

Clwyd Pension Fund Economic and Market Update Q3 2024

MARKET BACKGROUND Q3 2024

In the third quarter of 2024, developed market (“DM”) central banks including the US Federal Reserve (“Fed”) cut interest rates. DM central banks were prompted to loosen monetary policy amidst the macroeconomic backdrop of cooling inflation, labour markets and slowing wage growth. Notably, the Bank of Japan (“BoJ”) diverged from other DM central banks and hiked rates by 0.15% in July given the impact of robust wage negotiations on inflation. Market sentiment over the quarter tilted back towards a soft-landing as fears of a US recession – which gripped markets in early August – quickly subsided. Overall, bond yields declined across DM economies, while equities outperformed in response to rate cuts. That said, uncertainty around the US election and tensions in the Middle East sparked temporary volatility in financial markets.

US real GDP increased at an annual rate of 3% in Q2 2024 against an increase of 1.6% in Q1 2024. The increase reflects upward revisions to private inventory investment and federal government spending that were offset by downward revisions to non-residential fixed investment and exports. Headline US inflation fell over Q3 2024, decreasing to 2.5% in August from 3% at the end of June. Core US inflation has been declining in recent months. The Federal Reserve, at its September meeting, decided to cut interest rates, lowering the target range of the fed funds to 4.75%-5.0% from 5.25%-5.5%. The median dot in the Summary of Economic Projections (SEP) showed 50bp more cuts in 2024.

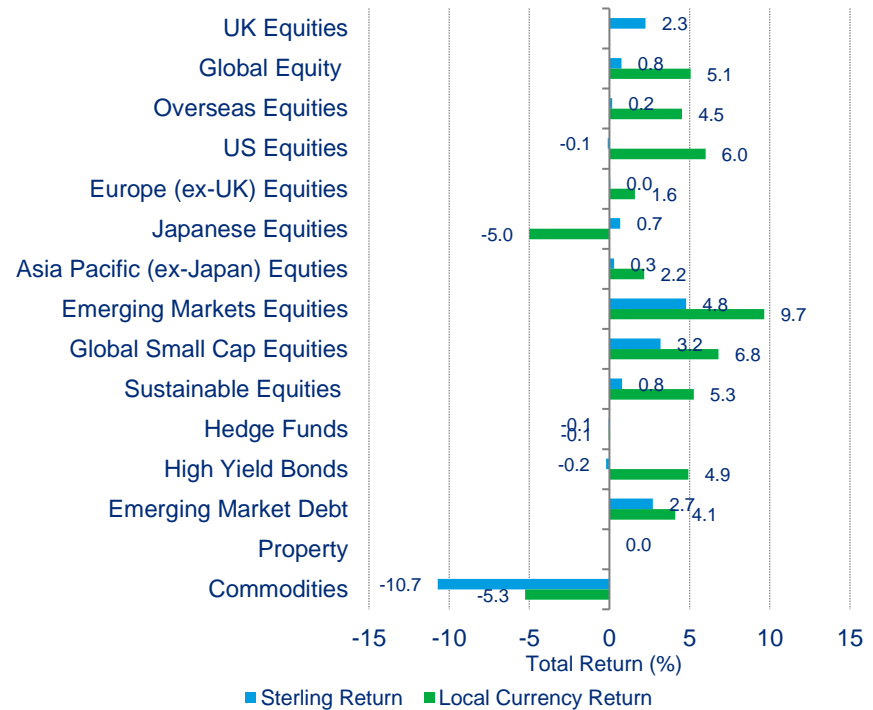
Chinese GDP grew 4.7% (year-on-year) in Q2 2024, lower than 5.3% in Q1 2024, and the weakest yearly advance since Q1 2023, amid a persistent weak property market, subdued domestic demand and falling yuan. China's central bank announced a major package of measures aimed at supporting economy's recovery. The People's Bank of China (PBoC) lowered its one-year policy loan rate, known as the medium-term lending facility (MLF), by 30bps to 2.0% from 2.3%.

Q2 Japan's GDP expanded by an annualized 2.9% in the second quarter from the previous three months. largely due to downward revisions in corporate and personal spending. The Bank of Japan in July raised its key interest rate to 0.25% from 0-0.1%,

In Q2 2024, seasonally adjusted GDP increased by 0.6% in the euro area. Spain (+2.9%) recorded the highest increase, followed by Portugal (+1.5%) and Lithuania (+1.4%). The ECB reduced interest rates following their September meeting to 3.50% for the deposit facility. Headline inflation in the eurozone fell to 1.8% in September from 2.5% in June.

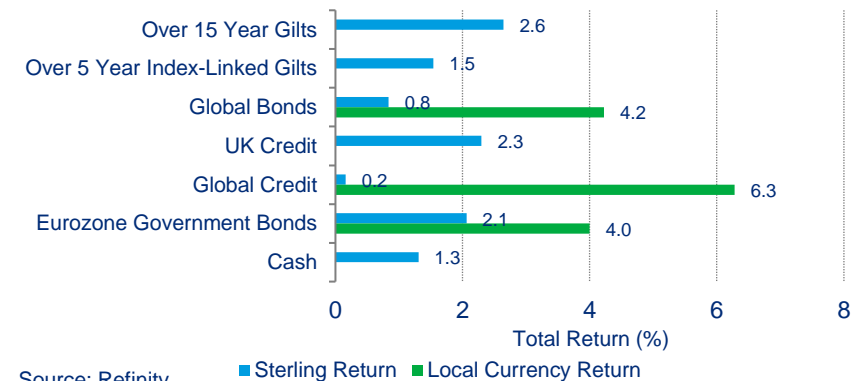
UK GDP grew by 0.5% in Q2 (quarter-on-quarter), slightly lower than 0.7% in Q1. Headline inflation in the UK rose to 2.2% in August from 2.0% in June. This was led by a jump in air fares. However, the rise in air flights was offset by lower fuel prices and prices in restaurants increasing more slowly.

Growth Assets- Index performance



Source: Refinitiv. Property performance is show for the two months to 30 Aug 2024

Defensive Assets- Index Performance



Source: Refinitiv

Equity Market Review

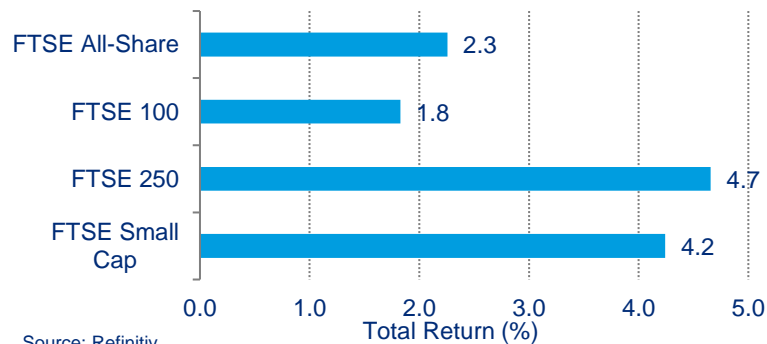
Global equities returned 0.8% in sterling terms and 5.1% in local currency terms as sterling appreciated against the US dollar.

Q3 2024 has been another positive quarter for equity markets. However, volatility was heightened in early August. The quarter saw the ripple effect of the unwinding of the US dollar-Japanese yen carry trade, US employment data surprising to the downside and the unemployment rate rising. Despite this, forthcoming US economic data remained upbeat. Global equities rose later in the quarter as major central banks continued to ease their respective policy rates, with the US Federal Reserve joining them. Chinese equities surged near the end of the quarter after authorities committed to provide further monetary and fiscal support to boost activity.

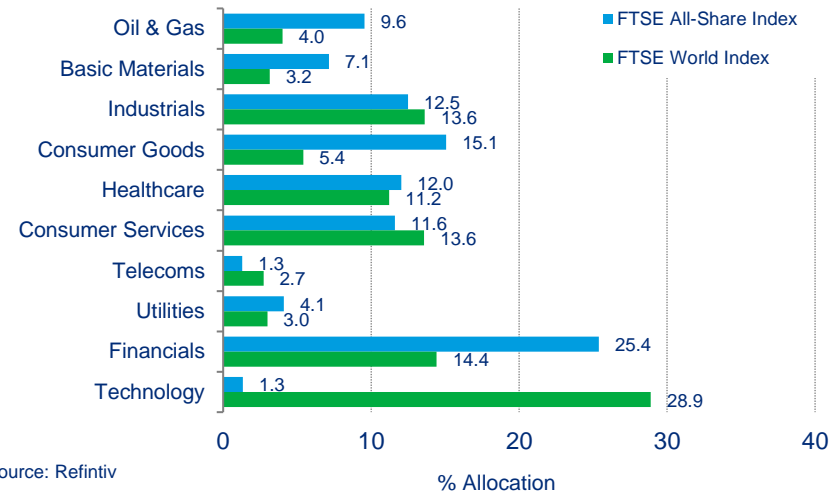
Within equities, emerging markets (“EM”) outperformed DM. Emerging markets equities returned 4.8% in sterling terms (9.7% local currency). Emerging market equities strengthened considerably towards the end of the quarter driven by Chinese equities. US equities returned -0.1% in sterling terms, compared to 6.0% in local currency terms, whilst European (ex-UK) equities returned 0.0% in sterling terms and -5.0% in local currency terms. The Japanese yen appreciated versus all major currencies (including 13% against the US dollar) over the quarter which hampered local currency returns. Global small-cap stocks returned 3.2% in sterling terms (6.8% in local currency), supported by easing monetary policy.

The FTSE All Share index returned 2.3% over the quarter, with the large-cap FTSE 100 index returning 1.8%. More domestically focused equities (FTSE 250) produced positive returns of 4.7%. The small-cap index produced a positive 4.2% return. Strong performance in consumer goods and telecom supported the UK performance relative to global equities.

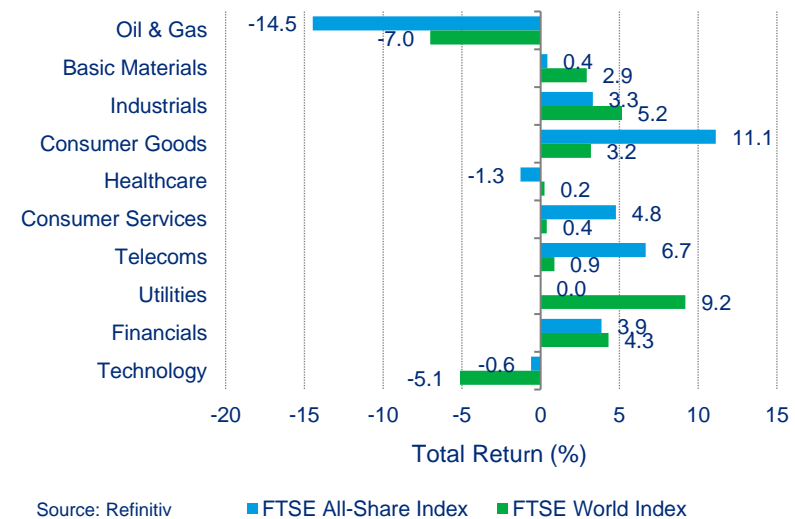
Market Percentage Performance by Cap – Q3 2024



Industry Tier Allocation at 30 September 2024

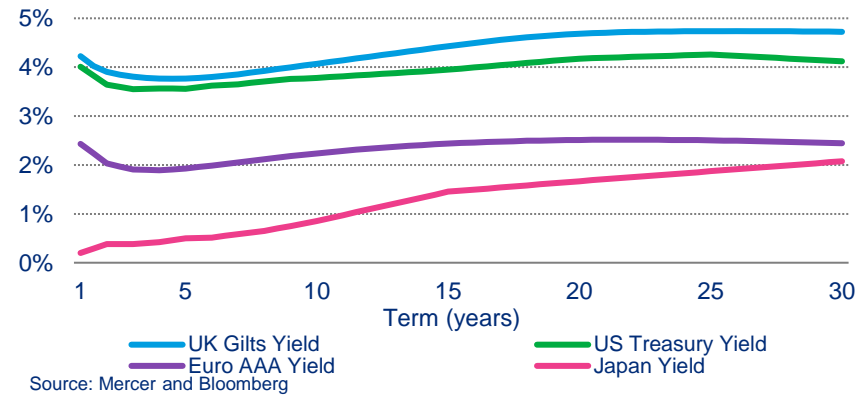


Percentage performance by Industry Tier- Three months to 30 September 2024



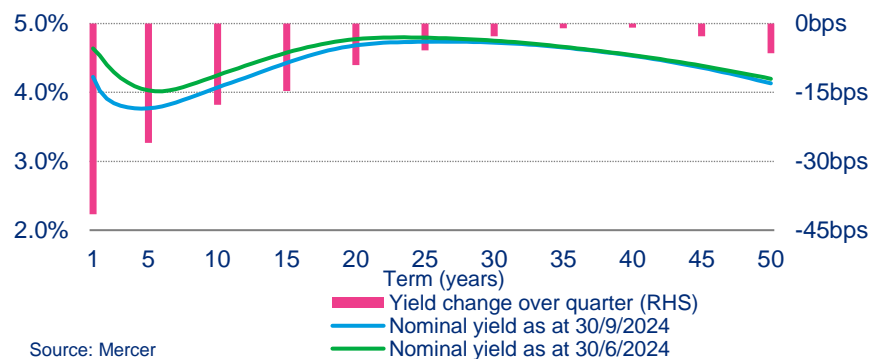
Bond Market Review

Government Bond Yield Curves

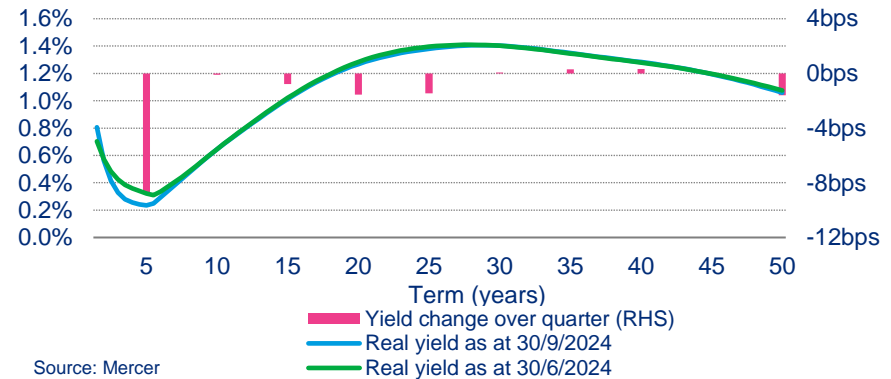


Global government bond yields (ex-Japan) declined over the quarter as most DM central banks cut interest rates. In the US, softening inflation and cooling labour markets led the Fed to cut interest rates by 50bps and for bond markets to price aggressive easing cycle. In Europe and to a lesser extent the UK, the gradual deterioration in economic outlook strengthened the case for more rate cuts. The 10-year benchmark bond yield in the US, UK, and Germany fell 0.62%, 0.17%, and 0.38%, respectively, in Q3. Interestingly, the 10-year JGB yield also moved lower by 0.20% during the quarter on prospects of delayed rate hikes and political jitters stemming from leadership under a new Prime Minister.

Changes in the UK Bond Yield Curve over the Quarter

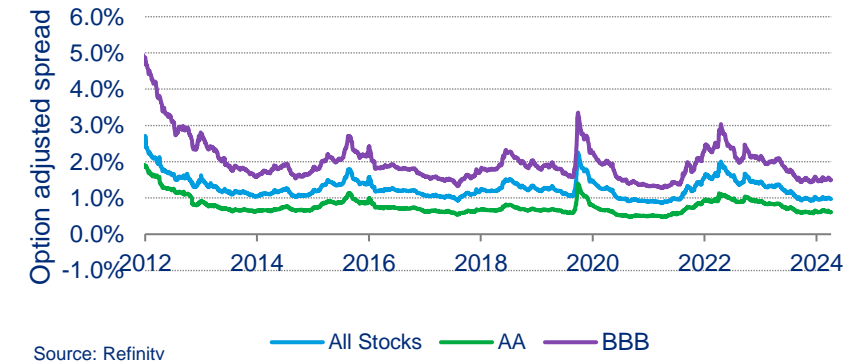


Changes in the UK Index-Linked Gilt Yield Curve over the Quarter



UK real yields fell across most of the curve over the last quarter. The 10-year tenor remained largely flat. 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 ~3.40% (0.19% lower over the quarter).

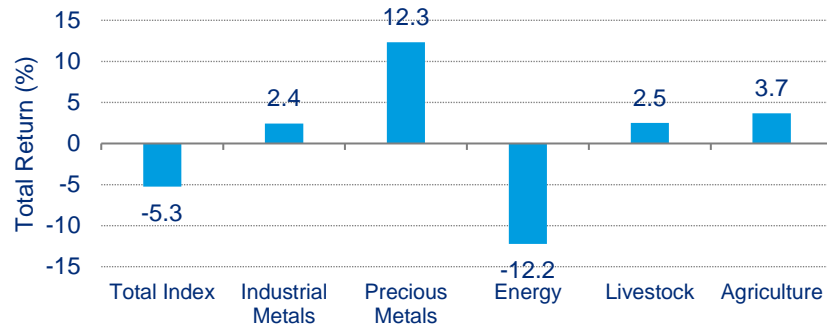
ICE BofAML Sterling Non-Gilts Indices Credit Spreads



Spreads on UK investment-grade credit remained flat at 97bps over the quarter across the credit quality spectrum, with spreads for AA-rated credit at 61bps, and that of BBB-rated credit at 150bps.

Commodities

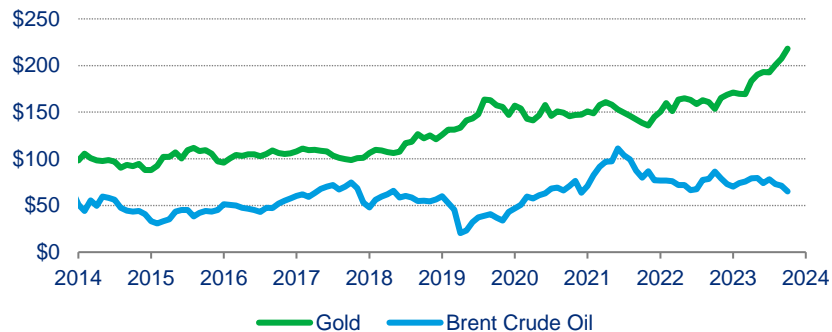
S&P GSCI Index in US Dollars - Commodities Q3 2024 Sector Performance



Source: Refinitiv

Commodity prices decreased over the quarter mainly due to a fall in energy prices, amidst subdued demand from China and robust supply in the US. Within industrial metals, iron ore prices have been severely affected due to slowdown in the Chinese property market. Within precious metals, gold's surge has been driven by a combination of monetary policy easing, EM central banks buying, geopolitical tensions, and market uncertainty. Also, seasonal demand from select emerging markets has driven gold prices. Agriculture prices rose over the quarter as cocoa and coffee prices rose.

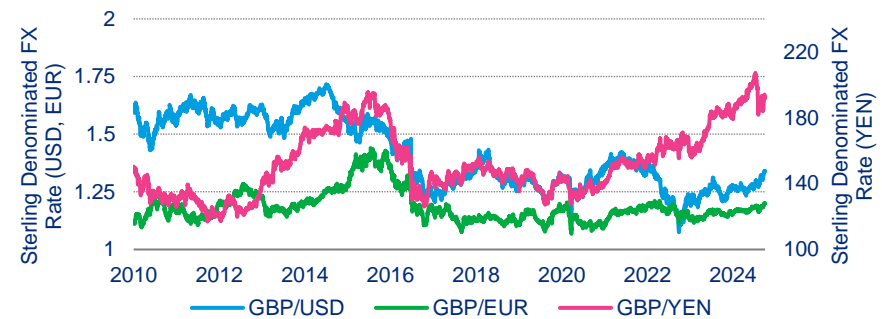
Change in US Dollar Price to 30 September 2024 - Gold and Brent Crude Oil - Rebased to \$100 on 31 December 2013



Source: Refintiv

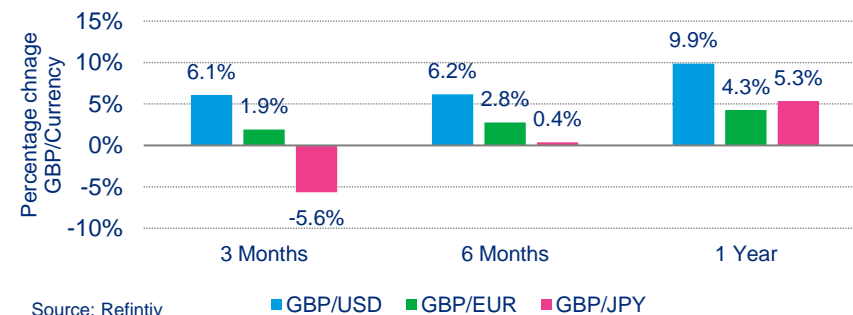
Currency Market Review

Sterling Denominated FX Rates



Source: Refinitiv

Change in Sterling against Foreign Currencies



Source: Refintiv

Sterling outperformed against most major currencies, barring the Japanese Yen, during the third quarter. Sterling appreciated 6.1% and 1.9% against the dollar and euro, respectively, while weakening 5.6% against JPY. The US dollar index weakened ~5% over the quarter as the Federal Reserve cut interest rates amid cooling inflation. On a 12-month basis too, sterling strengthened significantly, rising 9.9%, 4.3% and 5.3%, against USD, EUR and JPY, respectively.

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