



PRUDENTIAL

Staff Pension Scheme

Defined Contribution Section

Market commentary from the DC Section Investment Consultant



April 2025

Your journey

Investment Markets and PSPS Funds Update – April 2025

Introduction

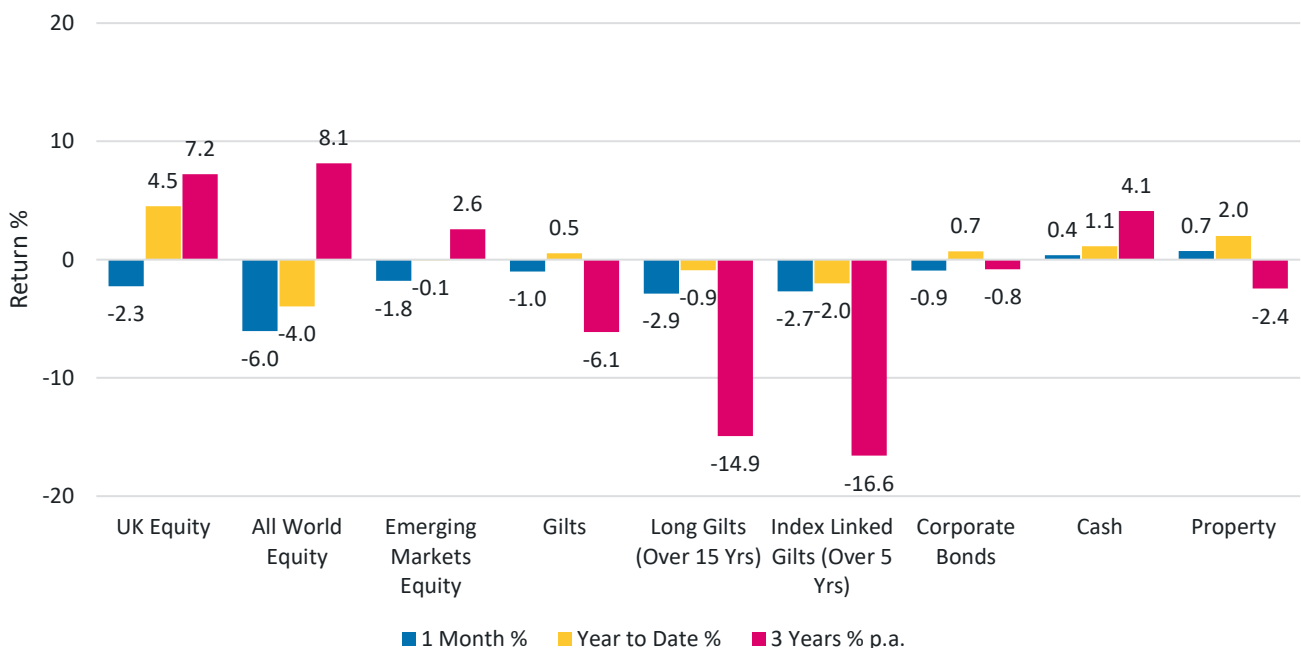
This paper is addressed to the Trustee of the Prudential Staff Pension Scheme (“Scheme”) DC Section and provides a regular update on the performance of PSPS funds and investment markets.

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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 March 2025



Source: Datastream

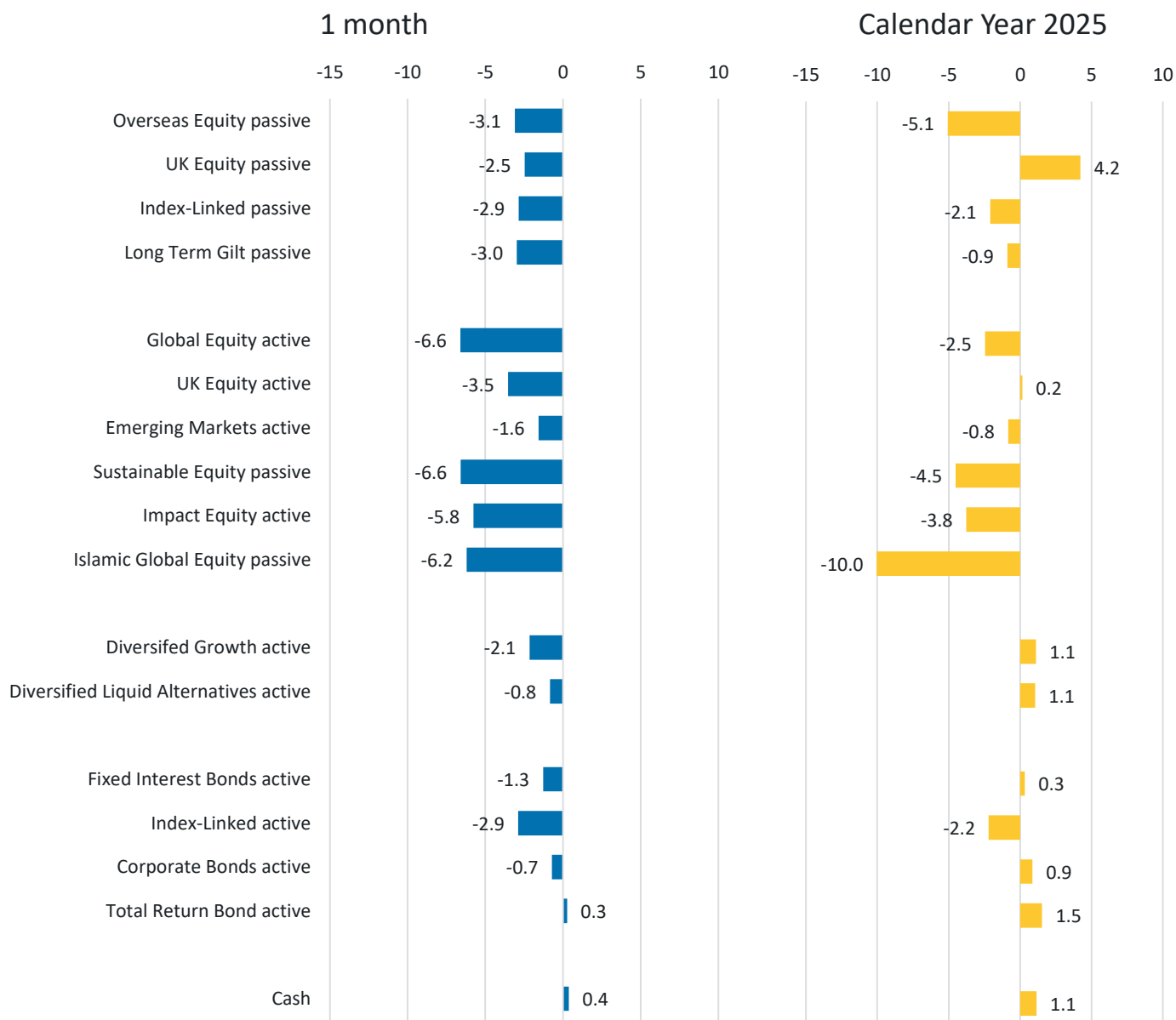
Indices: FTSE All Share, FTSE All World £, FTSE All Emerging £, FTSE British Govt Over 15Y, FTSE British Govt Index Linked Over 5Y, iBoxx Sterling Non-Gilts, SONIA, MSCI UK Monthly property

Quarter 1 highlights

- Data released in Q1 showed the US economy grew strongly in the final quarter of 2024. However, more recent survey data suggest the economy slowed in Q1: post-election optimism waned as tariff uncertainty affected consumer and business sentiment. European growth remained weak in Q4, but recent PMIs signal a modest improvement amid expectations of increased defence and infrastructure spending.

- In March, headline inflation cooled to 2.8% in the US and the UK, and 2.5% in the eurozone, after rising since September. That said, policymakers on both sides of the Atlantic expect inflation to quicken temporarily this year before easing towards the 2% target over the forecast horizon.
- Despite inflationary pressures, the European Central Bank (ECB) cut rates twice in Q1, to 2.5% pa, while the Bank of England (BoE) reduced the base rate 0.25% pa, to 4.5% pa. The US Federal Reserve (Fed) held rates steady at 4.5% pa, but rate expectations fell as markets focused on weaker survey data.
- As a result, US 10-year treasury yields fell while their European counterparts rose in anticipation of higher issuance and a boost to growth from higher government spending. Credit spreads generally rose but remain low relative to history. European investment-grade spreads, meanwhile, fell during Q1.
- Global equities fell 1.9% as investors weighed concerns over US growth, inflation and trade policy. North American and Japanese equities notably underperformed, while European stocks outperformed, buoyed by expectations of higher government spending and investors' preference for cheaper, value-oriented sectors.
- The trade-weighted US dollar fell 2.3% while the yen rose 3.3% as interest-rate differentials narrowed. Gold prices jumped a further 19%, reaching fresh record highs, as investors sought safety amid heightened economic uncertainty and a decline in the US dollar and US real yields.

The chart below shows the **estimated** performance (net of annual fees) of the PSPS funds for **March 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?

Equity funds fell back over the month. Bond and multi-asset funds also fell back to a lesser degree although the return from the Total Return Bond and Cash funds stayed modestly positive.

Most equity fund are in negative territory over the calendar year to date although UK equity returns are positive. Multi-asset and bond funds (with the exception of index-linked gilts) are positive over the first 3 months of 2025.

Lifestyle Returns

We show the estimated performance of the Multi-Asset Lifestyle in appendix 2 for periods to 31 December 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.

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 –Quarter 1 2025

The global economy

The final Q4 GDP reading showed the US economy slowed, but to a still-solid annualised pace of 2.4%, supported by continued consumer and government spending. However, optimism about the US outlook waned in Q1 amid trade-policy uncertainty and concerns over federal spending cuts. Weak consumer and business survey data signalled a deteriorating outlook. Manufacturing's early-year rebound proved short-lived, slipping back into contraction in March after tariff-driven front-loading. Meanwhile, the composite PMI pointed to a March recovery, led by services, but surveys flagged the steepest rise in input costs in two years, with businesses passing tariff-related supplier price hikes on to consumers. While US survey data released over Q1 is indicative of slowing GDP growth compared to the end of 2024, the data still point to economic expansion.

European growth remained weak in late 2024, but recent business survey data signalled a modest recovery. In March, the eurozone's manufacturing output expanded for the first time in two years, marking an improvement for three consecutive months. The increase in output was supported by US pre-tariff imports, while future European spending on defence and infrastructure could provide a more sustained boost. UK business surveys suggest modest Q1 growth, with a March rebound in services. Across Europe, business confidence and the outlook for the year ahead continued to deteriorate, running at two-year lows. In the UK, added costs from the Autumn Budget, US tariff uncertainty and Spring Statement cuts led the OBR to halve its 2025 growth forecast to 1%. Price pressures in Europe are easing but remain above long-term averages, with UK businesses passing higher vendor, labour and raw material costs onto consumers.

Headline CPI inflation cooled in March to 2.8% in the US and the UK, and 2.5% in the eurozone. This modest easing comes on the back of steady increases since September last year. Policymakers on both sides of the Atlantic expect inflation to temporarily quicken this year before returning to the 2% target over the forecast horizon. The upward drift in inflation forecasts is partly due to potential supply disruption from US tariffs, expected increases in energy prices and sticky domestic inflation, with the last of these pointing to persistency in domestic price pressures, particularly in the UK. Core CPI remains above headline inflation across the three regions, at 3.5%, 3.2% and 2.6% in the UK, US and eurozone, respectively.

Despite inflation pressures, the European Central Bank (“ECB”) cut rates twice in Q1, to 2.5% pa, while the Bank of England (“BoE”) opted for a cautious 0.25% pa cut, to 4.5%. Given elevated uncertainty, the US Federal Reserve (“Fed”) held rates steady at 4.5% pa, but policymakers hinted at future rate cuts, suggesting they are more concerned about risks to growth than temporary rises in inflation. Market expectations for rate cuts grew amid weaker-than-expected US data. At the start of the year, markets were pricing in between one and two 0.25% pa rate cuts from the Fed in 2025; by the end of March, they were pricing in close to three. Markets expect the BoE to deliver two further 0.25% pa cuts in 2025, one more than they anticipated at the start of the year.

Fixed income markets

US yields fell materially while European yields rose

US 10-year yields fell 0.4% pa in Q1, to 4.2% pa, as investors focused more on the risks to growth from tariffs than their potentially shorter-term inflationary impact. In contrast, German bond yields rose 0.4% pa, to 2.7%, driven by expectations of higher bond issuance across the eurozone, to finance government expenditure on defence and infrastructure, and the positive impact this may have on growth and inflation.

Japanese 10-year yields rose 0.4% pa, to 1.5% pa, amid moderate economic recovery and signs of persistent domestic inflationary pressures: the Bank of Japan (BoJ) is expected to continue to normalise monetary policy, after raising rates 0.25% pa, to 0.5% pa, in January. UK 10-year yields edged up 0.1% pa, to 4.7% pa, as the Chancellor's Spring Statement outlined new spending cuts, and the DMO's gilt issuance forecast came in lower than expected.

UK 10-year implied inflation (the difference between nominal and inflation-linked bonds) fell 0.1% pa, to 3.4% pa, as real yields rose more than nominal. Equivalent US implied inflation rose marginally, to 2.4% pa, as real yields fell more than their nominal counterparts, while German implied inflation rose 0.2% pa, to 1.9% pa.

Credit spreads generally rose, but eurozone credit markets outperformed

Global investment-grade credit spreads rose 0.1% pa, to 0.9% pa, but remain low relative to history. US spreads widened amid waning optimism over the economic outlook. In contrast, European investment-grade spreads fell 0.1% pa as expectations of higher government spending and potential glimmers of a Russia-Ukraine ceasefire supported the corporate outlook. Sterling investment-grade credit produced positive returns as income more than offset a 0.1% pa rise in spreads, to 1.1% pa.

Speculative-grade credit spreads rose more significantly: US spreads rose 0.6% pa, to 3.5% pa, while equivalent European spreads rose a much smaller 0.2% pa, to 3.3% pa. While spreads have risen, they are low relative to history, with the market perhaps reflecting surveys and forecasts that suggest growth will slow as opposed to collapse. Meanwhile, markets are not pricing in a sharp rise in defaults. US speculative-grade credit markets delivered positive total returns as income and a fall in underlying treasury yields more than offset the rise in spreads.

Global equities

North America and Japan underperformed

Global equities fell in Q1, with the FTSE All World down 1.9% in local-currency terms. US equities underperformed, registering their worst quarter since 2022, as anticipation of tariffs and federal spending cuts fuelled concerns about slower growth and higher inflation. The US's exposure to the underperforming technology sector affected the

region, with lofty valuations coming under pressure as earnings forecasts were downgraded. Japanese equities also underperformed as yen strength weighed on the export-oriented market.

European and UK stocks outperformed, followed by emerging and Asia Pacific ex Japan equities

Europe ex UK was the best-performing region globally in Q1, as souring sentiment towards the relatively expensive US market, and the technology sector in particular, benefited the more value-oriented European market. European stocks were also buoyed by EU and national government pledges to increase defence and infrastructure spending, amid less certain US security guarantees. Investors welcomed the prospect of further fiscal stimulus, and the improved outlook was apparent in upward revisions to downbeat European equity earnings forecasts. Additionally, glimmers of a potential Russia-Ukraine ceasefire lent a further tailwind to sentiment in Europe. UK equities benefited from the broader pattern of value stocks outperforming their growth counterparts.

Emerging markets and Asia Pacific ex Japan also outperformed. Chinese stocks rallied thanks to a combination of less punitive US tariffs than anticipated and optimism over DeepSeek, an AI start-up that could provide the region's budget solution to AI innovation. A weaker US dollar and lower treasury yields also supported sentiment towards emerging markets.

The major growth sectors notably underperformed while value stocks outperformed

Investors favoured lower-valued stocks over expensive US tech, locking in past gains. Tech was the worst-performing sector in Q1, followed by consumer discretionary, amid US growth and inflation concerns. Value stocks outperformed growth, with the energy sector topping the rankings, followed by consumer staples, telecoms, financials, utilities, basic materials and health care. Industrials also modestly outperformed.

Currencies, commodities and property

The US trade-weighted dollar fell 2.3% as the Fed raised the prospect of further rate cuts, despite higher near-term inflation forecasts, while the equivalent euro and sterling measures rose 1.5% and 1%, respectively. The trade-weighted yen gained 3.3% as signs of sustained domestic inflationary pressure and expectations of ongoing BoJ policy normalisation led to narrowing rate differentials.

Gold was the best-performing major asset in Q1 as prices rose 19% to reach fresh all-time highs: heightened economic uncertainty, a weaker US dollar and a decline in real US treasury yields all lent support.

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For and on behalf of Hymans Robertson LLP

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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.

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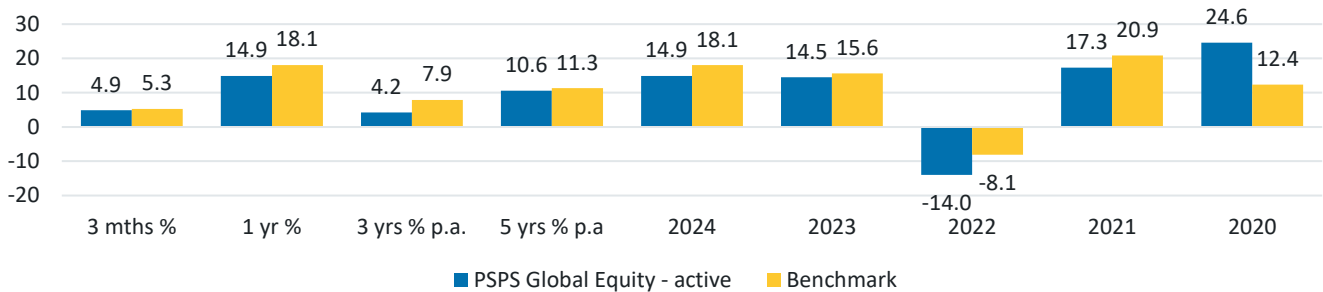
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Appendix 1

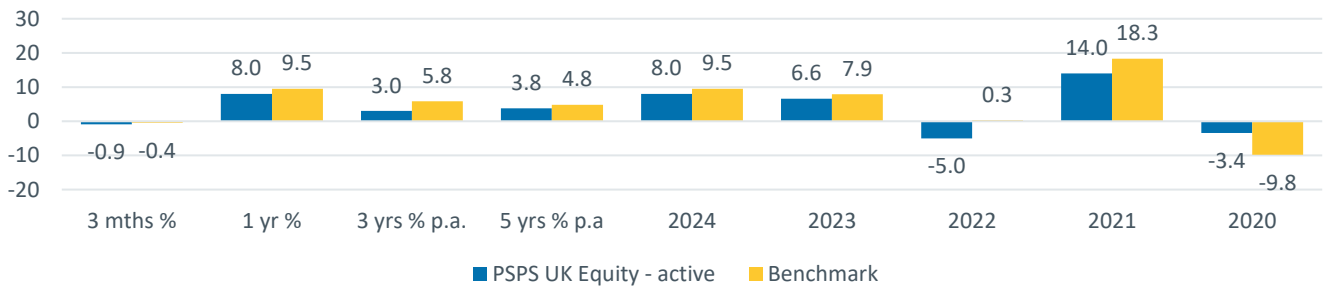
Performance of PSPS Funds (to 31/12/24)

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

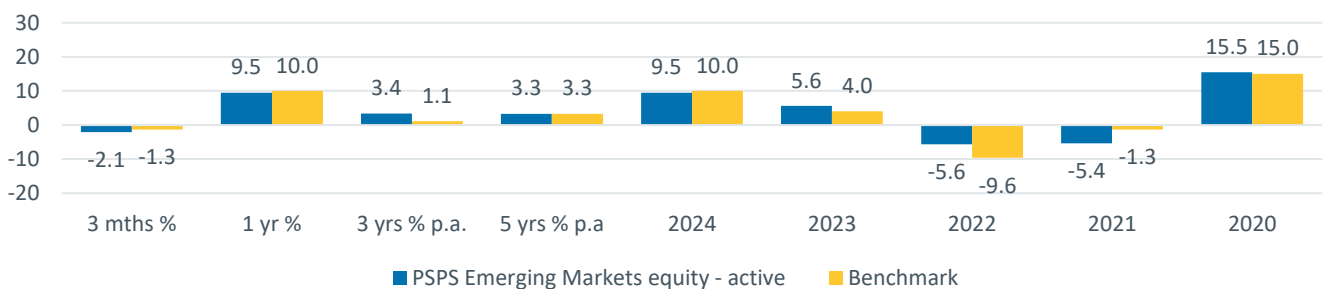
PSPS Global Equity - active



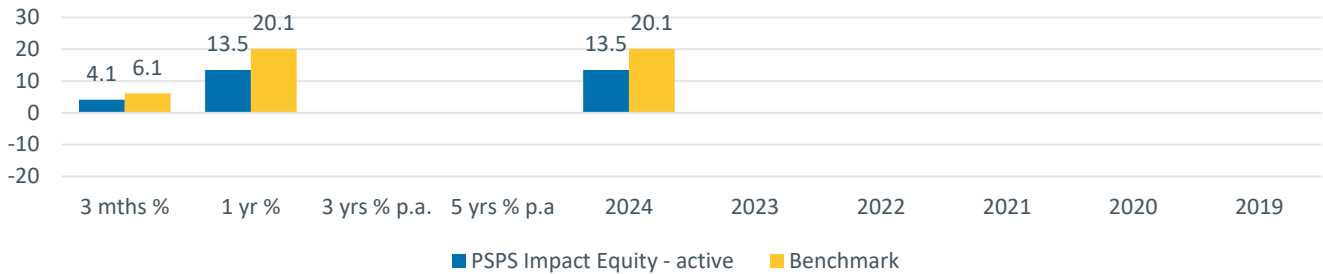
PSPS UK Equity - active



PSPS Emerging Markets equity - active

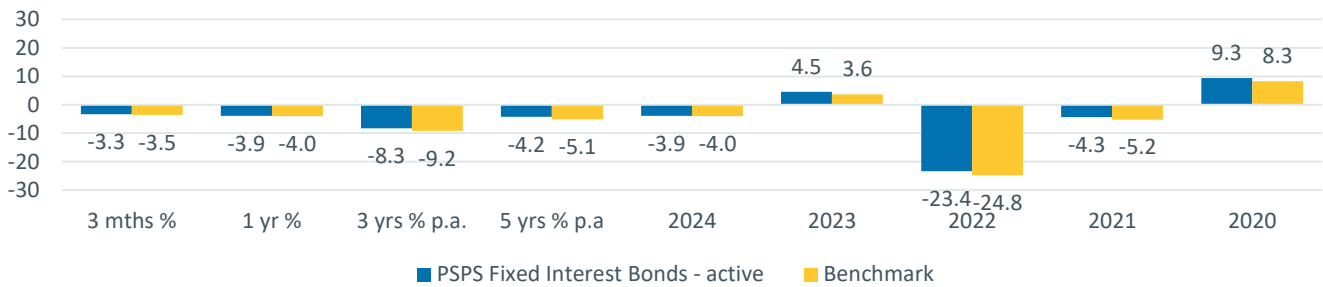


PSPS Impact Equity - active

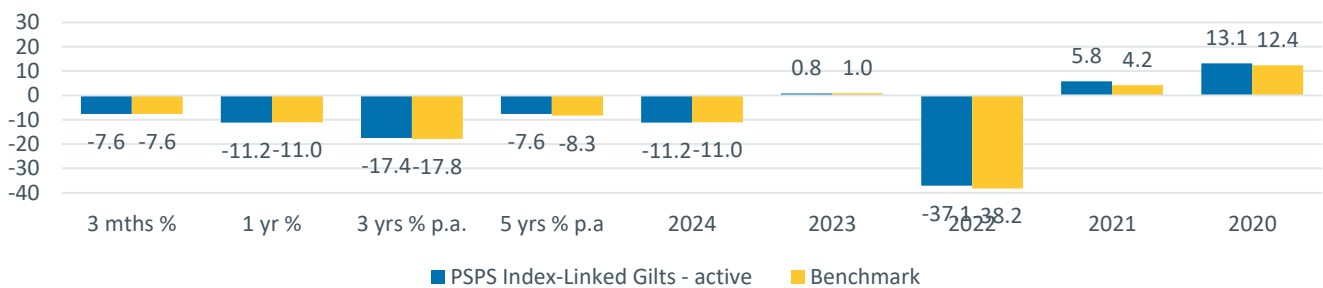


PSPS Impact Equity – active launched 11th May 2023

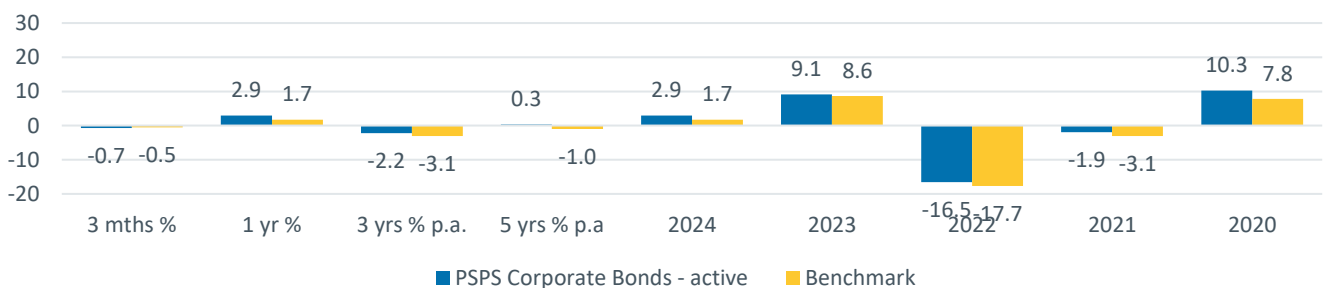
PSPS Fixed Interest Bonds - active



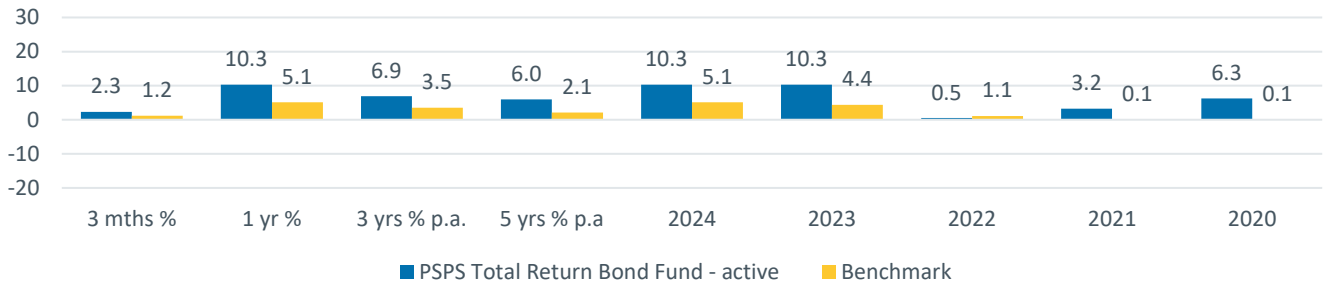
PSPS Index-Linked Gilts - active



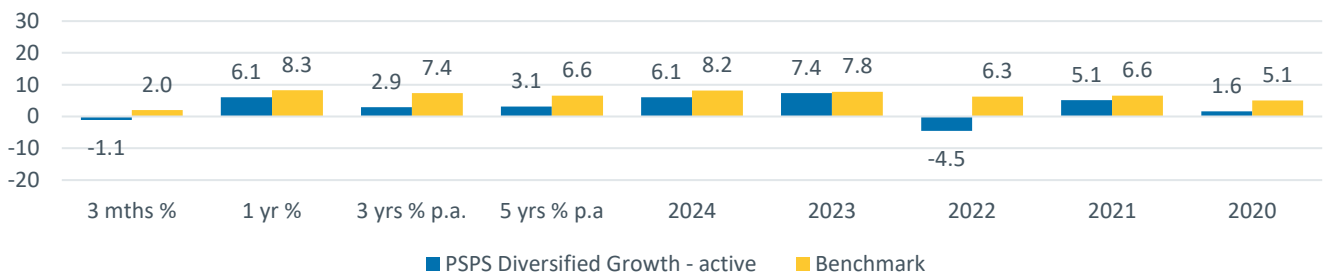
PSPS Corporate Bonds - active



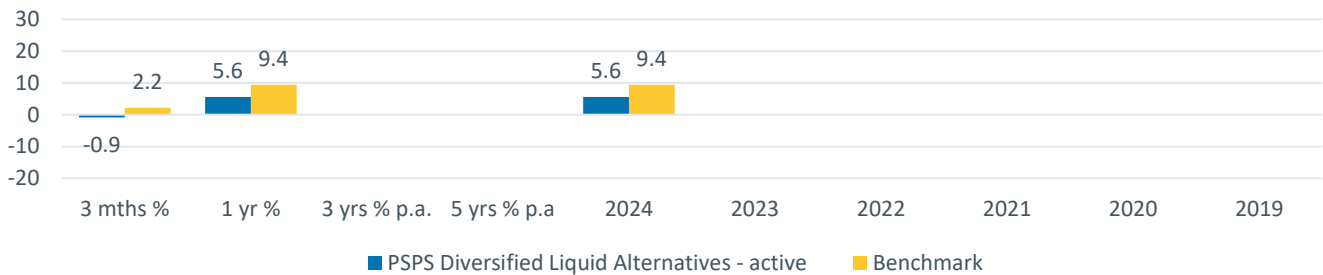
PSPS Total Return Bond Fund - active



PSPS Diversified Growth - active

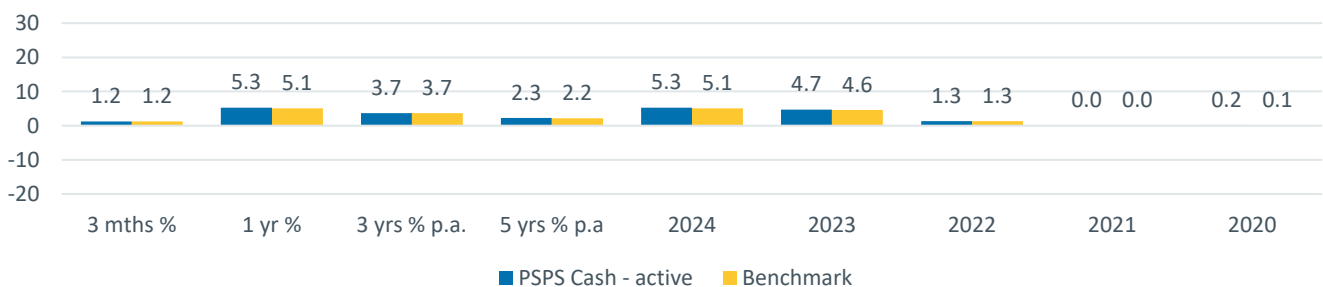


PSPS Diversified Liquid Alternatives - active

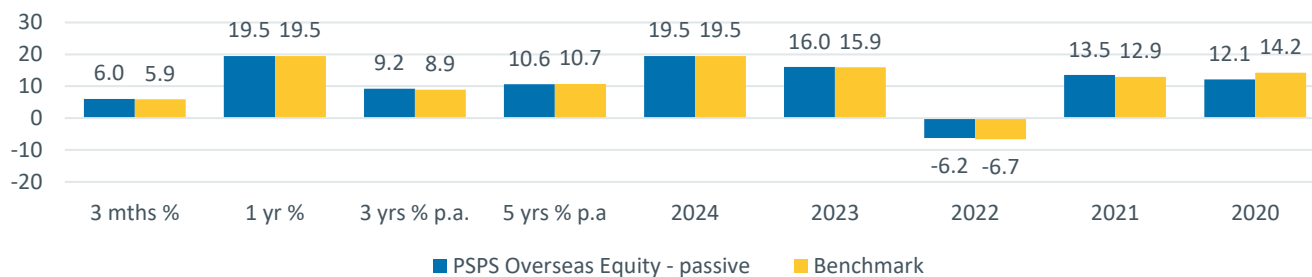


PSPS Diversified Liquid Alternatives – active launched 11th May 2023

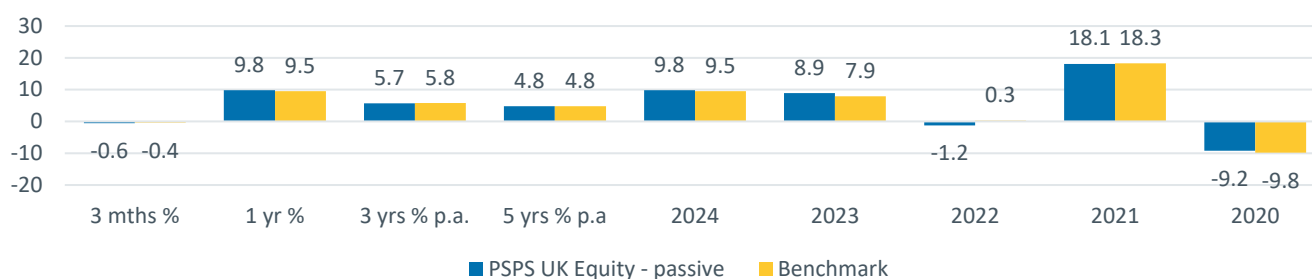
PSPS Cash - active



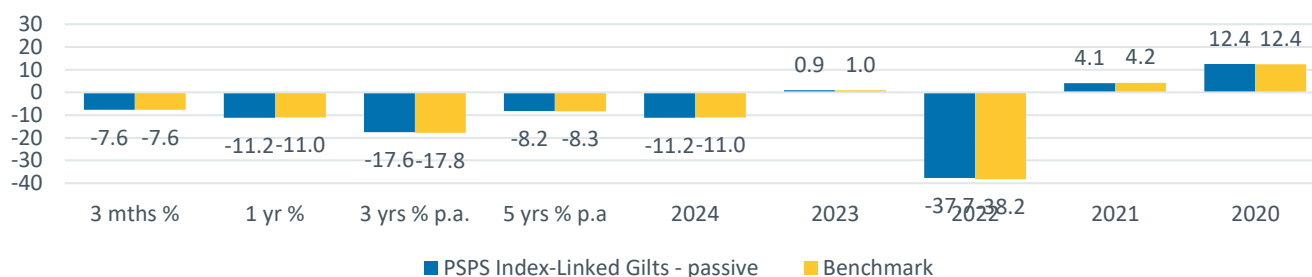
PSPS Overseas Equity - passive



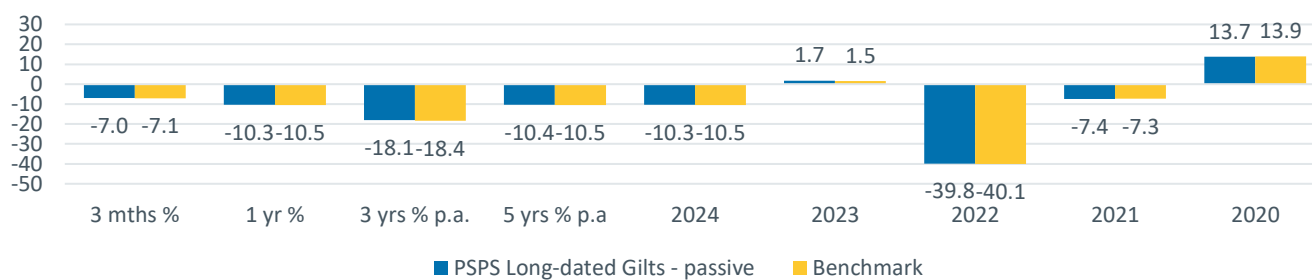
PSPS UK Equity - passive



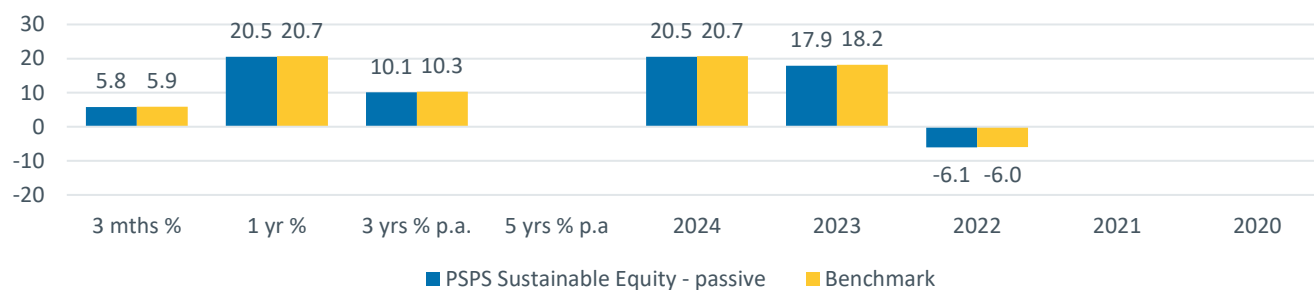
PSPS Index-Linked Gilts - passive



PSPS Long-dated Gilts - passive

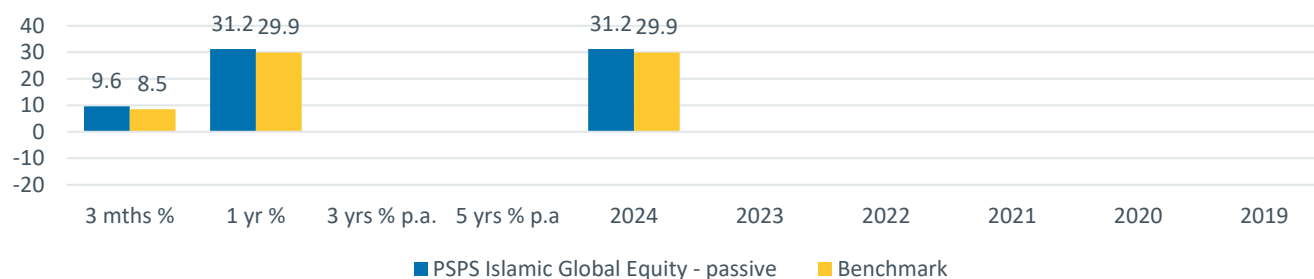


PSPS Sustainable Equity - passive



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

PSPS Islamic Global Equity - passive

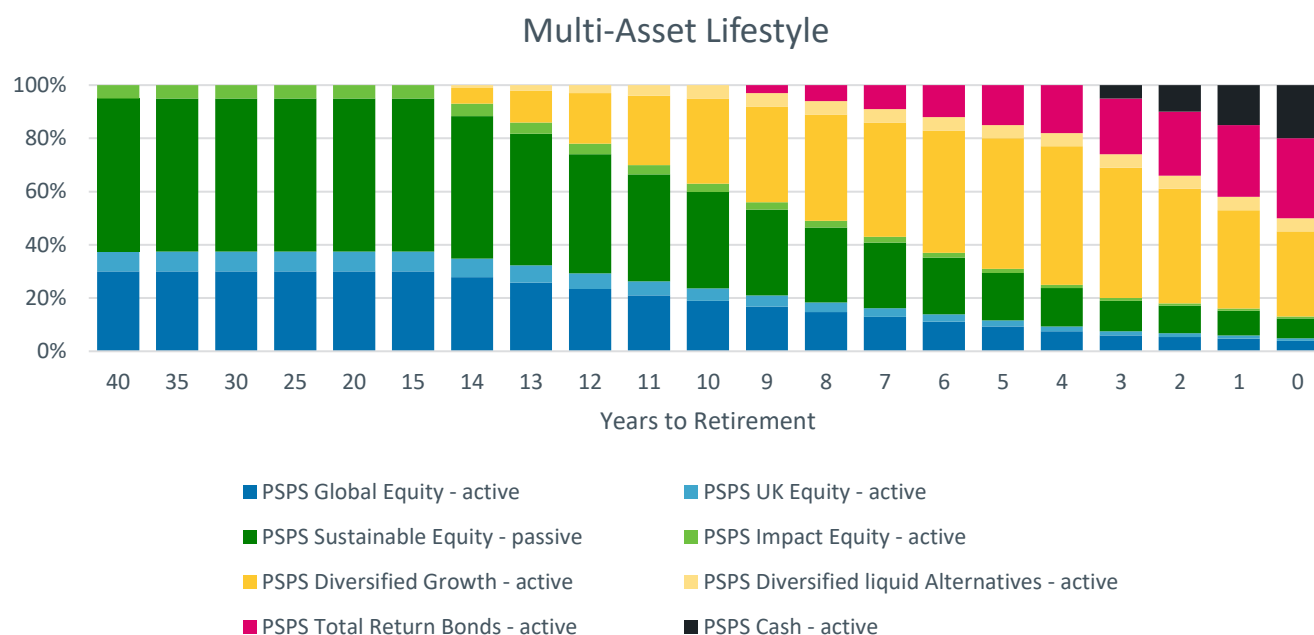


PSPS Islamic Global Equity – passive launched 11th May 2023

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 31 December 2024

Member - Years to Target Retirement Age	3 Months %	12 Months %	3 Years % p.a.	5 Years % p.a.
30 Years	4.9	17.6	7.8	9.6
10 Years	2.7	13.6	6.3	7.0
3 Years	0.9	9.4	4.7	4.9

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.

