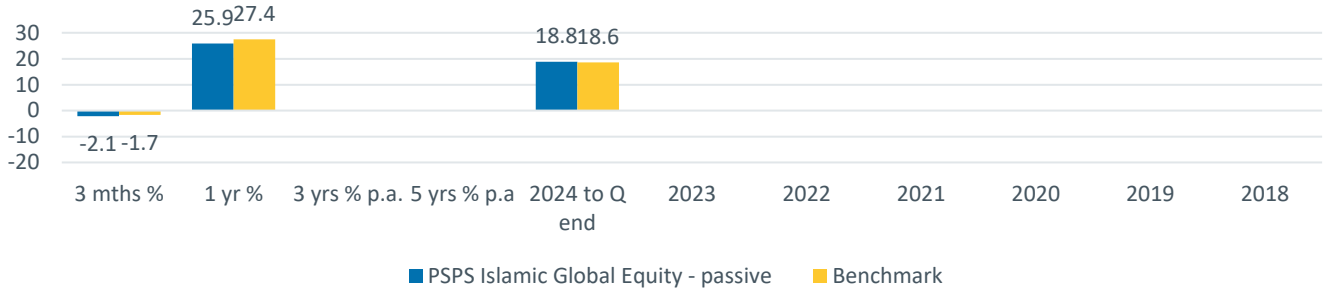


### PSPS Sustainable Equity - passive



PSPS Sustainable Equity - passive Fund launched 10th January 2020 (formerly called PSPS Responsible Investment Equity -passive Fund)

### PSPS Islamic Global Equity - passive

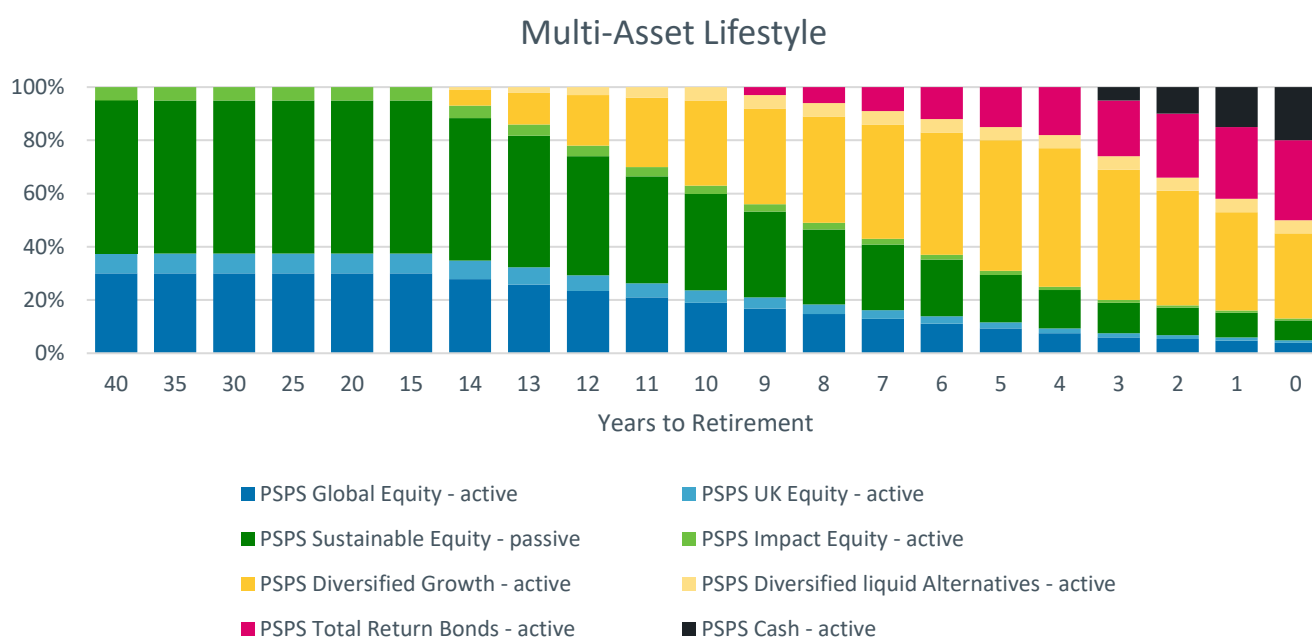


PSPS Islamic Global Equity – passive launched 11th May 2023

# 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.

### Estimated performance for periods to 30 September 2024

Member - Years to Target Retirement Age	3 Months %	12 Months %	3 Years % p.a.	5 Years % p.a.
<b>30 Years</b>	1.5	20.1	7.3	9.0
<b>10 Years</b>	2.5	17.7	6.0	6.8
<b>3 Years</b>	3.1	14.0	4.8	5.1

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.