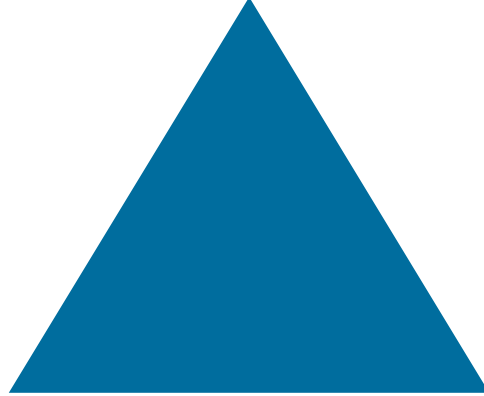
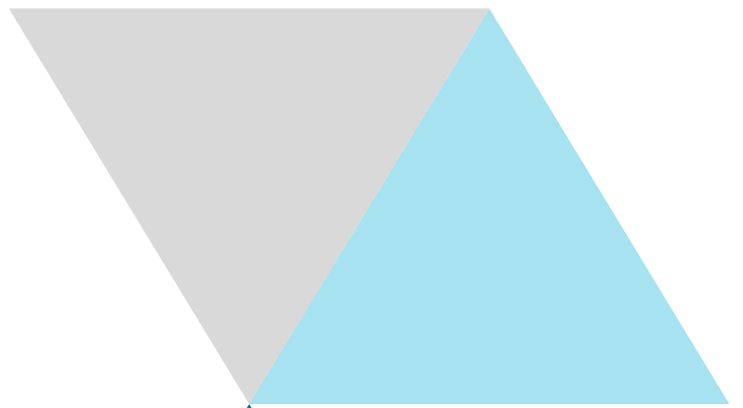


**CLWYD PENSION FUND**  
**ECONOMIC AND MARKET UPDATE**  
**PERIOD ENDING 30 SEPTEMBER 2020**



# TABLE OF CONTENTS

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<b>1 MARKET BACKGROUND</b>	<b>3</b>
<b>2 ECONOMIC STATISTICS</b>	<b>6</b>
<b>3 MARKET COMMENTARY</b>	<b>7</b>
<b>4 MARKET STATISTICS AND INDICES USED</b>	<b>10</b>

# 1 MARKET BACKGROUND

## PERIOD ENDING 30 SEPTEMBER 2020

### MARKET STATISTICS

Market Returns Growth Assets	3 Mths %	1 Year %	3 Years % p.a.
UK Equities	-2.9	-16.6	-3.2
Overseas Developed	3.3	5.8	9.4
North America	4.5	10.5	13.6
Europe (ex UK)	1.6	0.7	3.1
Japan	2.4	2.6	5.4
Asia Pacific (ex Japan)	0.8	-3.0	2.3
Emerging Markets	4.5	4.6	4.6
Frontier Markets	4.3	-16.0	-7.7
Property	0.7	-2.7	3.2
Hedge Funds <sup>1</sup>	3.4	2.4	2.7
Commodities <sup>2</sup>	4.0	-29.7	-11.5
High Yield <sup>2</sup>	3.8	1.3	2.4
Emerging Market Debt	-3.8	-6.1	1.4
Senior Secured Loans <sup>2</sup>	3.3	0.4	1.7
Cash	0.0	0.7	0.7

Yields	% p.a.
UK Equities	4.56
UK Gilts (Over 15 yrs)	0.71
Real Yield (Over 5 yrs ILG)	-2.29
Corporate Bonds (Over 15 yrs AA)	1.53
Non-Gilts (Over 15 yrs)	2.08

Source: Refinitiv Datastream.

Notes: <sup>1</sup> Local Currency. <sup>2</sup> GBP Hedged. <sup>3</sup> Subject to 1-month lag.

Market Returns Bond Assets	3 Mths %	1 Year %	3 Years % p.a.
UK Gilts (Over 15 yrs)	-2.5	5.2	9.5
Index-Linked Gilts (Over 5 yrs)	-2.5	0.4	7.0
Corporate Bonds (Over 15 yrs AA)	-1.0	6.7	8.7
Non-Gilts (Over 15 yrs)	0.5	6.2	7.9

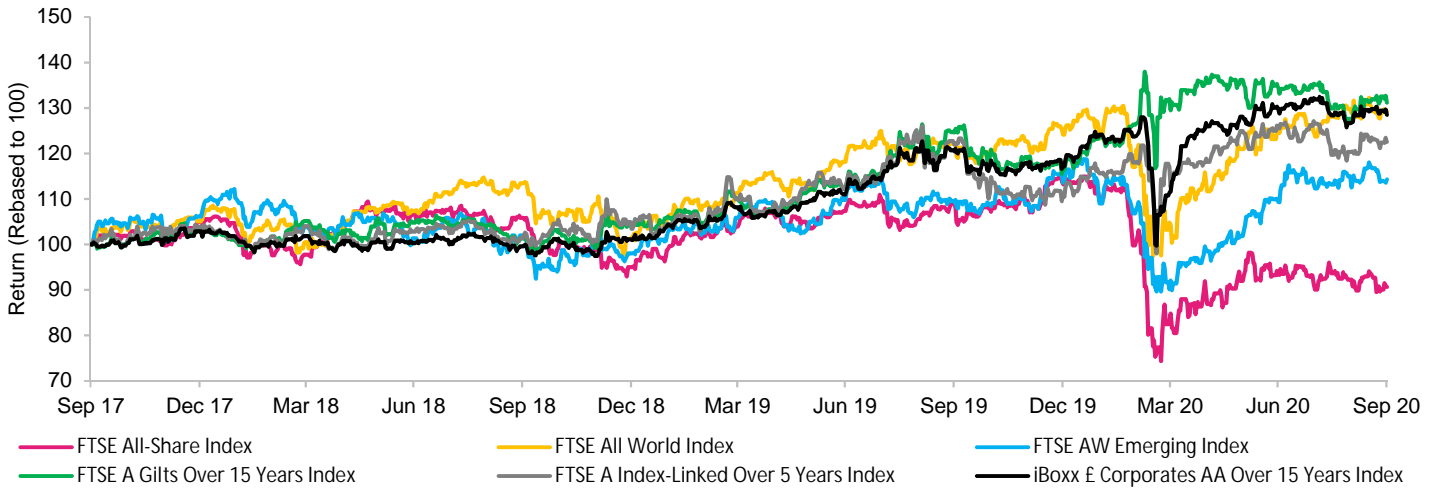
Exchange Rates: Change in Sterling	3 Mths %	1 Year %	3 Years % p.a.
Against US Dollar	4.63	4.91	-1.23
Against Euro	0.21	-2.47	-0.96
Against Yen	2.35	2.44	-3.33

Inflation Indices	3 Mths %	1 Year %	3 Years % p.a.
Price Inflation – RPI	0.5	1.1	2.3
Price Inflation – CPI	0.4	0.5	1.6
Earnings Inflation <sup>3</sup>	2.8	1.7	2.9

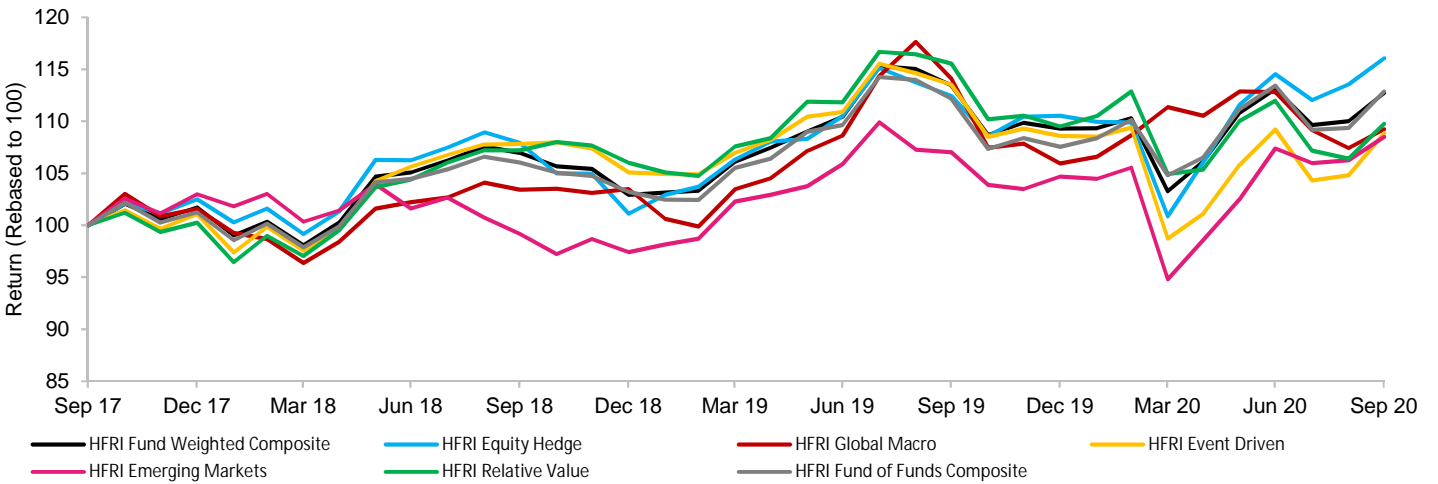
Absolute Change in Yields	3 Mths %	1 Year %	3 Years % p.a.
UK Equities	-0.10	0.35	0.88
UK Gilts (Over 15 yrs)	0.13	-0.20	-1.13
Real Yield (Over 5 yrs ILG)	0.09	-0.09	-0.78
Corporate Bonds (Over 15 yrs AA)	0.08	-0.28	-1.11
Non-Gilts (Over 15 yrs)	0.01	-0.26	-0.97

# MARKET SUMMARY CHARTS

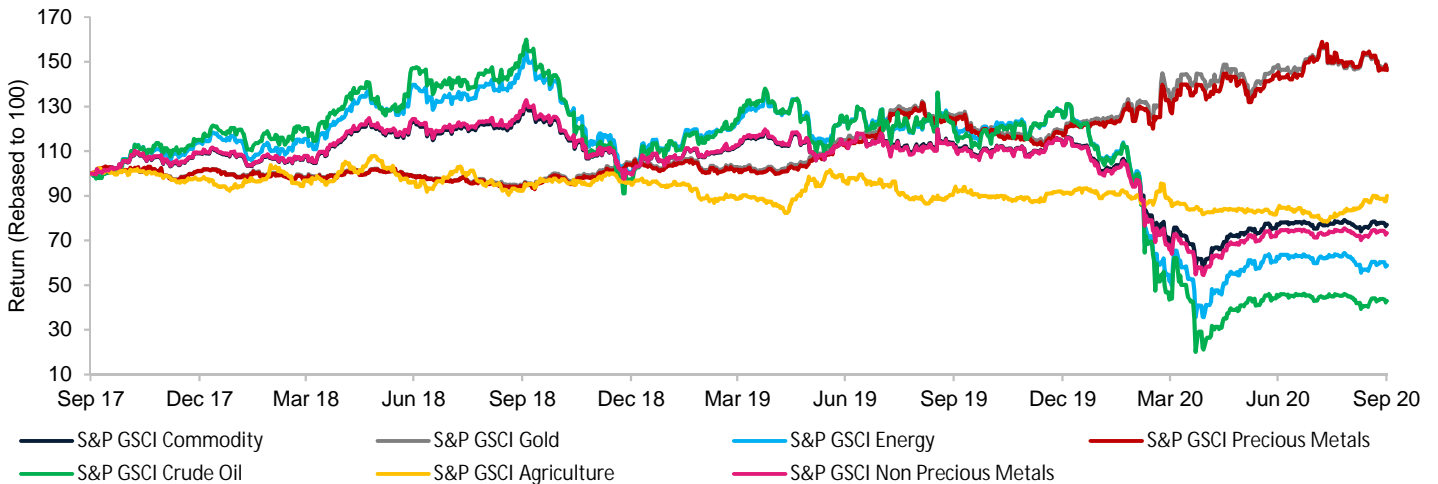
## Market performance – 3 years to 30 September 2020



## Hedge Funds: Sub-strategies performance – 3 years to 30 September 2020

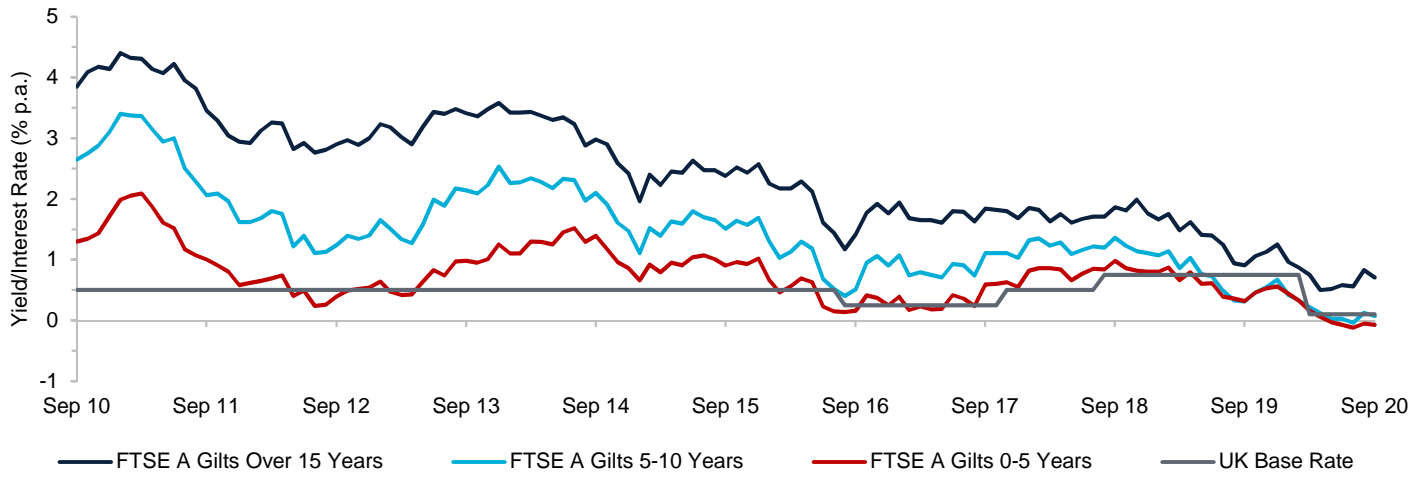


## Commodities: Sector performance – 3 years to 30 September 2020

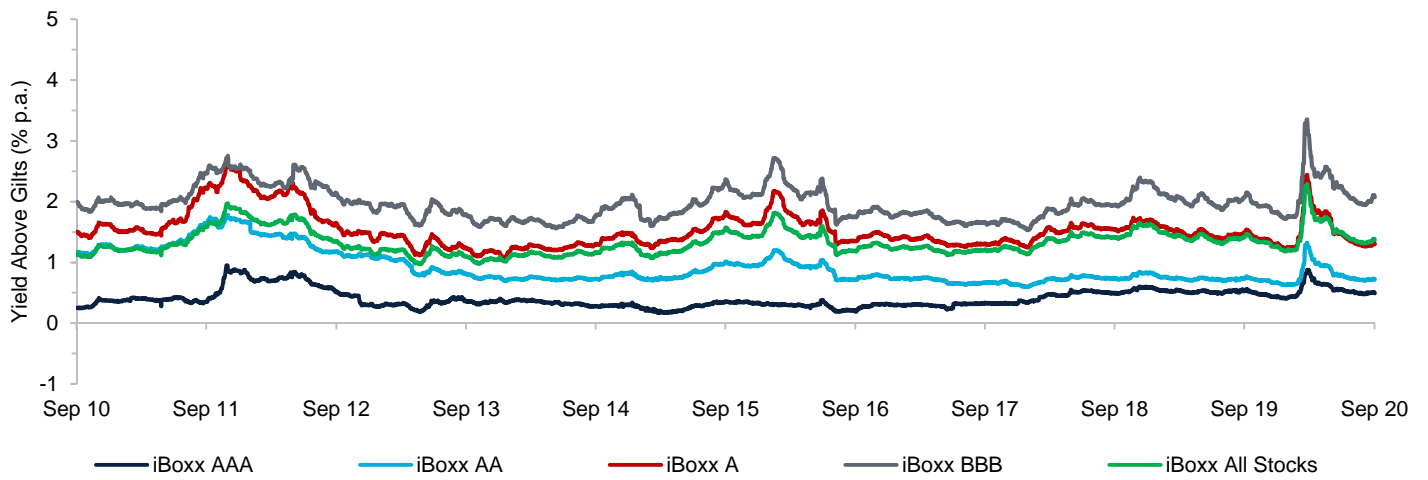


Source: Refinitiv DataStream

UK government bond yields – 10 years to 30 September 2020



Corporate bond spreads above government bonds – 10 years to 30 September 2020



Source: Refinitiv DataStream

## 2 ECONOMIC STATISTICS

Economic Statistics:	30 September 2020			30 June 2020			30 September 2019		
	UK	Euro <sup>1</sup>	US	UK	Euro <sup>1</sup>	US	UK	Euro <sup>1</sup>	US
Annual Real GDP Growth <sup>2</sup>	-21.5%	-12.7%	-9.0%	-2.1%	-1.4%	0.3%	1.3%	3.0%	2.0%
Annual Inflation Rate <sup>3</sup>	0.5%	-0.3%	1.4%	0.6%	0.3%	0.6%	1.7%	0.8%	1.7%
Unemployment Rate <sup>4</sup>	4.5%	8.1%	8.4%	4.1%	7.6%	13.3%	3.9%	7.5%	3.7%
Manufacturing PMI <sup>5</sup>	54.3	53.7	53.5	50.1	46.9	49.6	48.3	45.7	51.1

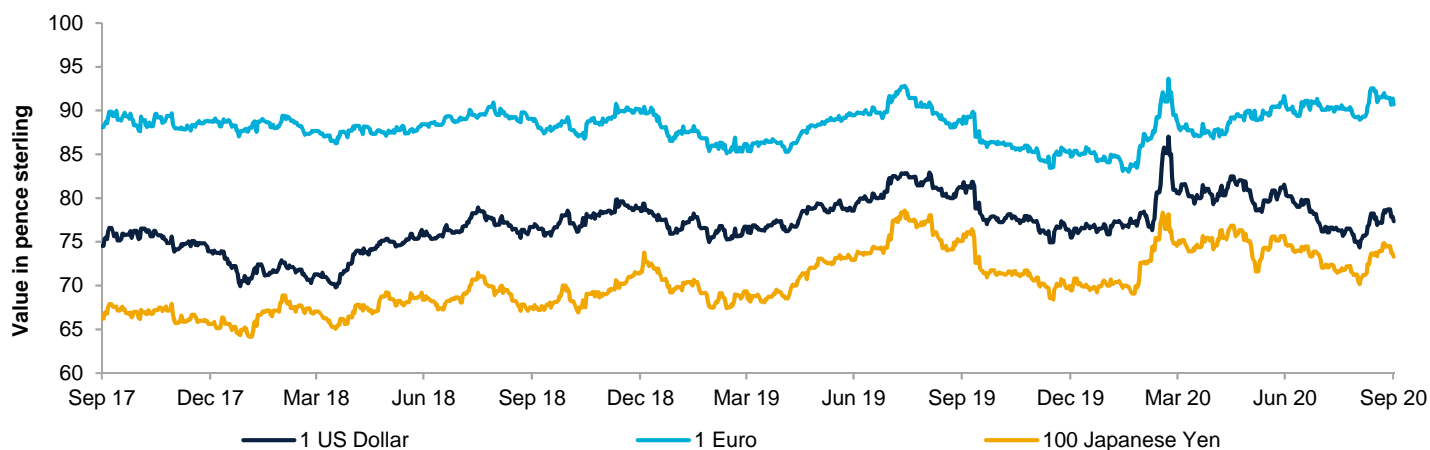
Change over periods ending:	3 months			12 months		
	UK	Euro <sup>1</sup>	US	UK	Euro <sup>1</sup>	US
30 September 2020						
Annual Real GDP Growth <sup>2</sup>	-19.4%	-11.3%	-9.3%	-22.8%	-15.7%	-11.0%
Annual Inflation Rate <sup>3</sup>	-0.1%	-0.6%	0.8%	-1.2%	-1.1%	-0.3%
Unemployment Rate <sup>4</sup>	0.4%	0.5%	-4.9%	0.6%	0.6%	4.7%
Manufacturing PMI <sup>5</sup>	4.2	6.8	3.9	6.0	8.0	2.4

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

Exchange Rates:	Value in Sterling (Pence)			Change in Sterling	
	30 Sep 20	30 Jun 20	30 Sep 19	3 months	12 months
1 US Dollar is worth	77.35	80.93	81.15	4.6%	4.9%
1 Euro is worth	90.71	90.90	88.47	0.2%	-2.5%
100 Japanese Yen is worth	73.30	75.02	75.09	2.3%	2.4%

### Exchange rate movements – 3 years to 30 September 2020



Source: Refinitiv DataStream, Bloomberg.

# 3 MARKET COMMENTARY

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## INTRODUCTION

The strong economic rebound that started in early summer continued over the third quarter but started to slow towards quarter end. Manufacturing, services, trade, retail sales and the labour market recouped a large proportion of the losses from earlier in the year when many economies came to a standstill overnight. The rebound narrative along with continued monetary and fiscal policy support drove a risk-on rally, leading to another quarter of strong returns for risk assets and weaker performance for defensive assets.

## UNITED KINGDOM

In the UK, quarter-on-quarter GDP was down by 19.4% (non-annualised) to the end of June. Headline CPI inflation fell to 0.2% at the end of August from 0.6% at the end of June. An increase in restrictions towards quarter end has tempered the strong economic rebound seen earlier in the quarter.

The Bank of England's Monetary Policy Committee voted unanimously to maintain the Bank Base Rate at 0.1% at its meeting in September. The committee also voted to continue its current £745 billion purchasing programme of UK government bonds and Sterling non-financial investment grade corporate bonds.

UK government debt exceeded the £2 trillion mark for the first time in history. This was due to the fiscal support programmes implemented during the pandemic this year.

Chancellor Rishi Sunak announced plans to extend several business loan support schemes by the end of November, while also highlighting the need for a successor scheme to help prevent widespread business failure in the coming quarters. These loan schemes have now paid out approximately £58 billion to firms.

Brexit talks remain in a stalemate after the UK announced that it might revisit parts of the previously signed Withdrawal Agreement.

## NORTH AMERICA

The US economy shrunk by 31.4% quarter-on-quarter (annualised) to the end of June 2020 which is an all-time record decline. Early estimates for the third quarter of 2020 indicate a strong rebound.

Monetary policy remained very loose, with the Federal Reserve officially moving to an average target inflation regime that will tolerate higher inflation in some periods to make up for lower inflation in others.

Reopening optimism in the first two months was overshadowed by fear over slowing growth momentum in September.

A sharp rebound in infections across a number of US states eased towards the end of the quarter. The US election moved into the forefront of investors' concerns in addition to US-China tensions, which showed little sign of abating.

## EUROPE (EX UK)

In the Eurozone, quarter-on-quarter GDP collapsed by 11.8% (non-annualised) in Q2 2020.

European equity markets rose, after a spike in cases over summer led to renewed restrictions and thus a slowdown in activity, following an initially strong rebound earlier in the quarter.

The European Central Bank (ECB) left their policy rates unchanged and announced that it would consider adopting the same average target inflation framework as the Federal Reserve.

The ECB President Christine Lagarde also announced the bank is ready to inject fresh monetary stimulus to support the Eurozone's stuttering economic recovery from the COVID-19 pandemic, including cutting a key interest rate further below zero.

## JAPAN

Quarter-on-quarter GDP fell by 7.9% (non-annualised) in Q2 2020, whilst Japanese equities generated positive returns over the same period.

Japan's parliament elected Yoshihide Suga as the country's new Prime Minister following the resignation of Shinzo Abe. His resignation in August led to a momentary sense of uncertainty in the Japanese markets, over the fear of discontinuation of his signature monetary and fiscal policies.

## EMERGING MARKETS

Emerging markets were positive, driven by China's advanced recovery as well as state media encouraging retail investors to buy mainland stocks in July.

Emerging markets outside East Asia remain the epicentre of the disease, which is hampering economic activity, especially in India and Latin America. Emerging Market central banks continued on a rate-cutting cycle over the quarter with Brazil, Russia and Mexico reducing their benchmark rates.

## FIXED INCOME

Global benchmark yields remained mostly range-bound over the quarter, with monetary policy remaining loose. Realised inflation increased in the US but fell in the UK and Eurozone. Except for the longest dated US Treasury bonds, developed market yields remained below 1% and in negative territory in some cases. The UK yield curve shifted up marginally over the quarter, reflecting the general risk-on sentiment.

UK real yields shifted up over the quarter, in line with the small increase in nominal yields, offset to a degree by rising break-evens. The still ongoing RPI consultation is still creating uncertainty for UK inflation-linked bonds.

Credit spreads narrowed over the quarter as risk-on sentiment remained. This has been a bumper year already in terms of investment grade issuance but strong institutional demand and liquidity from central banks has kept credit markets stable.

## ALTERNATIVES

Overall, Hedge Funds returned -0.4% in Sterling terms and 4.2% in US dollar terms. Equity Hedge strategies were the best performing strategies, returning 1.3% (Sterling) and 6.0% (US dollar). Global Macro strategies were the worst performing strategies over the quarter, returning -3.2% (Sterling) and 1.3% (US dollar).

Commodities were flat in Sterling terms and generated 4.6% in US dollar terms. Having started the quarter strongly, gold performed poorly in September as investors started to question the sustainability of the prolonged rally. Gold returned -1.0% in Sterling terms and 3.6% in US dollar terms. Despite the supply constraints in major producing countries, agriculture was the best performing sector returning 6.3% in Sterling terms and 11.2% in US dollar terms.

This UK Commercial Property increased by 0.7% over the quarter. Rental income rose by 1.4%, whilst capital values fell by 0.7%, offsetting rental income.



## CURRENCY

Sterling strengthened against the US dollar over the quarter, which was more driven by US dollar weakness across the board as investors priced in lower rates for longer and higher inflation in the US. Sterling also appreciated against the Yen and was flat against the Euro. Sentiment was boosted by a strong rebound in UK economic activity over summer and markets shrugged off the continued stalemate over a trade deal with the EU that was exacerbated by the UK endeavouring to reopen and renegotiate the Withdrawal Agreement.

## 4 MARKET STATISTICS AND INDICES USED

Asset Class	Index
<b>Growth Assets</b>	
UK Equities	FTSE All-Share Index
Overseas Developed Equities	FTSE AW Developed Index
North America Equities	FTSE AW North America Index
Europe (ex UK) Equities	FTSE AW Developed Europe (ex UK) Index
Japan Equities	FTSE Japan Index
Asia Pacific (ex Japan) Equities	FTSE AW Developed Asia Pacific (ex Japan) Index
Emerging Markets Equities	FTSE All Emerging Index
Frontier Markets Equities	FTSE Frontier 50 Index
Property	IPD UK Monthly Property Index
Hedge Funds	Credit Suisse Hedge Fund Index (Local Currency)
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	ICE BofA 3 Month LIBOR Index
<b>Bond Assets</b>	
UK Gilts (Over 15 yrs)	FTSE A Gilts Over 15 Years Index
Index-Linked Gilts (Over 5 yrs)	FTSE A Index-Linked Over 5 Years Index
Corporate Bonds (Over 15 yrs AA)	iBoxx £ Corporate Over 15 Years AA Index
Non-Gilts (Over 15 yrs)	iBoxx £ Non-Gilts Over 15 Years Index
<b>Yields</b>	
UK Equities	FTSE All-Share Index (Dividend Yield)
UK Gilts (Over 15 yrs)	FTSE A Gilts Over 15 Years Index (Gross Redemption Yield)
Real Yield (Over 5 yrs ILG)	FTSE A Index-Linked Over 5 Year Index 5% Inflation (Gross Redemption Yield)
Corporate Bonds (Over 15 yrs AA)	iBoxx £ Corporate Over 15 Years AA Index (Gross Redemption Yield)
Non-Gilts (Over 15 yrs)	iBoxx £ Non-Gilts Over 15 Years Index (Gross Redemption Yield)
<b>Inflation</b>	
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)
<b>Exchange Rates</b>	
USD / EUR / JPY vs GBP	WM/Reuters 4:00 pm Closing Spot Rates

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