JLT

CLWYD PENSION FUND
ECONOMIC AND MARKET UPDATE
PERIOD ENDING 31 MARCH 2019

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1 MARKET BACKGROUND
PERIOD ENDING 31 MARCH 2019

MARKET STATISTICS

Market Returns Growth Assets	3 Mths %	1 Year %	3 Years % p.a.
UK Equities	9.4	6.4	9.5
Overseas Developed	9.6	11.3	15.2
North America	11.3	17.5	17.1
Europe (ex UK)	8.1	2.9	11.2
Japan	4.5	-0.9	12.3
Asia Pacific (ex Japan)	7.7	4.8	13.6
Emerging Markets	7.9	1.9	14.5
Frontier Markets	3.5	-15.4	7.0
Property	0.4	5.0	6.5
Hedge Funds**	5.1	-1.2	3.6
Commodities**	14.1	-5.0	4.5
High Yield**	6.3	3.5	7.1
Emerging Market Debt	0.6	-0.5	6.7
Senior Secured Loans**	4.5	1.0	3.9
Cash	0.2	0.6	0.4

Market Returns Bond Assets	3 Mths %	1 Year %	3 Years % p.a.
UK Gilts (>15 yrs)	6.0	4.7	6.3
Index-Linked Gilts (>5 yrs)	6.3	5.7	9.1
Corporate Bonds (>15 yrs AA)	7.1	6.2	7.6
Non-Gilts (>15 yrs)	7.8	4.9	7.3

Exchange Rates: Change in Sterling	3 Mths %	1 Year %	3 Years % p.a.
Against US Dollar	2.31	-7.11	-3.22
Against Euro	4.16	1.74	-2.74
Against Yen	3.22	-3.32	-3.71

Inflation Indices	3 Mths %	1 Year %	3 Years % p.a.
Price Inflation – RPI	-0.2	2.4	3.0
Price Inflation – CPI	-0.1	1.9	2.2
Earnings Inflation*	0.1	3.2	2.6

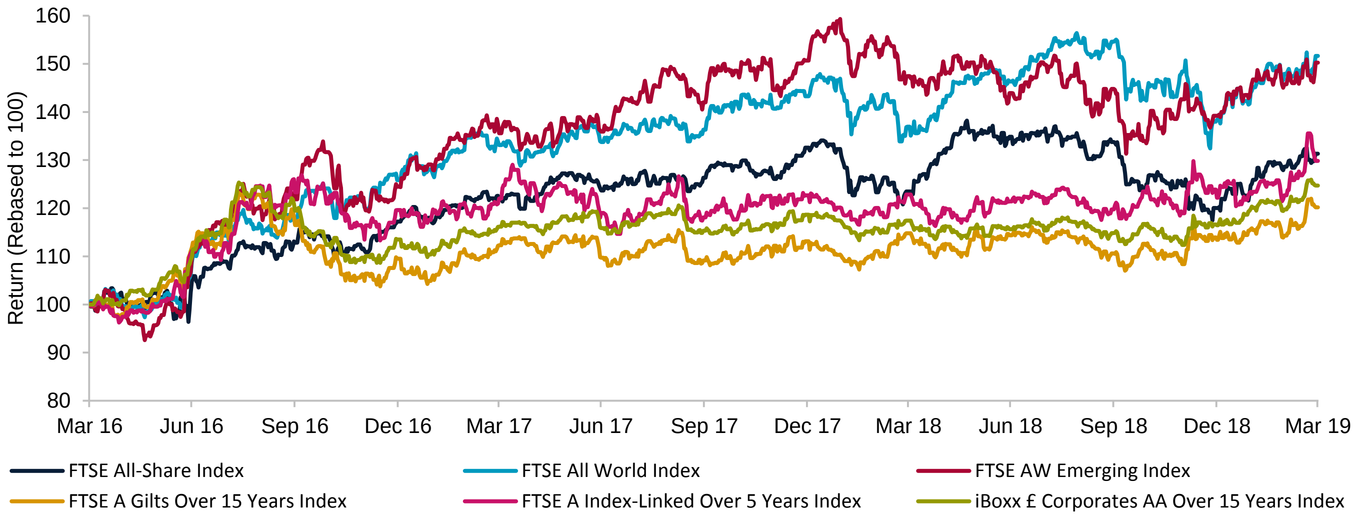
Yields	% p.a.
UK Equities	4.22
UK Gilts (>15 yrs)	1.48
Real Yield (>5 yrs ILG)	-1.86
Corporate Bonds (>15 yrs AA)	2.36
Non-Gilts (>15 yrs)	2.92

Absolute Change in Yields	3 Mths %	1 Year %	3 Years % p.a.
UK Equities	-0.24	0.37	0.45
UK Gilts (>15 yrs)	-0.28	-0.15	-0.69
Real Yield (>5 yrs ILG)	-0.27	-0.20	-0.88
Corporate Bonds (>15 yrs AA)	-0.41	-0.22	-1.00
Non-Gilts (>15 yrs)	-0.44	-0.10	-0.79

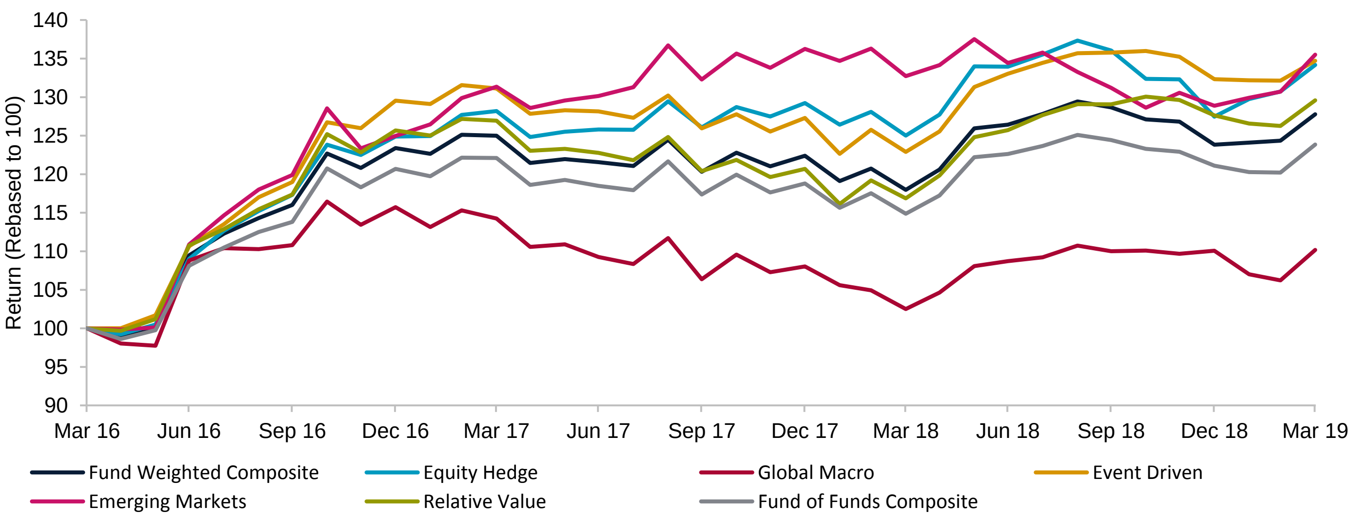
Source: Thomson Reuters.
Notes: * Subject to 1 month lag ** GBP Hedged

MARKET SUMMARY CHARTS

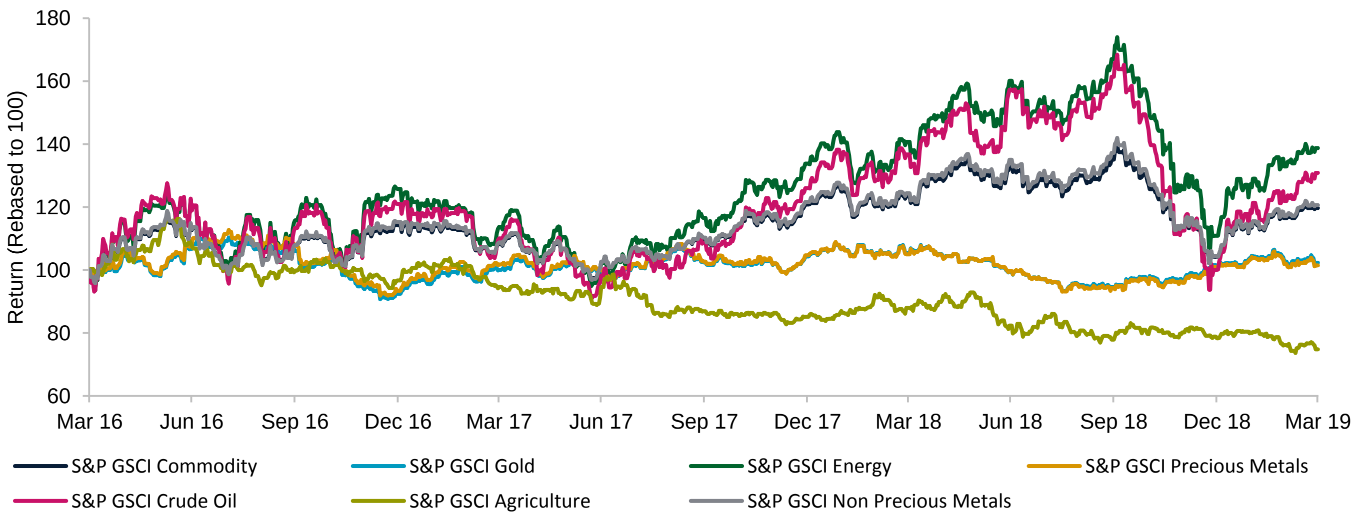
Market performance – 3 years to 31 March 2019



Hedge Funds: Sub-strategies performance – 3 years to 31 March 2019

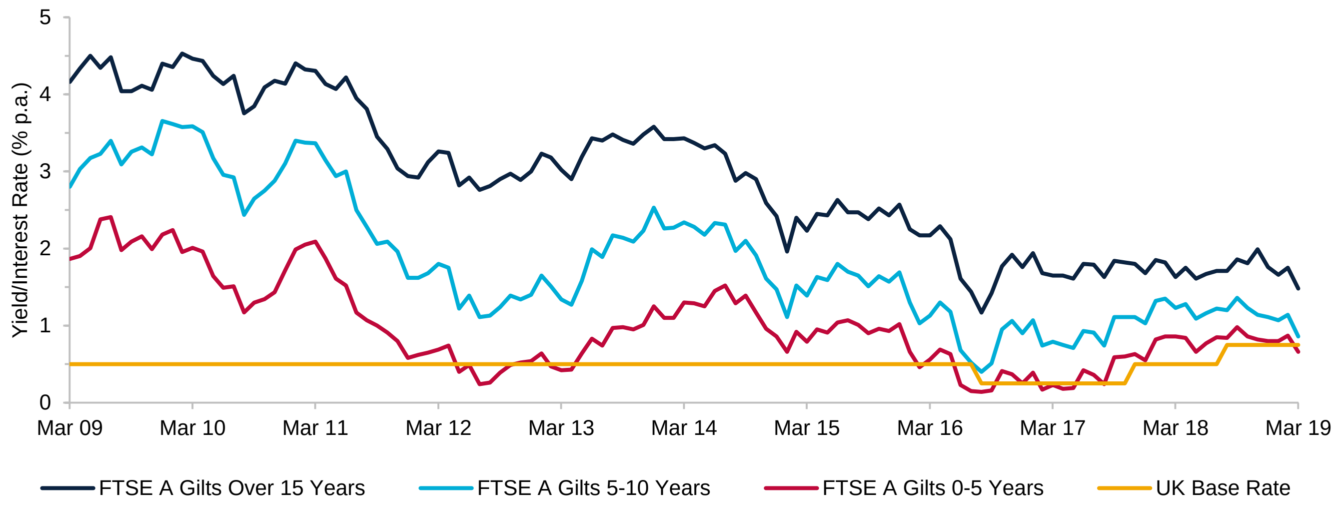


Commodities: Sector performance – 3 years to 31 March 2019

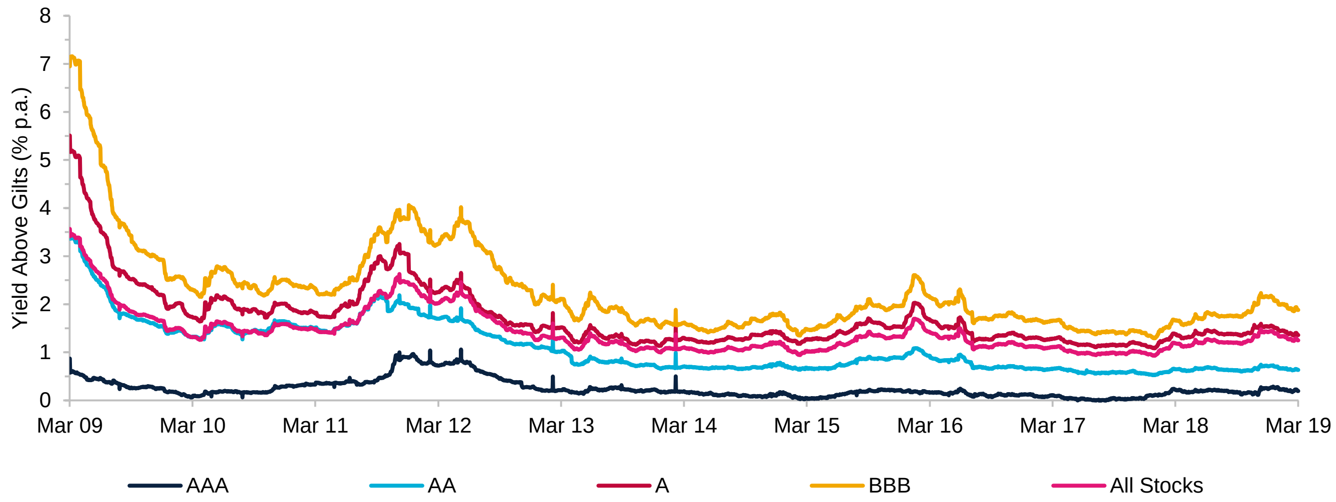


Source: Thomson Reuters

UK government bond yields – 10 years to 31 March 2019



Corporate bond spreads above government bonds – 10 years to 31 March 2019



Source: Thomson Reuters

2 ECONOMIC STATISTICS

Economic Statistics as at:	31 Mar 2019			31 Dec 2018			31 Mar 2018		
	UK	Euro[1]	US	UK	Euro[1]	US	UK	Euro[1]	US
Annual Real GDP Growth[2]	1.4%	2.7%	3.0%	1.6%	3.0%	3.0%	1.6%	4.0%	2.5%
Annual Inflation Rate[3]	1.9%	1.4%	1.9%	2.1%	1.5%	1.9%	2.5%	1.4%	2.4%
Unemployment Rate[4]	3.9%	7.8%	3.9%	4.0%	7.9%	3.8%	4.2%	8.5%	4.1%
Manufacturing PMI[5]	55.1	47.5	52.4	54.3	51.4	53.8	54.8	56.6	55.6

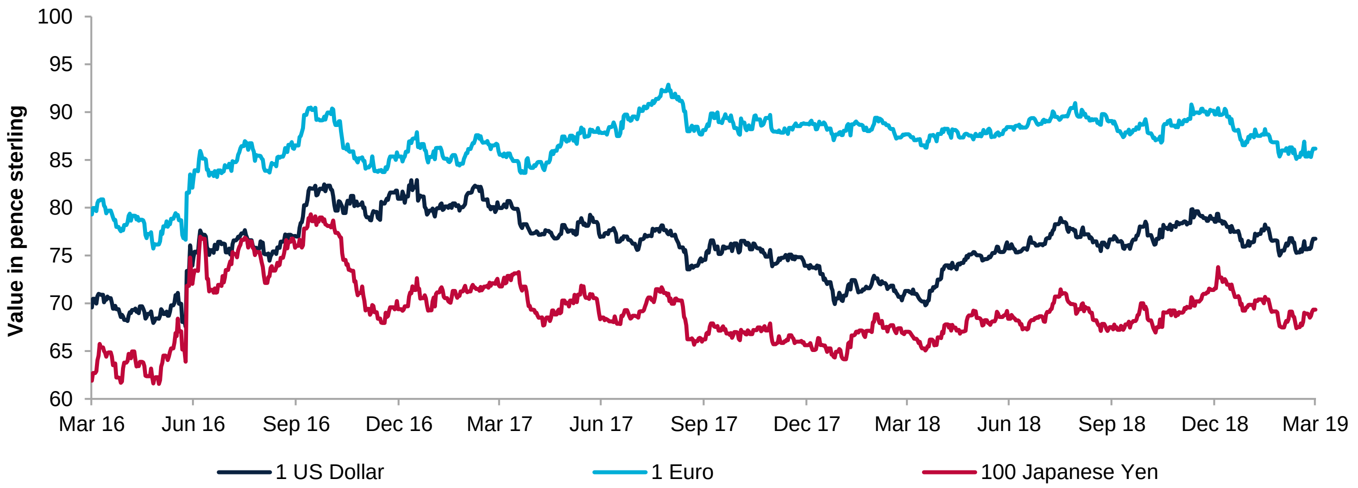
Change over periods ending:	3 months			12 months		
31 March 2019	UK	Euro[1]	US	UK	Euro[1]	US
Annual Real GDP Growth[2]	-0.2%	-0.3%	0.0%	-0.2%	-1.3%	0.5%
Annual Inflation Rate[3]	-0.2%	-0.1%	0.0%	-0.6%	0.0%	-0.5%
Unemployment Rate[4]	-0.1%	-0.1%	0.1%	-0.3%	-0.7%	-0.2%
Manufacturing PMI[5]	0.8	-3.9	-1.4	0.3	-9.1	-3.2

Notes: 1.Euro Area 19 Countries. 2. GDP is lagged by 3 months. 3. CPI inflation measure. 4. UK unemployment is lagged by 1 month. 5. Headline Purchasing Managers Index.

EXCHANGE RATES

Economic Statistics as at:	Value in Sterling (Pence)			Change in Sterling	
	31 Mar 19	31 Dec 18	31 Mar 18	3 months	12 months
1 US Dollar is worth	76.74	78.52	71.29	2.3%	-7.1%
1 Euro is worth	86.17	89.76	87.67	4.2%	1.7%
100 Japanese Yen is worth	69.33	71.57	67.03	3.2%	-3.3%

Exchange rate movements – 3 years to 31 March 2019



Source: Thomson Reuters, Markit, Institute for Supply Management, Eurostat, US Department of Labor and US Bureau of Economic Analysis.

3 MARKET COMMENTARY

INTRODUCTION

After a dismal end to proceedings in 2018, markets have rebounded well in the first quarter of 2019. Significantly, after starting the year in positive fashion, equities managed to push on to produce one of the sharpest two month corrections in several years. Despite the strength of equity returns, many investors understandably seem resistant to buy into this rally after being severely wounded in October and December. Due to these bruising returns last year this rally remains somewhat unloved.

UNITED KINGDOM

- UK stocks were lifted throughout the quarter as the likelihood of Brexit actually occurring on the self-imposed 29 March deadline diminished rapidly over the period.
- The FTSE All-Share Index delivered a return of 9.4% outpacing many other developed markets after lagging behind international counterparts for large parts of 2018.
- Economic data coming out from the UK economy has been rather mixed over the period. Brexit uncertainty has unquestionably hindered GDP growth as Q4 figures came in at 0.2% below market estimates of 0.3%. For the year as a whole, the GDP growth rate was just 1.4%, its lowest rate since 2013.
- The picture ahead looks equally uninspiring as the Bank of England recently lowered their annualised forecasts for this year and next from 1.7% (2019) and 1.7% (2020) to 1.2% and 1.5% respectively, although these are based on assumptions and could well be revised as events occur.
- The UK jobs market continues to be a bright spot with the labour market continuing to expand in the quarter.
- A tighter labour market has also ensured that wage growth has remained firm and ahead of general inflation which declined to a two year low at the start of the year. Elsewhere retail sales surprisingly rebounded in January after a lacklustre Christmas trading period.

NORTH AMERICA

- Although US stocks were later than most to join the recovery, the S&P 500 Index, the broad based US basket, produced a gain of 13% in local currency terms this quarter.
- The slow start was largely self-inflicted with a federal logjam causing the longest government shutdown in history and the second of Trump's presidency.
- The US economy also grappled with an overhang from the US-China trade spat, coupled with a revision to US earnings growth expectations for 2019.
- There has been a softening of corporate earnings growth during this reporting season (when compared to the incredible run-rate previously set in the first three quarters of 2018). Nonetheless, corporations in the US still extended earnings growth by 13.1% over the fourth quarter of 2018 posting a fifth consecutive quarter of double-digit gains.
- Tax reforms played a major role in growth during 2018 which clearly will not be repeated going forward.
- Expectations for earnings growth this year stand at approximately 4.5%; and a high single digit rise is more likely given a stable monetary policy backdrop, increases to wage growth and consumer spending forecasts.
- Dovish Federal Reserve (Fed) policy appears well priced into markets after recent returns and, with US equities trading marginally below their 5 year averages, valuations do not currently appear stretched.
- Resolution on global trade and disputes between China and the US could provide a mild catalyst to equities.

EUROPE (EX UK)

- Against a difficult economic backdrop it has been a strong quarter for Eurozone equities. The FTSE All World Developed Europe (ex UK) Index returned 8.1% during the first quarter, largely lifted by improving sentiment around US-China trade negotiations.
- Although Europe has clearly been caught up in US and Chinese trade cross-winds. Investors also took encouragement from Europe's own progress on trade this quarter.
- Cecilia Malmstrom, European Union trade head, confirmed plans in January for a zero-tariff trade agreement with the US that crucially included cars.
- Despite shares rallying in Europe, underlying data remains extremely soft. Germany, the Bloc's economic leader and bellwether, marginally avoided a technical recession with zero growth in the final quarter of 2018.
- Despite budget resolutions with Brussels, Italy slipped into an economic recession for the third time in a decade.
- The Spanish economy was one relatively shining light with growth of 0.7% in the fourth quarter, however investors must now brace themselves for further uncertainly after Pedro Sanchez, the Spanish Prime Minister, called an unexpected snap election for the end of April after their parliament rejected his proposed budget - a move that feels a little like Groundhog Day, given the events in Italy last year.
- European manufacturing and service surveys were mixed over the period. Manufacturing looks a particular concern with several purchasing managers' indices across the region slipping into contractionary territory.
- Consumer confidence surveys continue to look slightly more encouraging and furthermore, the regions labour market offers some reassurance as do lower energy prices across the Bloc, which together with robust wage inflation, should support consumer spending.
- Markets are hopeful that the ECB may recommence their practice of offering cheap loans to banks which could aid efforts to lend to the broader economy. From a valuation perspective despite the recent rally, equities are still not particularly expensive when looking at historic averages.
- A lack of analyst earnings downgrades, relative to other markets, may lead to limited earnings surprises this year given the current corporate market sentiment. Overall catalysts remain short on the ground for this region.

JAPAN

- Japanese equities regained some positive momentum during the quarter after a dismal December. The country's leading stock index, the Nikkei 225 Index, posted gains of 7.7% in local currency terms yet lagged behind a number of developed market returns for the quarter.
- Japanese equities have been boosted as fears continued to ease over a global economic slowdown and reduced tensions around trade.
- A weakening currency, as risk appetite continues to grow, has provided a gentle tailwind for blue-chip stocks.
- In similar fashion to Europe, the first quarter of 2019 was somewhat disappointing from a data perspective. The forward looking manufacturing PMI fell into contraction in February for the first time since 2016.
- Meanwhile, consumer confidence for the same month came in below market expectations.
- Japanese businesses look markedly inexpensive when compared to other markets as they are currently trading below their 10 year forward price earning averages. Furthermore, Japanese corporate debt (leverage) has come down significantly over the last two years.

ASIA PACIFIC (EX JAPAN) / EMERGING MARKETS

- Emerging market equities are, in part, tied to the performance of the US dollar. With the Fed indicating their preference to pause rate hikes this year, dramatic upside US dollar moves appear (at least for now) to be behind us. This in part, together with a possible trade tariff resolution, has helped drive a number of emerging markets higher this quarter.

- In particular China and Hong Kong performed strongly over the first quarter. Away from a more dovish Fed, Chinese equities were boosted by the MSCI's decision to increase China listed 'A' shares within its range of benchmarks. Such a move should help improve liquidity and increase fund flows into the domestic market.
- Chinese stocks have been buoyed by the policy response (part of Beijing's response to US tariffs) from late last year on the fiscal tax cuts together with increased public spending and looser monetary policy in the form of lower capital requirement levels for domestic banks.
- Asia continues to produce quality growth in earnings and sales.

FIXED INCOME

- US Treasury yields moved lower over the quarter as the Fed declared a 'wait and see' approach to interest rate rises this year.
- Unsurprisingly with an increased level of uncertainly surrounding Brexit, Gilts have been volatile this quarter.
- The general direction of travel for the 10-year UK gilt yield has been to broadly move lower (yields come down and prices go higher), as the likelihood of an extension to Article 50 became a reality in March.
- Notably, inflation-linked bonds performed extremely strongly as the possibility of a stagflation type of scenario (low growth and high inflation), post Brexit, led investors to flock into Index-Linked Gilts over the period.
- Within the Eurozone, bonds received a boost after the ECB confirmed that it will not raise interest rates in 2019. Moreover, expectation that it will re-introduce a further liquidity programme also helped keep yields low.

ALTERNATIVES

- Hedge Funds rebounded in the first quarter, as all strategies posted gains in both Sterling and US dollar terms. Overall, Hedge Funds returned 5.6% in US dollar terms and 5.1% in Sterling terms. Equity Hedge were the best performing strategies, returning 7.7% (US dollar) and 5.3% (Sterling). Global Macro strategies, albeit positive over the quarter, were the worst performing strategies, returning 2.4% (US dollar) and 0.1% (Sterling).
- Commodities saw strong returns over the quarter, returning 14.1% in Sterling terms (15.0% in US dollar terms). Crude Oil rebounded from its decline in Q4 2018, returning 27.7% in Sterling terms (30.7% in US dollar terms). Precious Metals declined 1.7% in Sterling terms (and rose just 0.6% in US dollar terms). Agriculture was the worst performing commodity sector returning -6.6% in Sterling terms (-4.5% in US dollar).
- Property returned 0.4% over quarter as the slowdown in the market continued into 2019. The slowdown can be attributed to the uncertainty around Brexit; in particular, concerns over commercial property have resurfaced as investors appear to increase withdrawals. Property returned 5.0% over the 12 month period to 31 March 2019.

OUTLOOK

It is clear from the data that the global economy is slowing. Economists are regularly lowering their GDP growth forecasts this year and next. Forward looking data supports the view that the current cycle has further to run, with PMIs, in a number of countries, starting to rebound from recent lows. Also slower growth is not automatically a bad thing.

A continuation of the economic cycle, clear visibility on central banks' interest rates and marginally reduced uncertainties on the global horizon are all reasons to be positive at present.

Diversification will continue to be important and will help portfolios weather any such volatility should it resurface. Asset classes such as fixed interest, continue to help portfolio diversification while providing an income stream, while absolute return funds offer prospects of capital protection in downward equity markets, should they occur.

4 INDICES USED IN THIS REPORT

Asset	Index
Growth Assets	
UK	FTSE All-Share Index
Overseas Developed	FTSE World (ex UK) Index
North America	FTSE North America Index
Europe (ex UK)	FTSE AW Developed Europe (ex UK) Index
Japan	FTSE Japan Index
Asia Pacific (ex Japan)	FTSE AW Developed Asia Pacific (ex Japan) Index
Emerging Markets	FTSE All Emerging Index
Frontier Markets	FTSE Frontier 50 Index
Property	IPD UK Quarterly Property Index
Hedge Funds	HFRI Fund Weighted Composite Index (GBP Hedged)
Commodities	S&P GSCI TR Index (GBP Hedged)
High Yield	ICE BoAML Global High Yield Index (GBP Hedged)
Emerging Markets Debt	JPM GBI-EM Global Diversified Composite Index
Senior Secured Loans	S&P Leveraged Loan Index (GBP Hedged)
Cash	IBA GBP LIBOR 7 Day Index
Bond Assets	
UK Gilts (>15 yrs)	FTSE A Gilts Over 15 Years Index
Index-Linked Gilts (>5 yrs)	FTSE A Index-Linked Over 5 Years Index
Corporate Bonds (>15 yrs AA)	iBoxx £ Corporate Over 15 Years AA Index
Non-Gilts (>15 yrs)	iBoxx £ Non-Gilts Over 15 Years Index
Yields	
UK Equities	FTSE All-Share Index (Dividend Yield)
UK Gilts (>15 yrs)	FTSE A Gilts Over 15 Years Index (Gross Redemption Yield)
Real Yield (>5 yrs ILG)	FTSE A Index-Linked Over 5 Year Index 5% Inflation (Gross Redemption Yield)
Corporate Bonds (>15 yrs AA)	iBoxx £ Corporate Over 15 Years AA Index (Gross Redemption Yield)
Non-Gilts (>15 yrs)	iBoxx £ Non-Gilts Over 15 Years Index (Gross Redemption Yield)
Inflation	
Price Inflation – RPI	UK Retail Price Index (All Items NADJ)
Price Inflation – CPI	UK Consumer Price Index (All Items NADJ)
Earnings Inflation	UK Average Weekly Earnings Index (Whole Economy excluding Bonuses NADJ)
Exchange Rates	
USD / EUR / JPY vs GBP	WM/Reuters 4:00 pm Closing Spot Rates

Note: All indices above are denominated in Sterling unless stated otherwise.

CONTACT

KIERAN HARKIN
Director
+44 (0)161 957 8016
kieran_harkin@jltgroup.com

NICK BUCKLAND
Senior Consultant
+44 (0)207 528 4188
nick_buckland@jltgroup.com

ANTHONY WRAY
Consultant
+44 (0)161 253 1121
anthony_wray@jltgroup.com

NATALIE ZANI
Associate Consultant
+44 (0)161 253 1124
natalie_zani@jltgroup.com

ANDREW MUNRO
Associate Consultant
+44 (0)161 931 4497
andrew_munro@jltgroup.com