CLWYD PENSION FUND

ECONOMIC AND MARKET UPDATE
PERIOD ENDING 30 JUNE 2019

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1 MARKET BACKGROUND
PERIOD ENDING 30 JUNE 2019

MARKET STATISTICS

Market Returns Growth Assets	3 Mths %	1 Year %	3 Years % p.a.
UK Equities	3.3	0.6	9.0
Overseas Developed	6.7	11.0	14.4
North America	6.8	14.1	15.9
Europe (ex UK)	8.8	8.0	12.8
Japan	2.9	-1.2	10.2
Asia Pacific (ex Japan)	5.9	6.4	12.9
Emerging Markets	3.8	8.3	12.5
Frontier Markets	8.6	4.3	8.0
Property	0.6	4.0	6.6
Hedge Funds[3]	2.3	2.5	4.3
Commodities[2]	-2.2	-13.7	-0.2
High Yield[2]	2.3	6.5	6.1
Emerging Market Debt	8.2	13.1	5.9
Senior Secured Loans[2]	1.1	2.1	3.4
Cash	0.2	0.7	0.4

Market Returns Bond Assets	3 Mths %	1 Year %	3 Years % p.a.
UK Gilts (>15 yrs)	2.0	7.2	3.1
Index-Linked Gilts (>5 yrs)	2.0	9.1	6.0
Corporate Bonds (>15 yrs AA)	2.6	10.7	5.2
Non-Gilts (>15 yrs)	3.1	9.6	5.6

Exchange Rates: Change in Sterling	3 Mths %	1 Year %	3 Years % p.a.
Against US Dollar	-2.33	-3.60	-1.62
Against Euro	-3.70	-1.16	-2.43
Against Yen	-4.93	-6.23	-0.01

Inflation Indices	3 Mths %	1 Year %	3 Years % p.a.
Price Inflation – RPI	1.6	2.9	3.3
Price Inflation – CPI	0.9	2.0	2.4
Earnings Inflation[1]	2.0	3.8	2.9

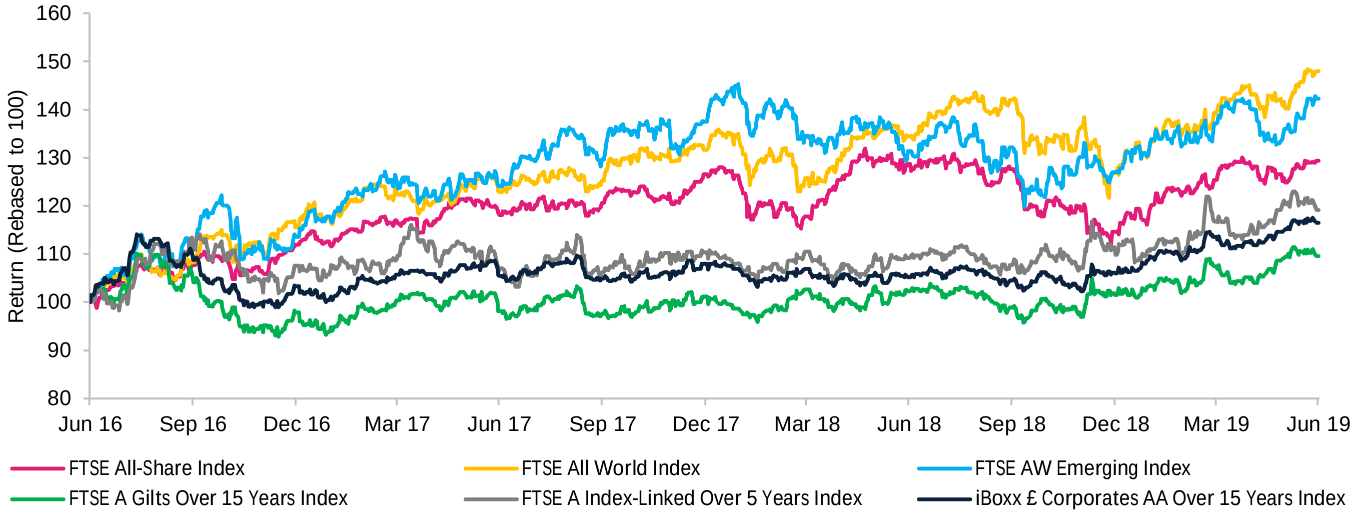
Yields	% p.a.
UK Equities	4.13
UK Gilts (>15 yrs)	1.40
Real Yield (>5 yrs ILG)	-1.90
Corporate Bonds (>15 yrs AA)	2.25
Non-Gilts (>15 yrs)	2.78

Absolute Change in Yields	3 Mths %	1 Year %	3 Years % p.a.
UK Equities	-0.09	0.49	0.47
UK Gilts (>15 yrs)	-0.08	-0.27	-0.21
Real Yield (>5 yrs ILG)	-0.04	-0.31	-0.51
Corporate Bonds (>15 yrs AA)	-0.11	-0.47	-0.50
Non-Gilts (>15 yrs)	-0.14	-0.38	-0.41

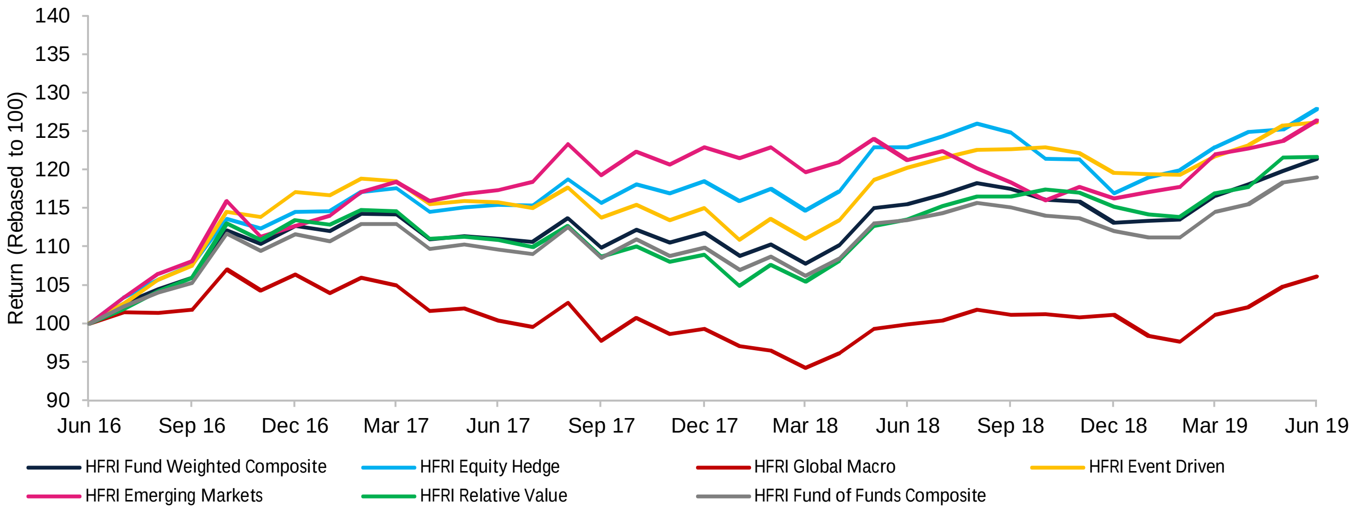
Source: Thomson Reuters.
Notes: [1] Subject to 1 month lag [2] GBP Hedged [3] Local Currency

MARKET SUMMARY CHARTS

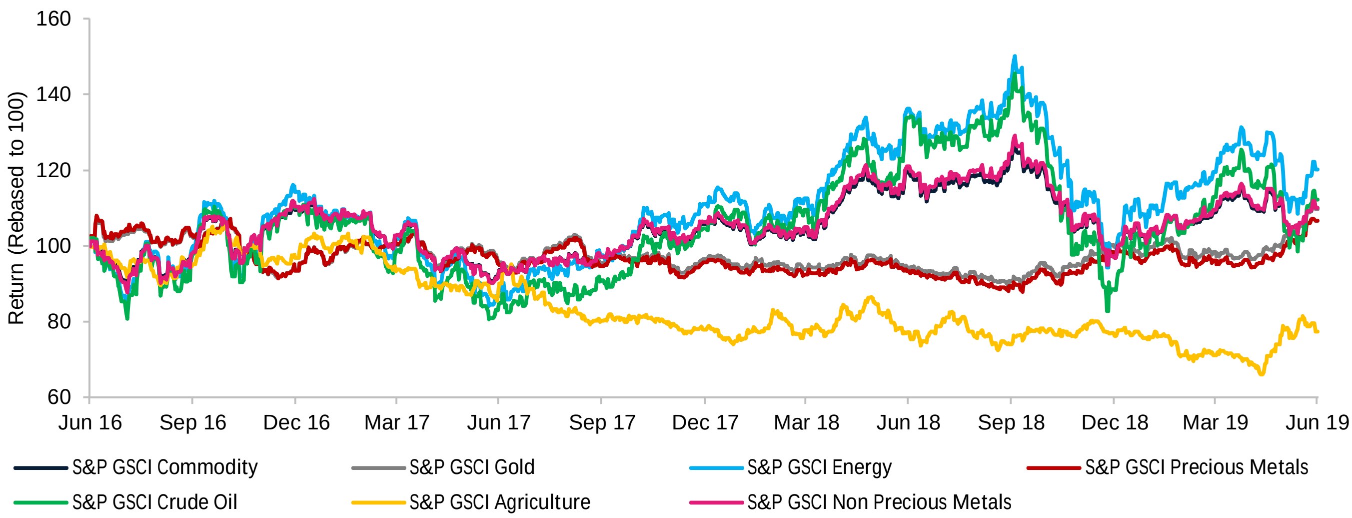
Market performance – 3 years to 30 June 2019



Hedge Funds: Sub-strategies performance – 3 years to 30 June 2019

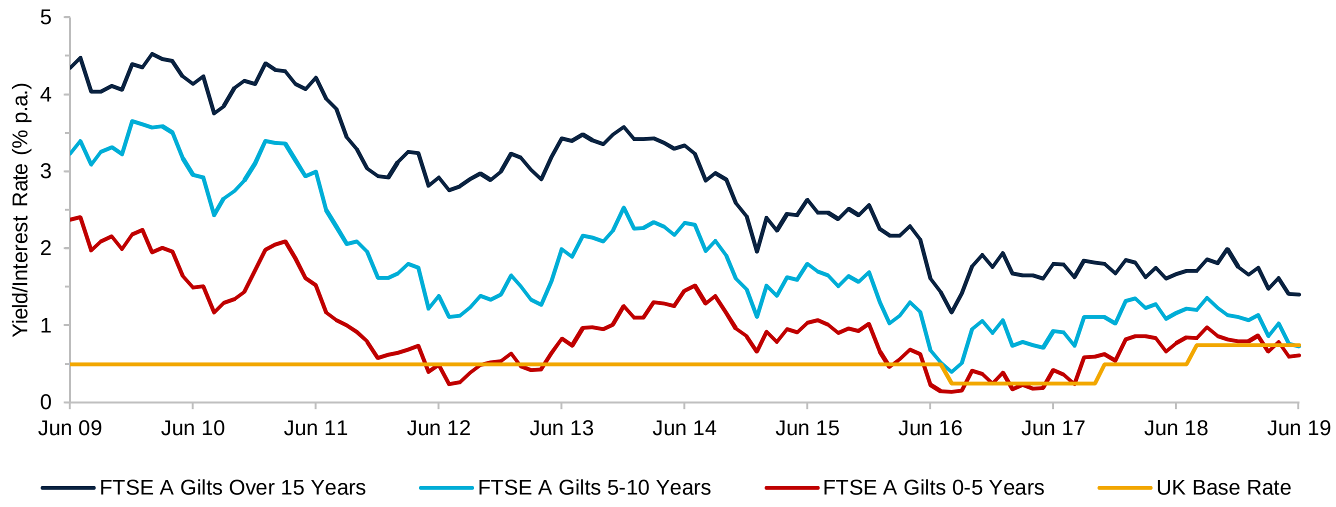


Commodities: Sector performance – 3 years to 30 June 2019

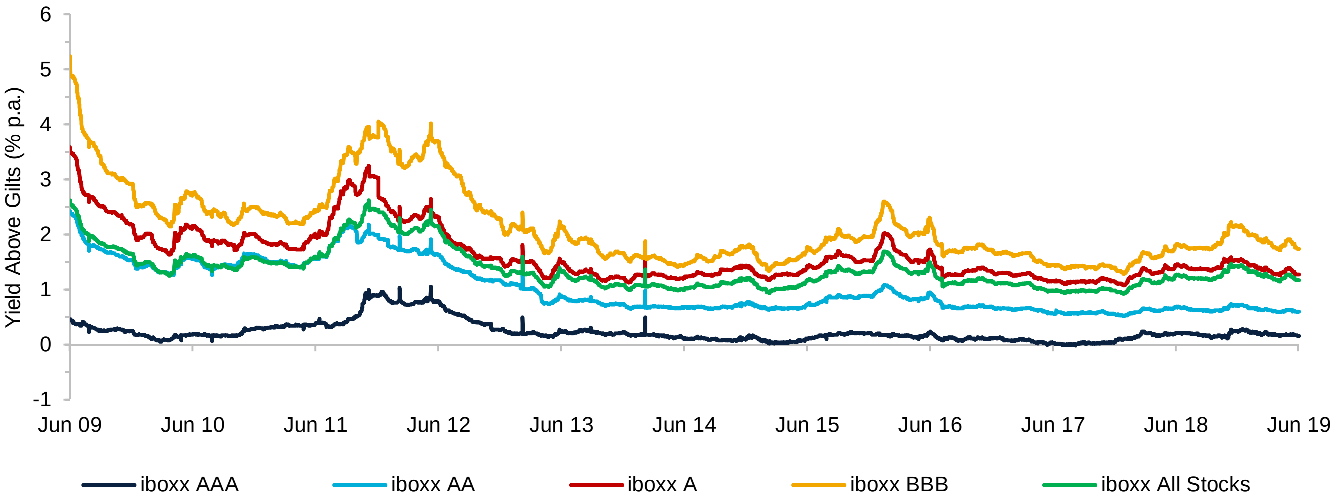


Source: Thomson Reuters

UK government bond yields – 10 years to 30 June 2019



Corporate bond spreads above government bonds – 10 years to 30 June 2019



Source: Thomson Reuters.

2 ECONOMIC STATISTICS

Economic Statistics as at:	30 June 2019			31 Mar 2019			30 June 2018		
	UK	Euro[1]	US	UK	Euro[1]	US	UK	Euro[1]	US
Annual Real GDP Growth[2]	1.8%	2.8%	2.7%	1.4%	2.7%	2.5%	1.2%	3.9%	2.9%
Annual Inflation Rate[3]	2.0%	1.3%	1.6%	1.9%	1.4%	1.9%	2.4%	2.0%	2.9%
Unemployment Rate[4]	3.8%	7.6%	3.6%	3.9%	7.8%	3.9%	4.2%	8.3%	3.9%
Manufacturing PMI[5]	48.0	47.6	50.6	55.1	47.5	52.4	54.0	54.9	55.4

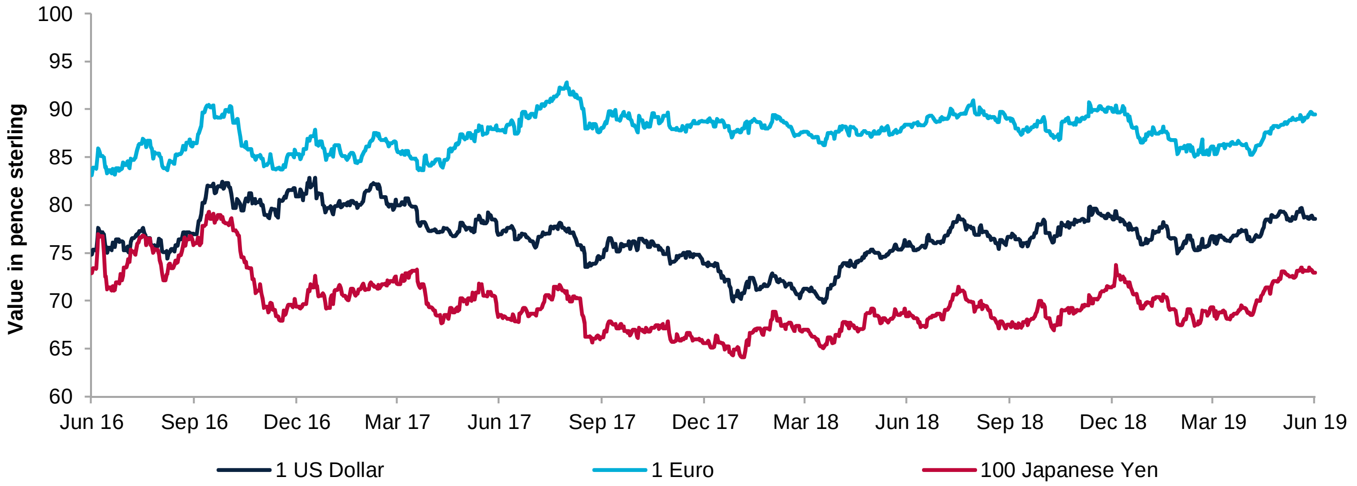
Change over periods ending:	3 months			12 months		
30 June 2019	UK	Euro[1]	US	UK	Euro[1]	US
Annual Real GDP Growth[2]	0.4%	0.1%	0.2%	0.6%	-1.1%	-0.2%
Annual Inflation Rate[3]	0.1%	-0.1%	-0.3%	-0.4%	-0.7%	-1.3%
Unemployment Rate[4]	-0.1%	-0.2%	-0.3%	-0.4%	-0.7%	-0.3%
Manufacturing PMI[5]	-7.1	0.1	-1.8	-6.0	-7.3	-4.8

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	
30 June 2019	30 Jun 19	31 Mar 19	30 Jun 18	3 months	12 months
1 US Dollar is worth	78.57	76.74	75.74	-2.3%	-3.6%
1 Euro is worth	89.48	86.17	88.44	-3.7%	-1.2%
100 Japanese Yen is worth	72.93	69.33	68.38	-4.9%	-6.2%

Exchange rate movements – 3 years to 30 June 2019



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

3 MARKET COMMENTARY

INTRODUCTION

Strong returns in Q2, when added to the market rally during Q1, ensured that most global equity markets recovered from the lows reached in 2018. However, it's been far from plain sailing. The risk on/off pendulum has certainly been in full swing, oscillating over the last three months. With global equity markets producing solid returns in the first four months of the year, it was unsurprising to see markets pull back in May - trade tariffs were once again on the agenda.

The ramifications of the US-China trade war are beginning to feed through as global growth is seen as slowing down and companies' earnings are revised lower. These concerns are discounted by the market through lower share prices and investors seeking safety in assets less exposed to trade.

The G20 (Group of Twenty) summit provided an opportunity for President Trump and President Xi to hold a separate meeting. The meeting led to a thawing in relations between the two countries, allowing trade negotiations to resume and provided the market with some reassurance that a trade deal is potentially close.

UNITED KINGDOM

- A weaker pound helped to boost UK stocks over the quarter as the blue-chip FTSE 100 added 3.3%, on a total return basis, over the quarter. The returns were encouraging, given Brexit and the uncertain political backdrop but equity markets continue to lag their counterparts in Europe, Asia and North America.
- Despite avoiding a hard 'no-deal' Brexit on the 12 April, the list of uncertain outcomes was only increased during the second quarter. The UK was granted a second, and to some extent flexible, extension to leaving the European Union as the Article 50 deadline was pushed out until 31 October 2019.
- The lack of progress on Brexit ultimately cost Prime Minster May her position as she was forced to resign following another revolt within her own party and another impasse in Parliament on her Brexit deal.
- Economic data from the UK has remained mixed. GDP growth for the first quarter reported that the UK economy expanded in line with market expectations at 0.50%. This caused the Bank of England to revise their annual growth estimates up to 1.5% p.a. from 1.2% for 2019.
- On the other hand, forward looking data, most notably on manufacturing, has recently suggested that activity has once again started to fade. Previously, readings had been heavily skewed to the upside on the run up to a potential disorderly Brexit scenario where businesses had been stockpiling inventory.
- The drop in Sterling has once again helped to insulate the performance of UK stocks that either report in US Dollars or are substantial exporters of goods or services.
- The US Dollar looks fully valued at present; this trend could be at risk of reversing - subject to a disorderly Brexit of course and with much uncertainty still remaining on both political and Brexit fronts.

NORTH AMERICA

- US stocks gained significant traction during Q2 with the S&P 500 closing in on the symbolic 3,000 level.
- Initially, risk appetite for US equities was supported after stronger than expected economic data. Q1 GDP data, released in April, came in at an annualised rate of 3.2% whilst, unemployment numbers got back on track with

the April and May non-farm payroll releases showing that the US economy added a further 196,000 and 263,000 jobs respectively.

- As the quarter developed, forward looking data started to show signs of deterioration, with a softer manufacturing purchasing managers index reading and new factory orders which edged into contractionary territory over the quarter as well.
- Political tensions resurfaced during May as President Trump clashed with both China and Mexico on several issues. Most notably the 'trade wars' intensified as the US hiked the rate of tariffs from 10% to 25% on $200bn worth of imports from China; meanwhile President Xi retaliated by imposing further tariffs on $60bn worth of US exports to China.
- Sino-American relations further soured when tech titan 'Huawei', the world's largest telecom equipment maker, was blacklisted by Trump citing national security concerns.
- US administration tried tackling the flow of Mexican migrants by threatening a fresh 5% tariff on all Mexican imports. The tariffs were postponed at the last minute as Mexico agreed to step up their efforts to control illegal migration.
- The market rally during June was fuelled by the Fed's dovishness and the expectation for the Central Bank to cut interest rates by up to 0.5% over the summer months.
- The fundamentals for US stocks remain resilient and support current portfolio weights towards this region. Analysts had been overly pessimistic with their earnings forecasts for corporates during 2019.
- Technology stocks in particular had a mostly positive reporting period as did financials during the first quarter.

EUROPE (EX UK)

- European equities registered strong returns during Q2. They remain amongst the top performers' year-to-date across international equity markets after positive advances during Q1.
- The region has certainly not been for the fainthearted this year with swings from one month to the next, market timing has proven to be significant in recent months.
- As with other developed markets, European equities were boosted in April as investors' appetite for risk increased. This was apparent with 'risk on' sectors such as technology and consumer discretionary outperforming the more defensive stocks in the utilities sector.
- Crucially the data landscape also improved over the period. Data released at the end of April reaffirmed expectations that Europe had avoided a recession by expanding 0.4% across the Eurozone block for Q1.
- Forward looking data remained somewhat soft and during May equity markets fell sharply.
- The other significant development in Europe came from the outgoing European Central Bank (ECB) President, Mario Draghi. During Europe's annual symposium in June, Draghi signalled that the subdued outlook in Europe may warrant the Bank to launch a fresh round of stimulus in an attempt to boost inflation across the region.
- After Draghi's, 'whatever it takes' speech in 2012, investors have been quick to react to such dovishness from the ECB and thus this news sent markets higher once more.
- Despite strong gains since the turn of the year, European equity valuations continue to trade at around their 10 year averages and are therefore far from overvalued on a historic valuation basis.

JAPAN

- Japanese stocks, much like in the UK - albeit for different reasons, have struggled to gain much momentum over the period.
- In Q2 Japanese equities returned 2.9%, however, they continue to lag behind several developed market counterparts. Part of this has been due to strengthening of the Japanese Yen versus other currencies as its export economy suffered as a result of its safe haven status.
- An example of this was during May when global markets moved to 'risk off' assets, including the Yen, and put significant downward pressures on Japanese stocks which fell.

- Trading volumes in Japanese stocks were fairly light during both April and early May, as the country's four day public holiday coincided with the abdication of their Emperor Akihito, and the beginning of a new era under Reiwa.
- This somewhat disrupted the flow of economic and earnings data over the period and left foreign investors somewhat reluctant to add to their Japanese equity positions over the period.
- The Bank of Japan left policy unchanged in Q2; however, they did reiterate that their accommodative policy is likely to remain in place for an extended period.

ASIA PACIFIC (EX JAPAN) / EMERGING MARKETS

- Asia Pacific stocks as a whole produced a robust return of 5.9% in Sterling terms during Q2, as improving market sentiment towards risk on assets delivered a nice tailwind for the region. However, with such a large region, there is significant disparity between countries.
- Emerging Markets which include some exposure to regions such as South Africa and South America also provided a reasonable return with a slight improvement to the global outlook.
- Much like the wider trend, Chinese stocks initially benefited from an improving economic outlook. The effects of government led policy support were evident during April when China's GDP growth came in higher than expected at 6.4% year-on-year. Furthermore, strong readings of factory output and retail sales all painted a healthier picture of the Chinese economy at the start of the quarter.
- Momentum was abruptly halted as President Trump reopened the 'trade war' by implementing higher tariffs on a selected number of Chinese exports. This was enough to spook investors and sent markets into retreat throughout May.
- Fortunately with the G20 meeting in Japan on the horizon in June, China's equity markets picked up towards the end of the quarter on the hopes of some sort of improvement to trading relations.
- Indian markets somewhat bucked the wider market pattern this quarter. However, shares rallied strongly at the end of May when Prime Minister Narendra Modi completed a landslide victory to be re-elected.
- A further boost to markets was received when the Indian Central Bank cut rates at the beginning of June to their lowest levels since 2010.
- Looking ahead, domestic business will be eager for Prime Minister Modi to implement both bolder and more dramatic economic reform to ensure that India's vast resources are utilised and their potential maximised.

FIXED INCOME

- The sovereign bond market in Q2 has seen appetite move in both directions. In April, markets reacted positively to marginally better than expected economic data and sent yields higher and prices lower in government bonds.
- With the unexpected return of trade tariffs to the agenda in May, markets went into defensive mode. As a result bond yields moved lower across the board and have largely remained at lower levels since, despite the more recent 'risk on' sentiment in June.
- Government bonds have been boosted by a change in the tone of comments from the central banks, particularly the Fed and the European Central Bank. The Fed is now widely expected to deliver a rate cut in the US over the summer.
- In the UK, Gilt yields have been particularly volatile during Q2 and at times marched to their own tune as the uncertainty around Brexit rumbled on.
- The announcement of Prime Minister May's resignation and with the lack of visibility on the wider political landscape volatility is likely to remain elevated for some time to come.
- Elsewhere in the corporate bond arena, high yield bonds continued to outperform investment grade debt in Q2. This was largely due to a general 'risk on' sentiment rather than a dramatic improvement in corporate fundamentals.

ALTERNATIVES

- Hedge Funds had a positive second quarter, as all strategies posted gains in both Sterling and US dollar terms. Overall, Hedge Funds returned 4.1% in Sterling terms and 1.7% in US dollar terms. Global Macro strategies were the best performing strategies, returning 5.0% (Sterling) and 2.5% (US dollar). Emerging Market strategies, albeit positive over the period, were the worst performing strategies, returning 3.6% (Sterling) and 1.2% (US dollar).
- Commodities had a relatively slow quarter, returning 0.9% in Sterling terms (-1.4 % in US dollar terms). Gold and Precious Metals were the best performing commodities returning 11.6% and 10.8% respectively in Sterling terms (9.0% and 8.3% in US dollar terms). Agriculture sector was positive in Q2, reversing the trend over the last 18 months. Energy and non-precious metals declined in US dollar terms, with Crude Oil returning -0.5% in Sterling terms (-2.9% in US dollar terms).
- Property returned 0.6% over quarter, as the market continues to operate under the uncertainty of Brexit as the outcome is still to be decided. The impact on office and industrial property has been limited so far. Investment banks have been quiet in the last two quarters, but media and technology companies have continued to take up office spaces in regional cities including London and Edinburgh. Demand for retail remains fragile both in and out of town centres.

OUTLOOK

The market is incorporating significantly looser monetary policy ahead. In the US, the market now expects up to two rate cuts this year. Furthermore, whilst recent talks at the G20 summit in Japan went some way to dispelling market concerns on global trade and tariffs, they stopped short of a permanent solution.

Since the quarter, end Boris Johnson has been elected by the Conservative Party to become the next serving Prime Minister, beating Jeremy Hunt with a 66.4% majority vote. Brexit is still to go ahead on the 31 October 2019, and with the appointment of a ‘Brexiter’ as Prime Minister it will now be up to Boris Johnson to try and make a deal with the EU in time, otherwise the UK is set to leave with a ‘no deal’ Brexit.

4 MARKET STATISTICS INDICES USED

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 Monthly Property Index
Hedge Funds	Credit Suisse Hedge Fund Index
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