

Clwyd Pension Fund Economic and Market Update Q2 2024

MARKET BACKGROUND Q2 2024

The second quarter of 2024 saw inflation rates largely soften towards central banks' targets for most developed market ("DM") economies. This set the stage for a shift towards monetary policy easing. The European Central Bank ("ECB") cut interest rates in June. Cooling inflation and a gradual loosening of the labor markets in the US prompted markets to price in two cuts by the US Federal Reserve ("Fed") by the end of 2024. The timing of potential rate cuts by the Bank of England ("BoE") was pushed to August despite waning price pressures, as service inflation remains elevated. Despite this, bond yields rose over the quarter as inflation data came in above market expectations in Q1 and April, especially in the US. Equity markets, barring Japanese equities, continued to rally, with emerging market equities outperforming developed markets. Political volatility remained high with a snap election called in the UK & France while the first TV debate of the US election campaign took place in June.

The final estimate of US GDP for Q1 2024 has been revised higher to 1.4% (quarter-on-quarter annualized), however, lower than the growth of 3.4% seen in Q4 2023. The increase in Q1 primarily reflected increases in consumer spending, housing investment and business investment. These were partly offset by a decrease in inventory investment. Headline US inflation fell over Q2 2024, decreasing to 3.3% in May from 3.5% at the end of March. Core US inflation has been declining in recent months. The Federal Reserve, at its June meeting, decided to maintain policy rates at 5.50% but revised their outlook for rate cuts to just one in 2024.

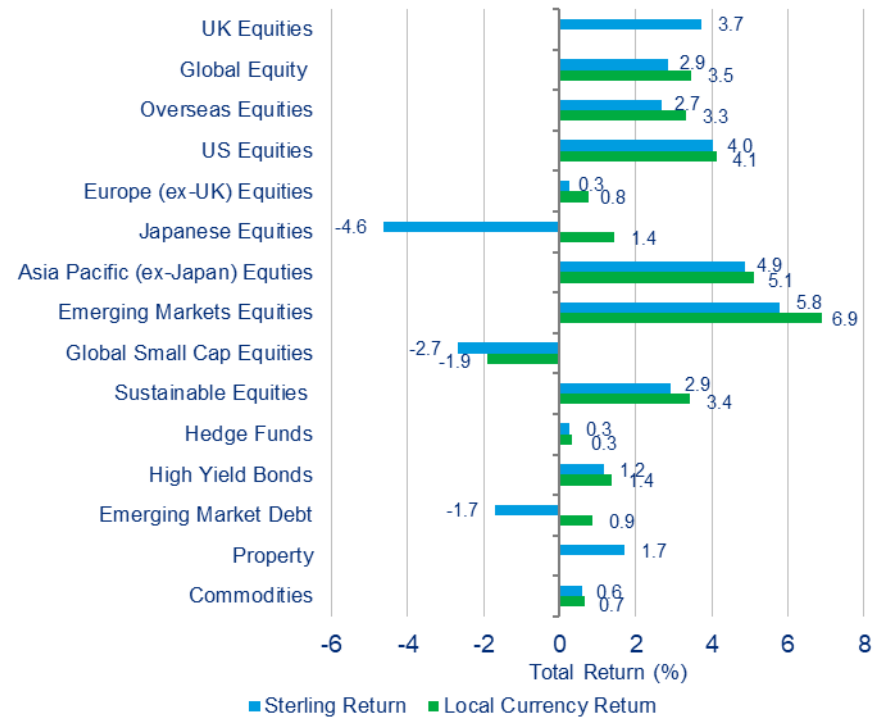
Chinese GDP grew 5.3% (year-on-year) in Q1 2024, higher than 5.2% in Q4 2023, boosted by strong growth in high-tech manufacturing. The economy continues to be challenged by a property crisis and subdued business and consumer activity. Policymakers are providing more support for the property sector and recent business surveys are beginning to point towards a broadening out of stronger economic activity. The People's Bank of China (PBoC) kept the one-year rates unchanged at 3.45%.

Q1 GDP in Japan declined 2.9% (quarter-on-quarter annualized), down from an earlier estimate of a 1.8% contraction. This contraction was largely due to a safety scandal at a large automaker which led to a factory shut down.

In the first quarter of 2024, seasonally adjusted GDP increased by 0.3% (quarter-on-quarter) in the eurozone. Spain showed the strongest growth with 0.7% (quarter-on-quarter), while Germany, France, and Italy were around the eurozone average. The ECB reduced interest rates by 0.25% following their June meeting to 4.25% for main refinancing operations, 4.50% for the marginal lending facility, and 3.75% for the deposit facility. Headline inflation in the eurozone rose to 2.5% in June from 2.4% in March.

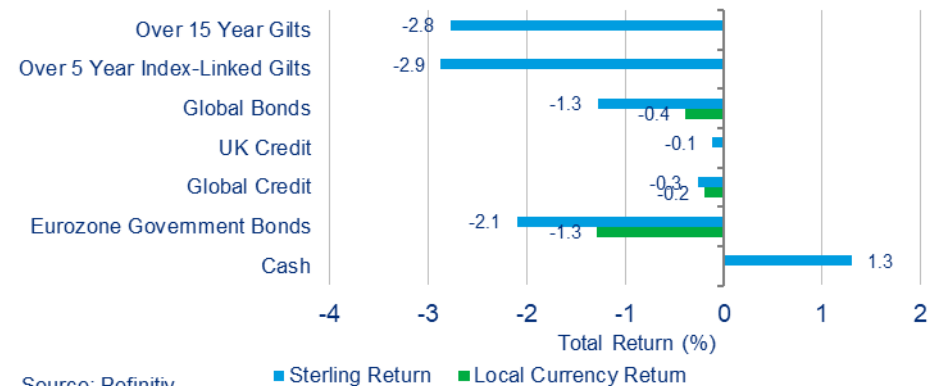
UK GDP grew by 0.7% in Q1 (quarter-on-quarter), recovering from a decline of 0.3% and 0.1% in the previous two quarters. Headline inflation in the UK fell to 2.0% in May from 3.2% in March. This was led by a slowdown in the cost of food. However, core inflation remains elevated at 3.5%. The Bank of England maintained interest rates at 5.25%.

Growth Assets- Index performance



Source: Refinitiv

Defensive Assets- Index Performance



Source: Refinitiv

Equity Market Review

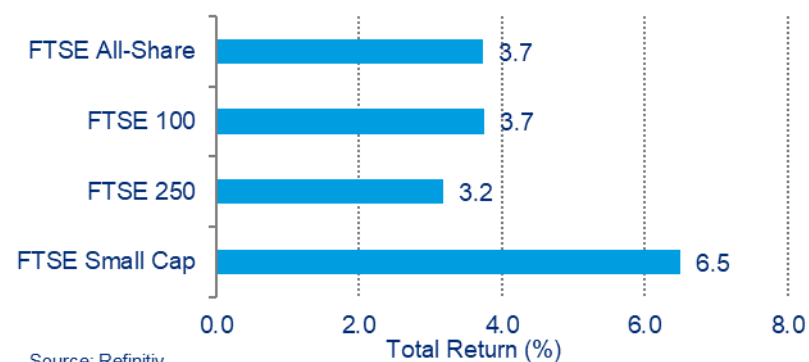
Global equities returned 2.9% in sterling terms and 3.5% in local currency terms while sterling ended broadly flat against the US dollar.

Q2 2024 has been another positive quarter for equity markets. Equity markets, especially in the developed market, are continuing to be narrowly led; with a small number of stocks driving the returns. Corporate earnings have remained resilient while subsiding inflationary pressures has created a more positive macroeconomic environment for equities.

Within equities, emerging markets (“EM”) outperformed DM. Chinese and Latin American equities exhibited lackluster performance as investors digested economic data. However Asian equities outperformed helped by Taiwan’s exposure to AI related names. India recovered after the surprise election results. Emerging markets equities returned 5.8% in sterling terms (6.9% local currency). US equities returned 4.0% in sterling terms, compared to 4.1% in local currency terms, whilst European (ex-UK) equities returned 0.3% in sterling terms and 0.8% in local terms. Japanese equities returned -4.6% in sterling terms and 1.4% in local currency terms. The Bank of Japan’s (“BoJ”) interest rate policy continues to weigh on the Japanese currency.

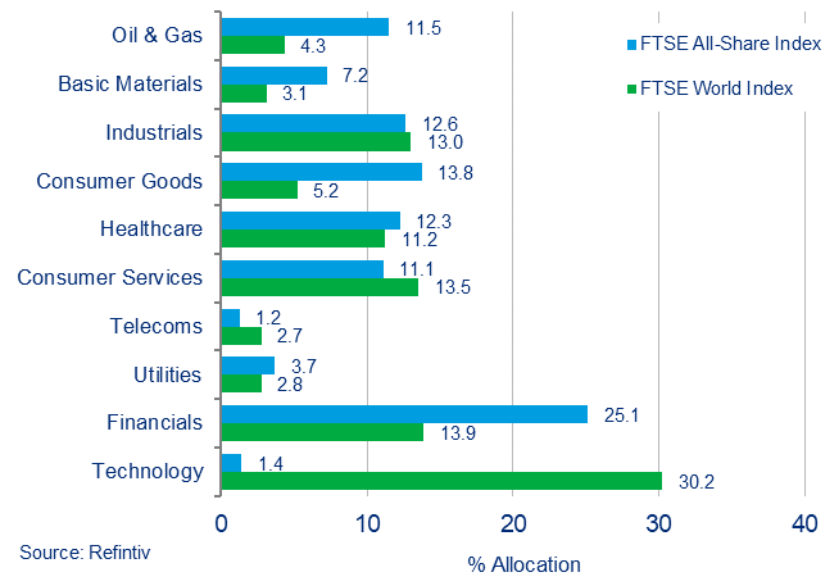
Global small-cap stocks returned -2.7% in sterling terms (-1.9% in local currency). Small-cap stocks suffered from confirmation of the higher-for-longer interest rate environment.

Percentage Performance by Market Cap – Q2 2024

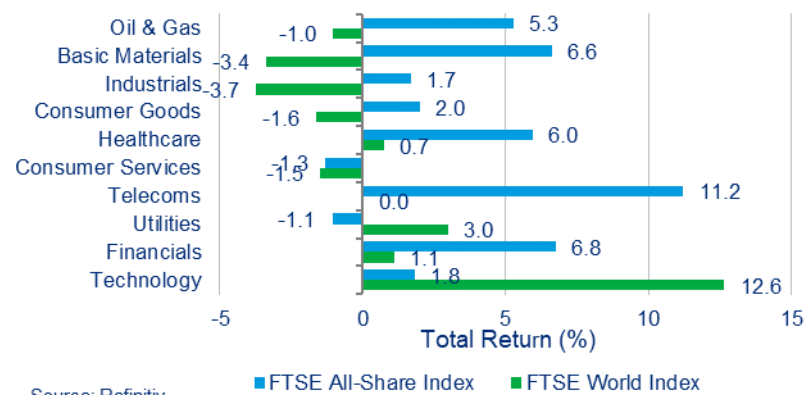


The FTSE All Share index returned 3.7% over the quarter, with the large-cap FTSE 100 index returning 3.7%. More domestically focused equities (FTSE 250) produced positive returns too. The small-cap index produced a positive 6.5% return. Strong performance in telecom and financials supported the UK performance relative to global equities.

Industry Tier Allocation at 30 June 2024

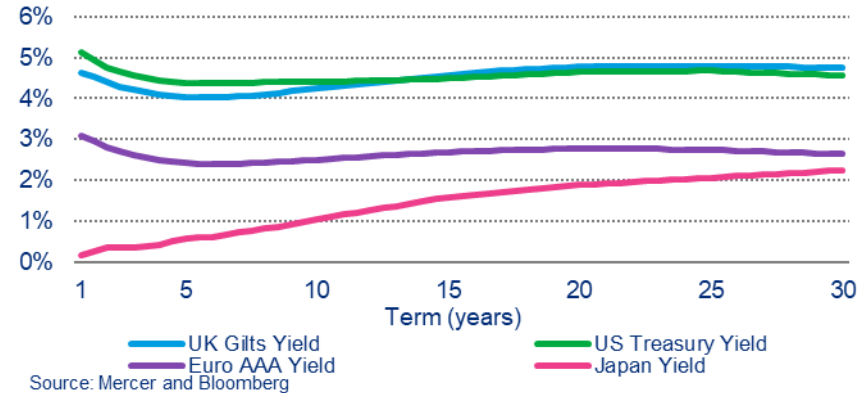


Percentage performance by Industry Tier- Three months to 30 June 2024



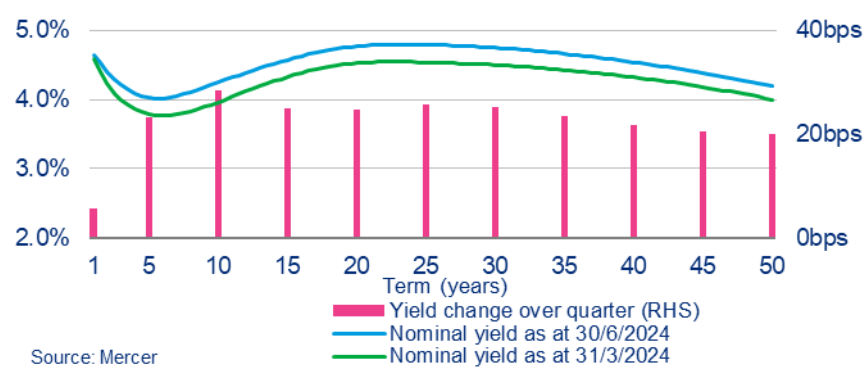
Bond Market Review

Government Bond Yield Curves

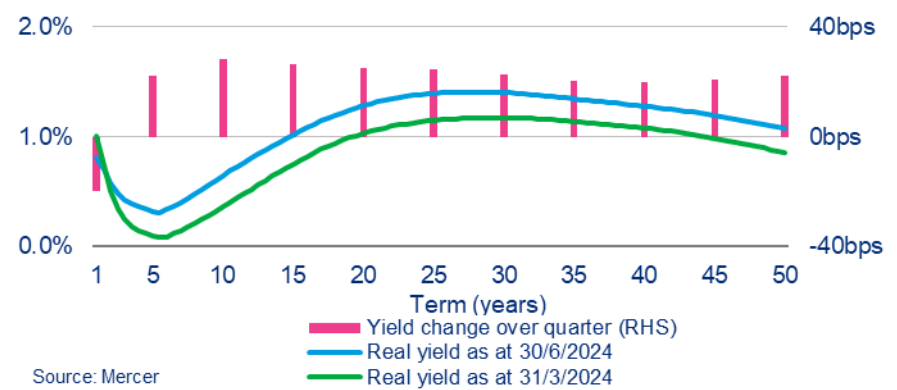


Global government bond yields on the 10-year tenor rose over the quarter (bond yields and prices move in opposite directions). The sell-off in bonds can be attributed to prospects of delayed rate cuts. In the US, softening inflation and growth, led to bond markets to price in two rate cuts in 2024. In Europe, although the ECB cut interest rates, the subsequent press conference lacked concrete forward guidance, leading markets to perceive the move as hawkish. Meanwhile, easing UK Inflation has set the stage for a BoE rate cut in August. The 10-year benchmark bond yield in the US, UK, and Germany rose 0.20%, 0.24%, and 0.20%, respectively. Meanwhile, the yield curve across these regions continued to be inverted. 10-year bond yields in Japan also moved past 1.0% on increasing expectations of further policy tightening by the BoJ.

Changes in the UK Bond Yield Curve over the Quarter

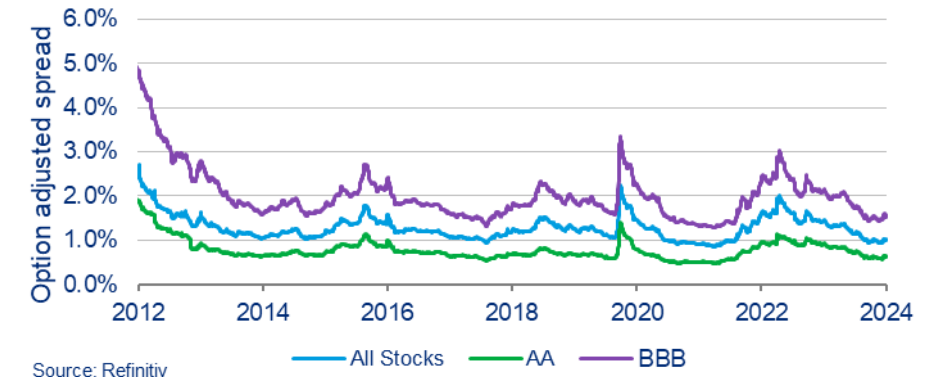


Changes in the UK Index-Linked Gilt Yield Curve over the Quarter



UK real yields rose across most of the curve over the last quarter, with the 10-year tenor increasing 0.28%. There remain concerns that stubborn services inflation and still-healthy wage growth may keep core inflation elevated. UK 10-year breakeven rates finished the quarter at ~3.59% (0.06% lower over the quarter). Despite this, the BoE is widely expected to commence with a rate cut in August.

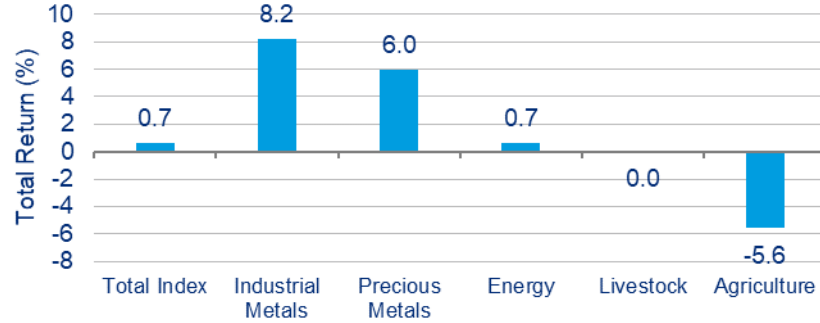
ICE BofAML Sterling Non-Gilts Indices Credit Spreads



Spreads on UK investment-grade credit widened marginally over the quarter, with spreads on lower-rated credit widening more (0.04%) than for higher-rated credit (0.02%).

Commodities

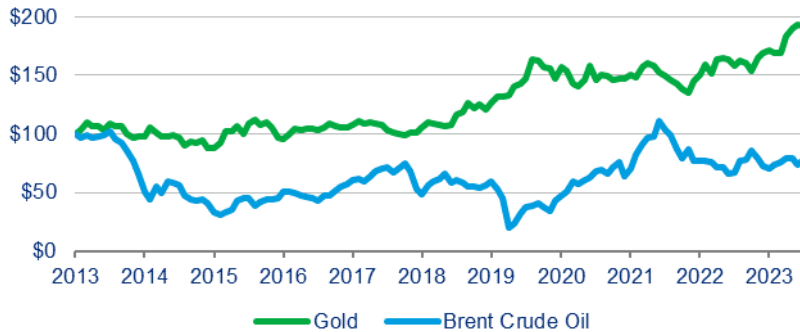
S&P GSCI Index in US Dollars - Commodities Q2 2024 Sector Performance



Source: Refinitiv

Commodity prices marginally increased over the quarter. Higher prices in industrial metals and precious metals offset the price falls in other components of the index. Economic activity around the world is expected to pick up as DM central banks cut interest rates, which is boosting the price of commodities. Furthermore, as real yields decline, the price of precious metals, such as gold, tend to perform strongly. Within energy, the Organization of Petroleum Exporting Countries and its allies (OPEC+) stuck to its forecast for relatively strong growth in global oil demand in 2024. Summer fuel demand is also supporting crude oil prices as global travel remains robust. Agriculture prices declined over the quarter as cocoa prices pulled back. They remain volatile following the sharp move higher earlier in the year.

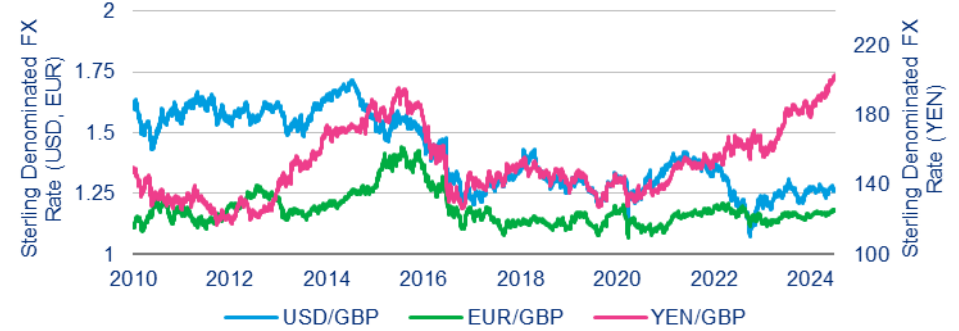
Change in US Dollar Price to 30 June 2024 - Gold and Brent Crude Oil - Rebased to \$100 on 31 December 2013



Source: Refinitiv

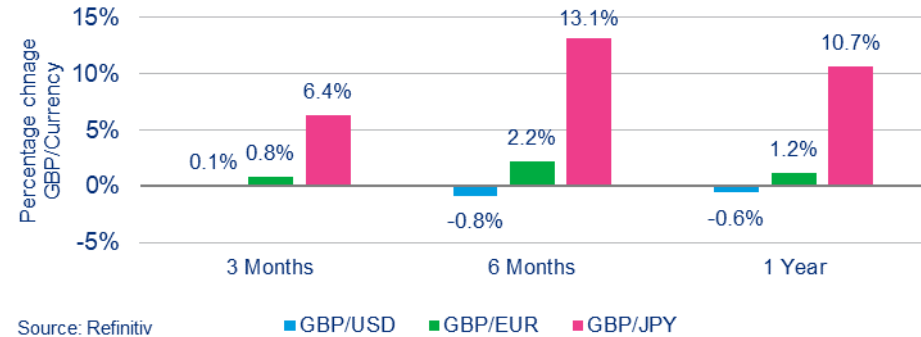
Currency Market Review

Sterling Denominated FX Rates



Source: Refinitiv

Change in Sterling against Foreign Currencies



Source: Refinitiv

Sterling was broadly unchanged versus US dollar over the quarter, while it appreciated 0.8% and 6.4% against the euro and the yen, respectively. The US dollar index rose a little over 1.0% in the quarter, supported by incoming macro data. On a 12-month basis, sterling significantly outperformed against the yen and marginally versus the euro, while weakening 0.6% against the US dollar.

Other Assets

UK property as measured by the MSCI Index increased by 1.7% over the second quarter of 2024.

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This appendix was written on 16 July 2024.

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