



REDINGTON 

 **Hackney**

MARKET UPDATE

Q1 2023

Private and Confidential

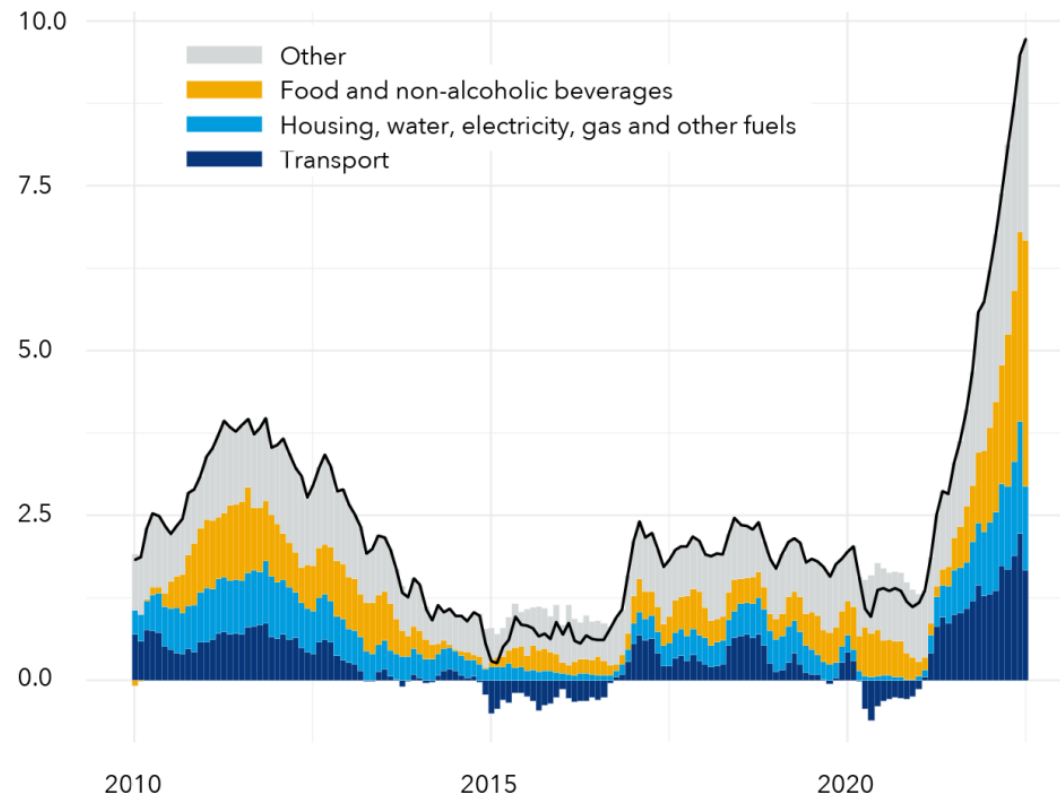


2022 IN REVIEW

INFLATION SURGED ACROSS THE WORLD

Inflation drivers

Food and energy prices continue to drive the global inflation surge.
(percent, median inflation rate)



Source: IMF CPI database and IMF staff calculations.

Note: Chart shows median total inflation and in select categories across 88 countries, including 28 advanced economies and 60 emerging and developing economies.

IMF

CENTRAL BANK POLICY

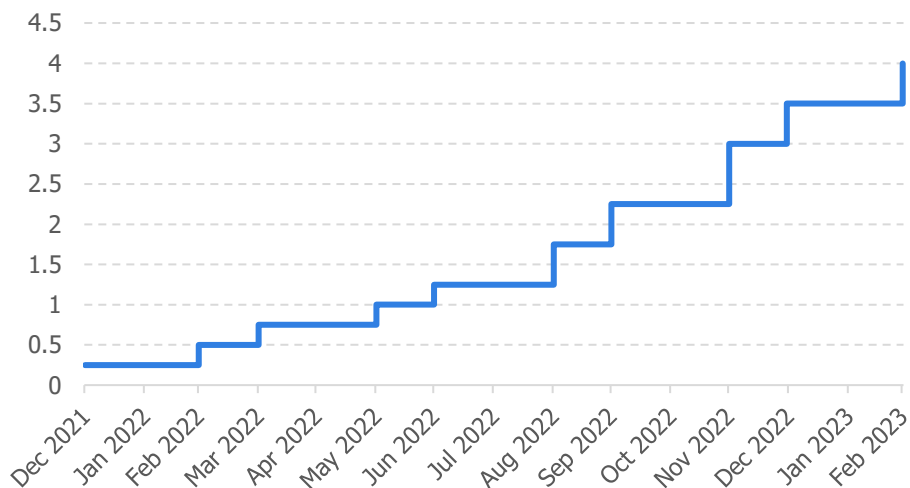
MONEY PRINTER BECAME A HOOVER



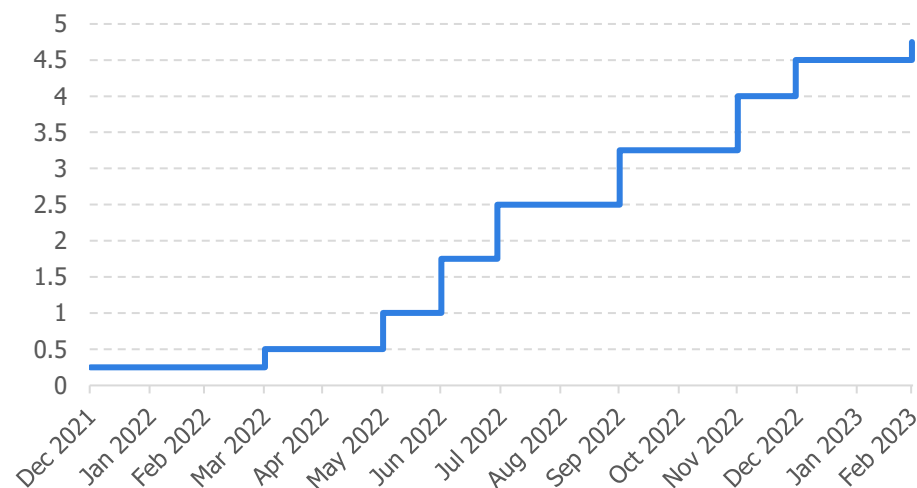
INTEREST RATES

CENTRAL BANKS TIGHTENED RAPIDLY TO CONTROL INFLATION

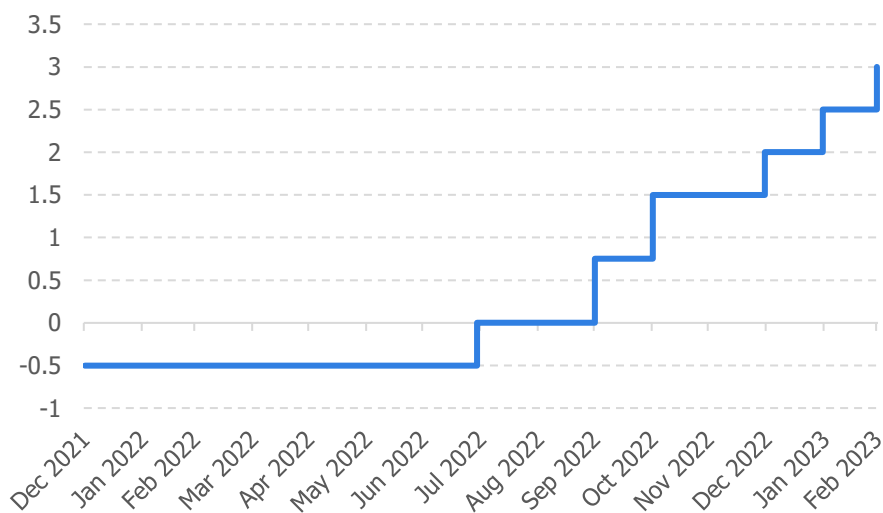
UK



US



Eurozone

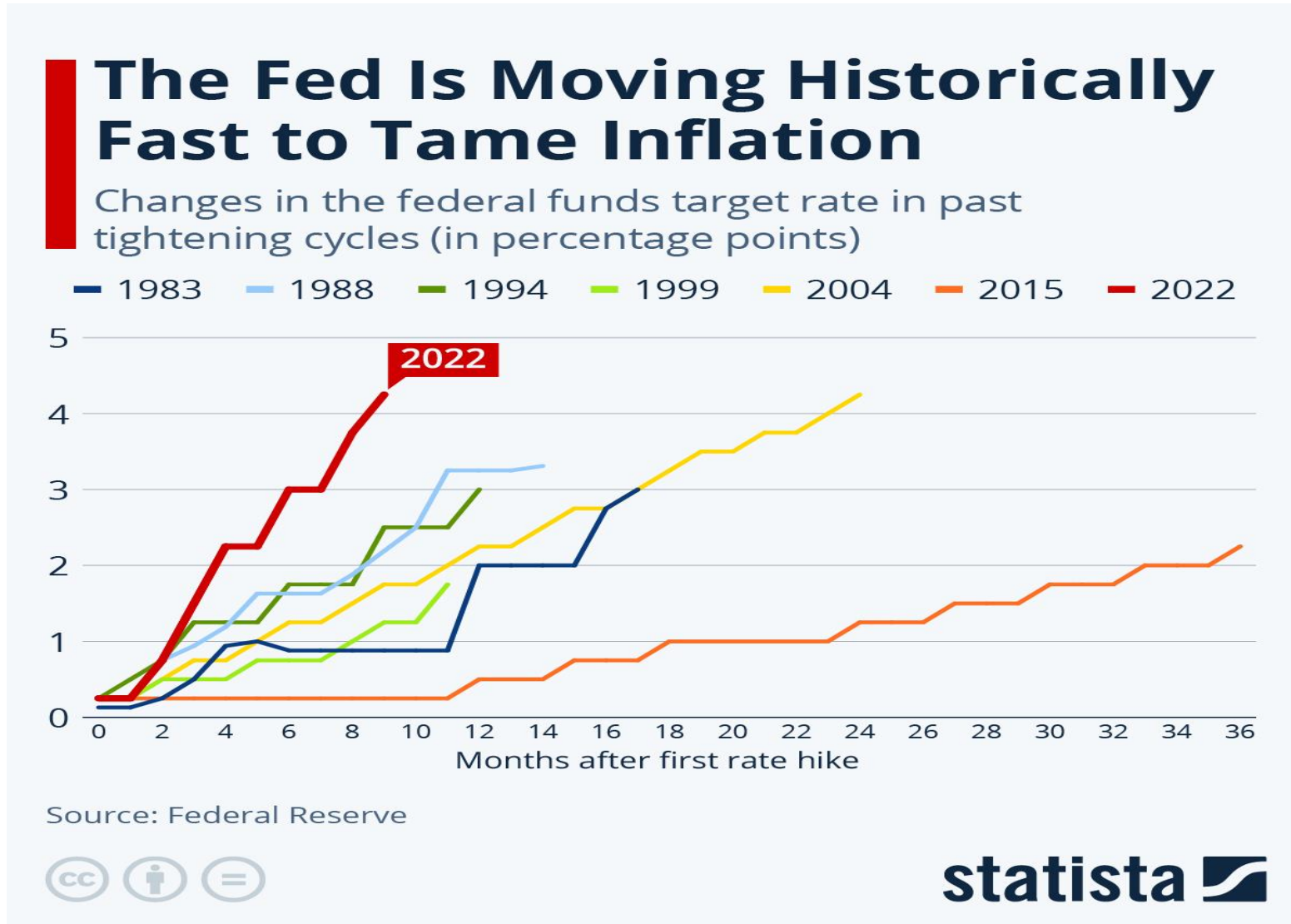


Central bank hiking decisions (first week of February 2023)

- **BOE +50bps**
- **ECB +50bps**
- **FED +25bps**

INTEREST RATES

THE FASTEST RATE HIKING CYCLE IN HISTORY



FIXED INCOME

GOVERNMENT BOND YIELDS ROSE SHARPLY

30Y Government Bond Yields



Source: Bloomberg

FIXED INCOME

NEGATIVE PERFORMANCE ACROSS CREDIT ASSETS

Investment Grade & High Yield Performance Across Regions



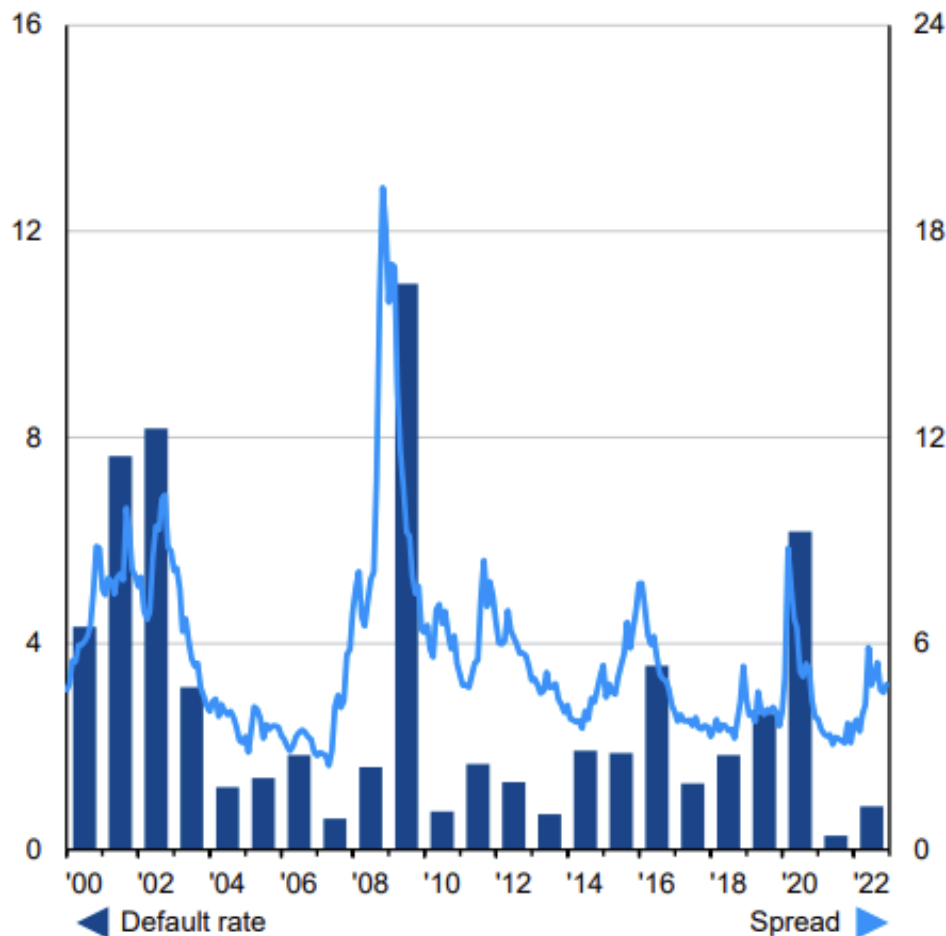
Source: ICE

FIXED INCOME

SPREADS HAVE WIDENED, BUT DEFAULT RATES HAVE REMAINED LOW

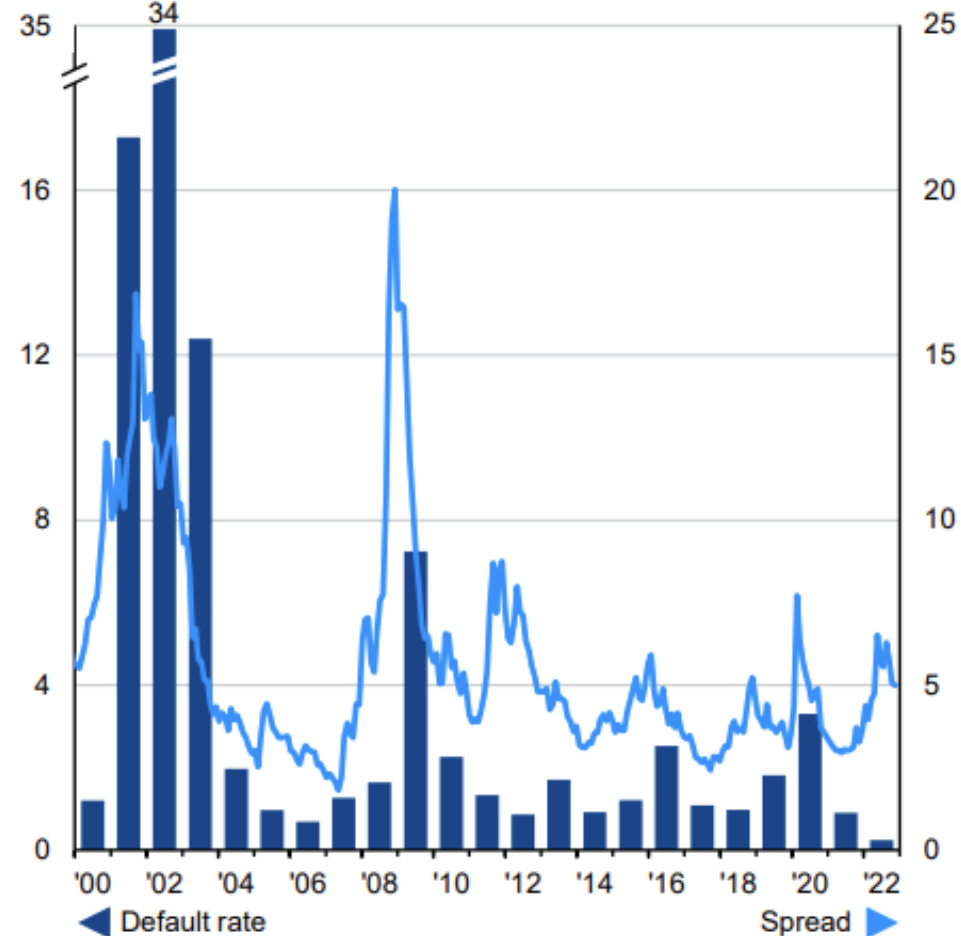
US high yield spread and defaults

%, default rate (LHS); %, option-adjusted spread (RHS)



Euro high yield spread and defaults

%, default rate (LHS); %, option-adjusted spread (RHS)

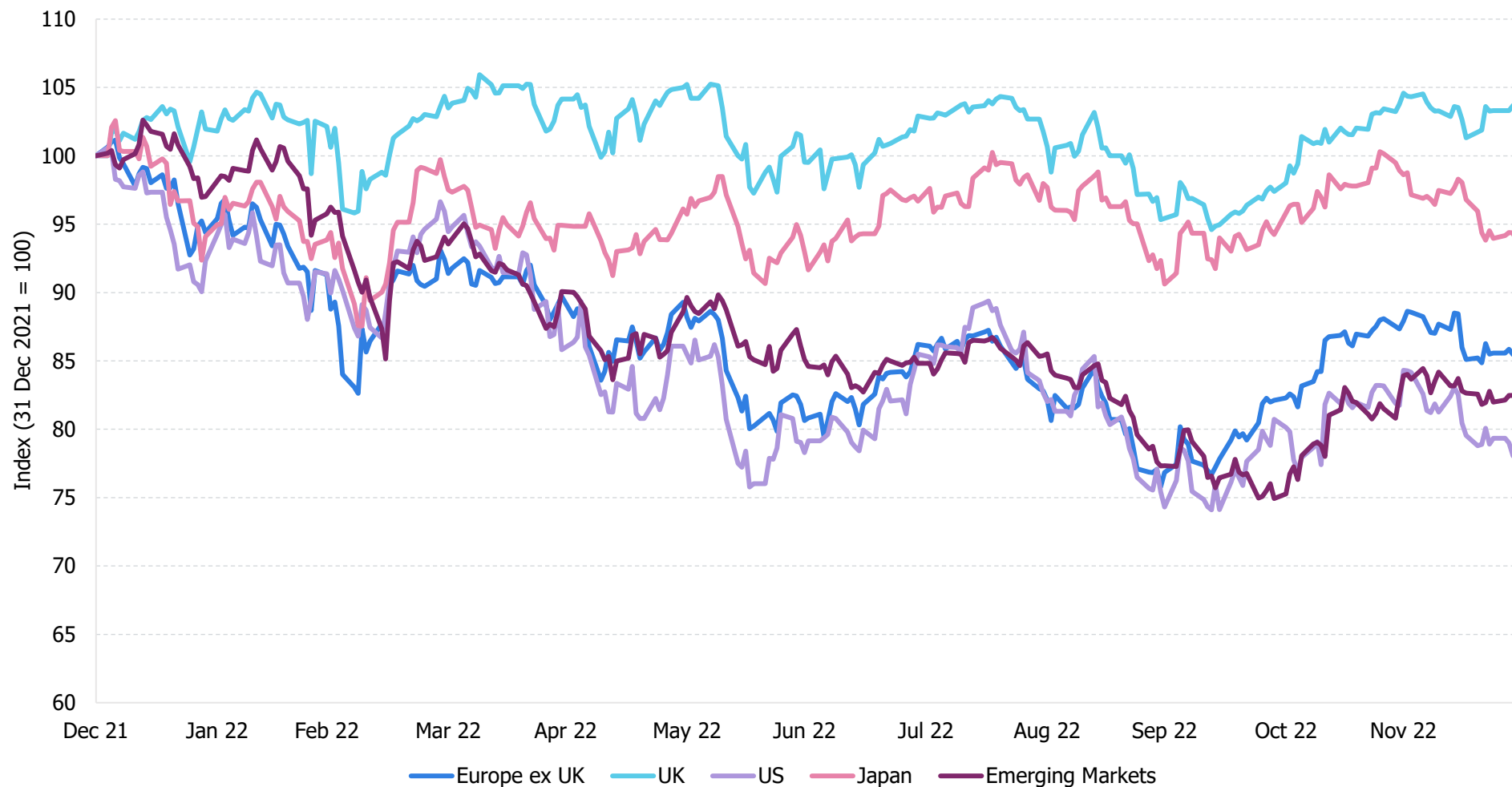


Source: J.P. Morgan

EQUITIES

UK OUTPERFORMS IN A DIFFICULT YEAR

Equity Market Performance by Region

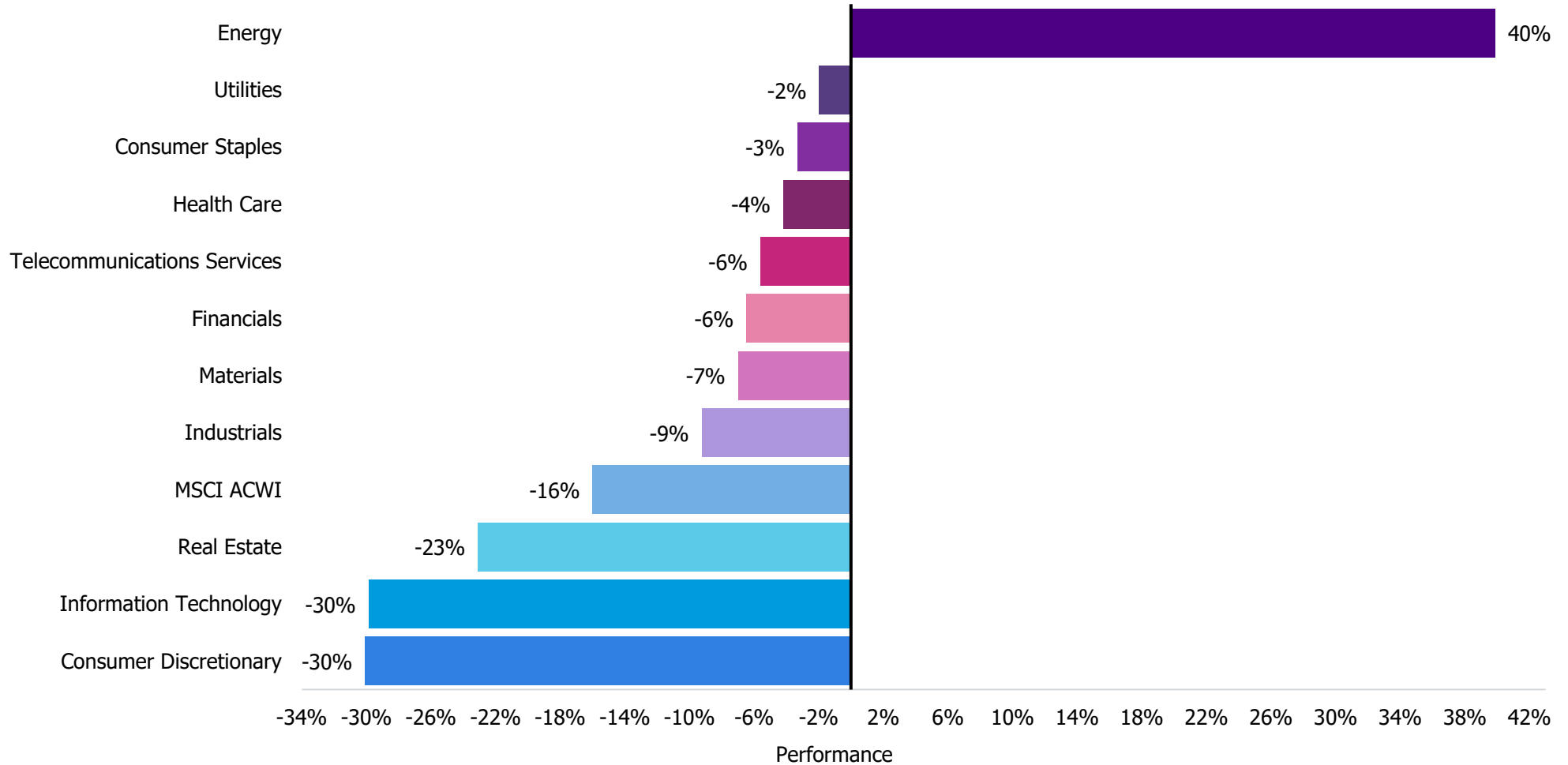


Source: Bloomberg

EQUITIES

THERE WEREN'T MANY PLACES TO HIDE

Equity Performance over 2022



Source: FE Analysts

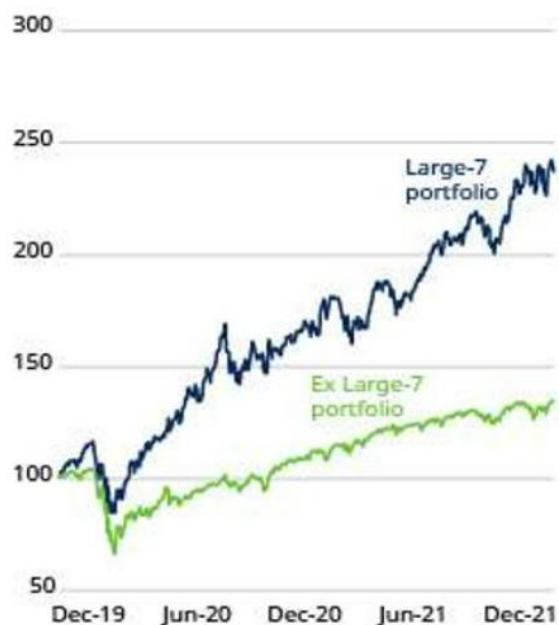
EQUITIES

THE 'LARGE 7' PORTFOLIO, NOT SO DOMINANT ANYMORE

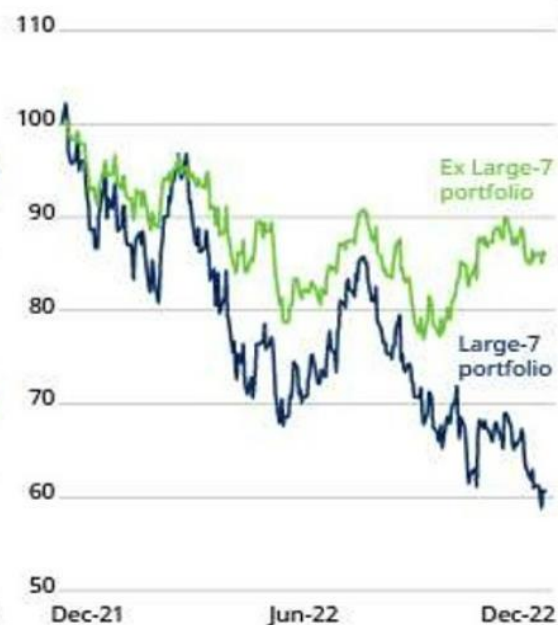
The US market's poor performance was heavily influenced by the largest seven companies which had previously powered returns

Schroders

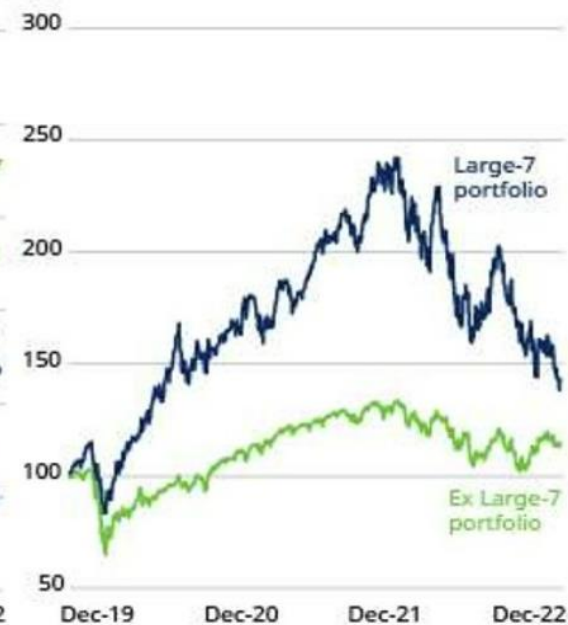
2020 - 2021: big winners



2022 - 2021: big losers



2020 - 2022: converging fast

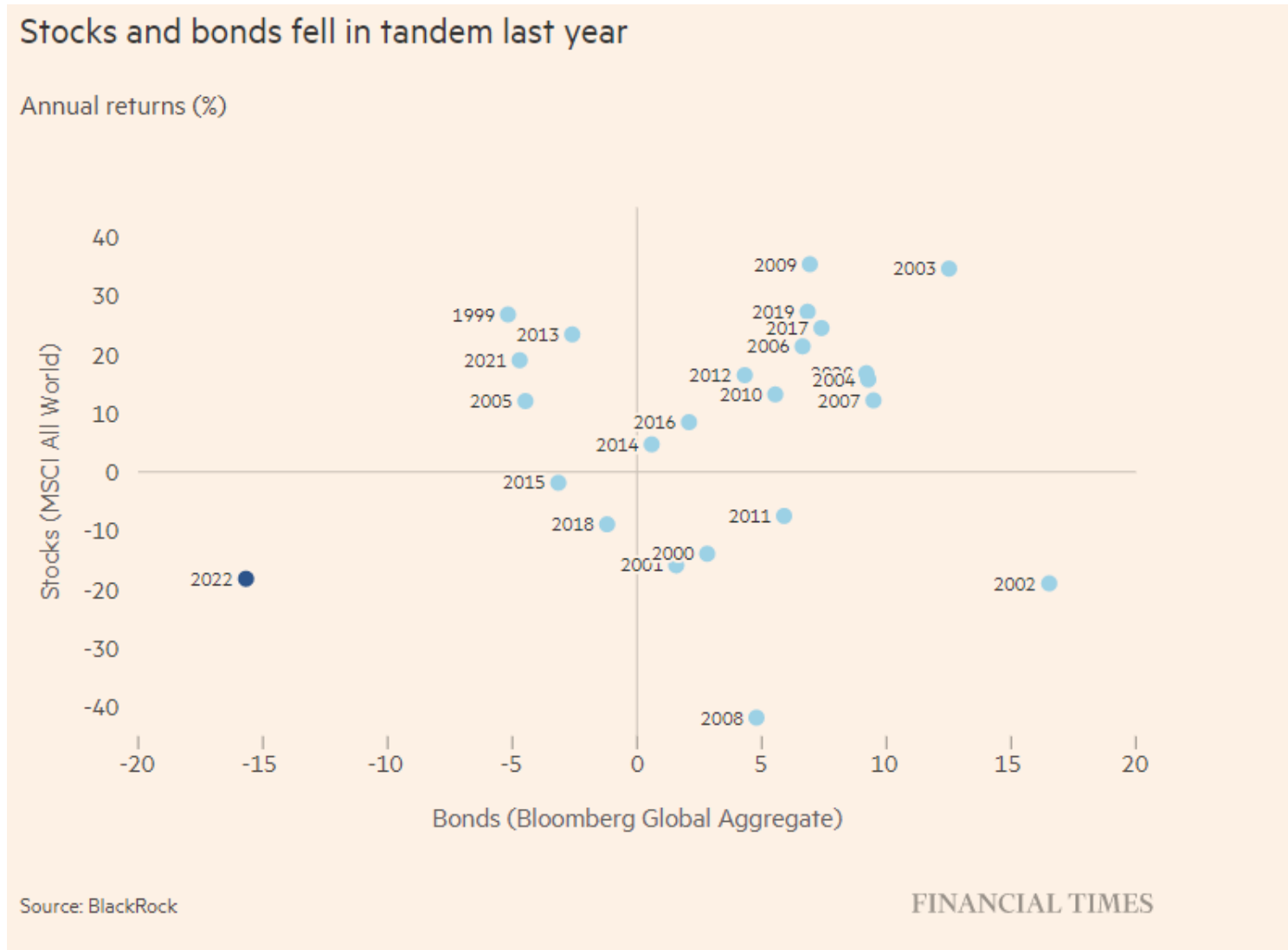


Note: Past performance is not a guide to future performance and may not be repeated. Large-7 portfolio is portfolio of seven largest companies by free float market capitalisation as at 31 December 2021. These are Apple, Microsoft, Alphabet (Google), Amazon, Tesla, Meta (Facebook), Nvidia. Data to 31 December 2022.

Source: Refinitiv, Schroders. 607159

PERFECT STORM FOR THE 60/40 PORTFOLIO

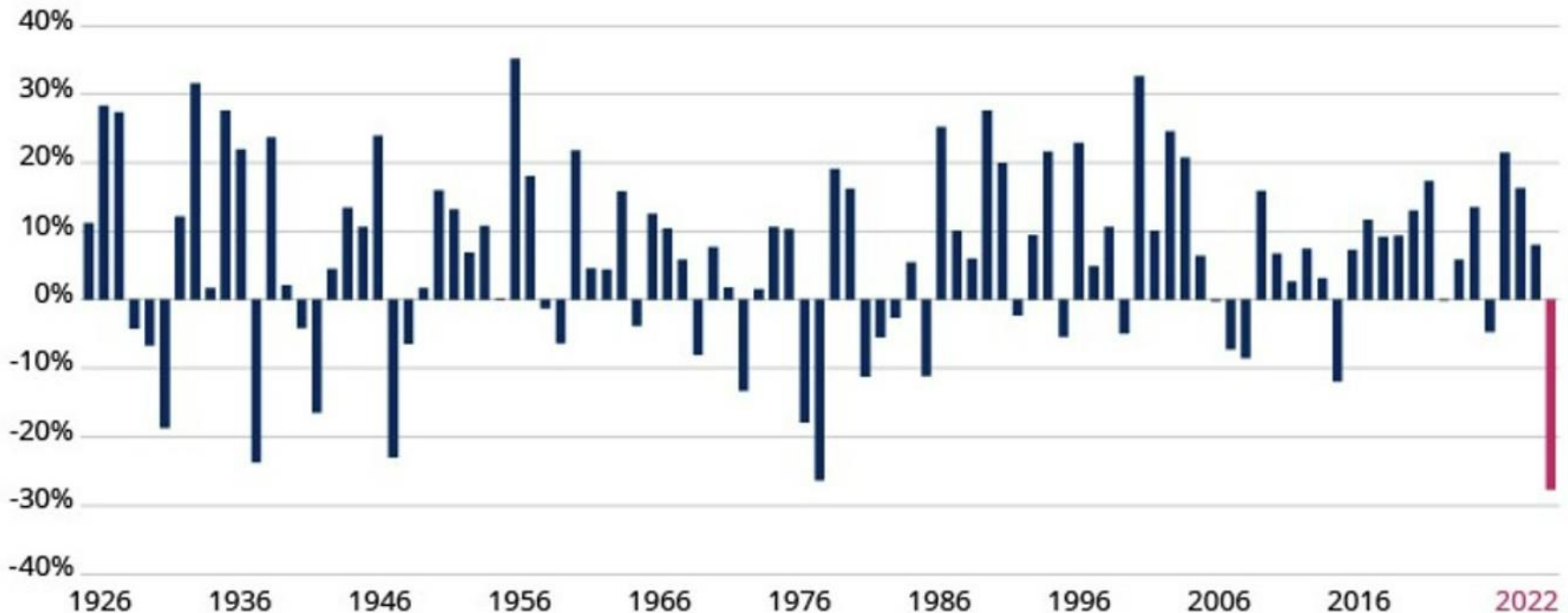
TRADITIONAL CORRELATIONS BROKE DOWN



PERFECT STORM FOR THE 60/40 PORTFOLIO SIGNIFICANTLY UNDERPERFORMING INFLATION

2. The joint equity and bond sell-off caused the popular 60/40 portfolio to underperform inflation by the most in nearly a century

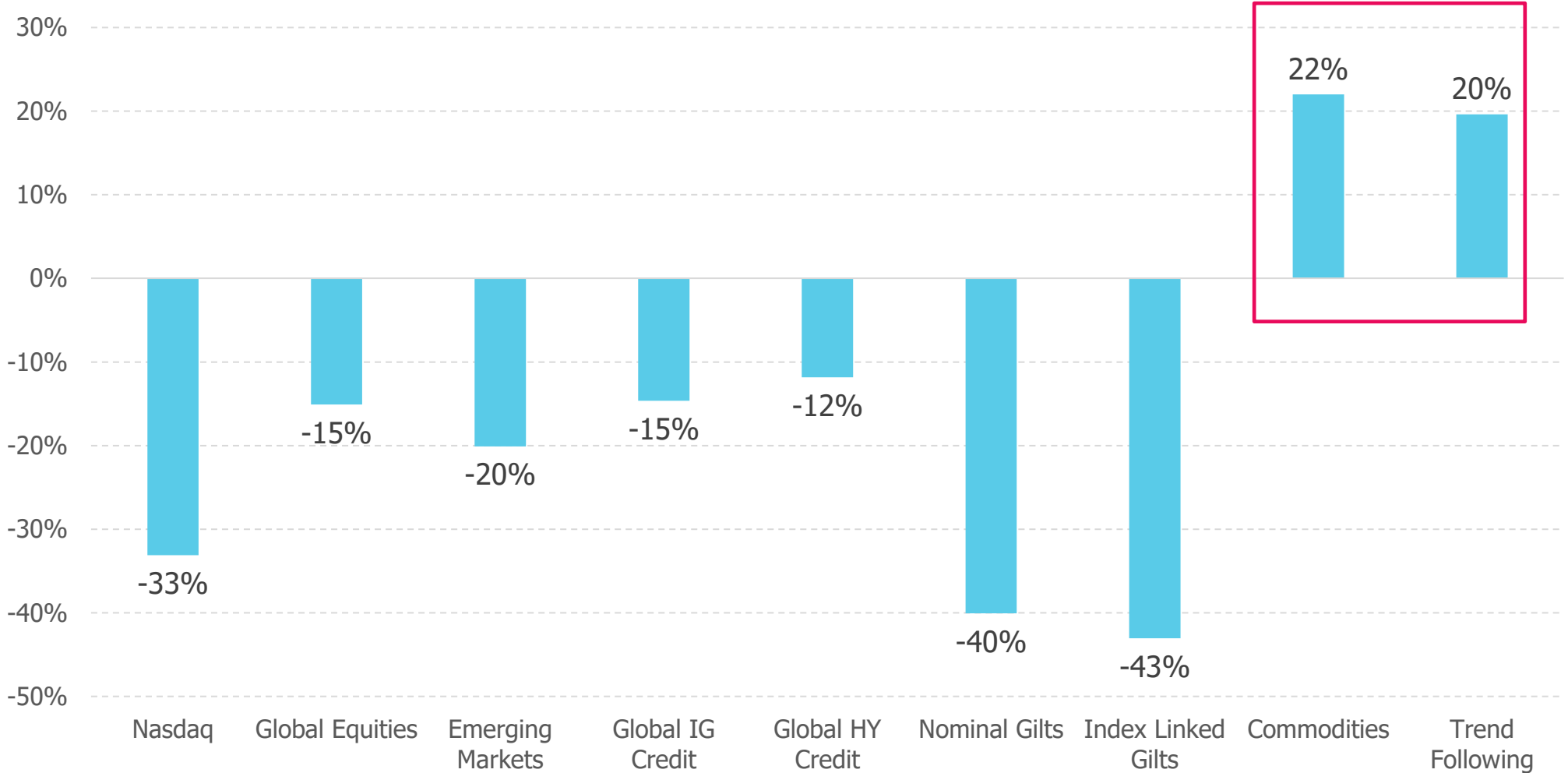
Schroders



ASSET CLASS PERFORMANCE

DIVERSIFICATION AWAY FROM EQUITIES/BONDS HELPED

2022 Performance



Source: Bloomberg, ICE

RECENT DEVELOPMENTS

SOFT LANDING? A MORE OPTIMISTIC MOOD IN MARKETS



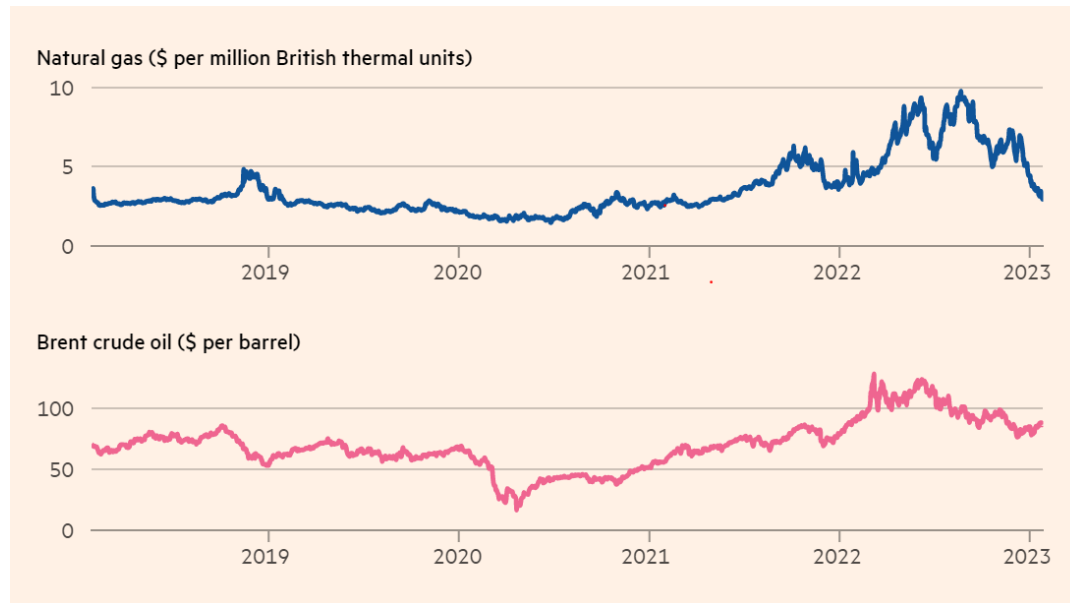
INFLATION PEAKED AND DECLINING

CPI Inflation

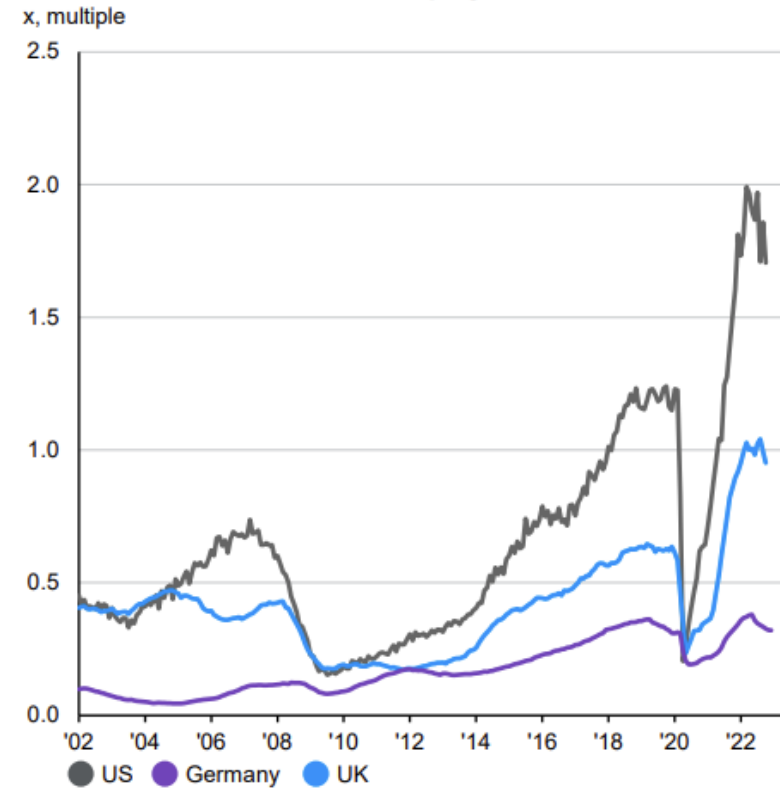


INFLATION

HELPED BY FALLING ENERGY COSTS AND LOOSENING LABOUR MARKET



Job vacancies relative to unemployed



Source: Financial Times

CENTRAL BANKS A SHIFT IN TONE



*"Given our outlook, I don't see us cutting rates this year, if our outlook turns [out] true...[but] **if we do see inflation coming down much more quickly, that'll play into our policy setting, of course.**"*

Jay Powell, Fed Chairman" (1 Feb 2023)



*As I said earlier, if the economy evolves as the central case of the forecasts suggests [market-implied rates reducing inflation to target], **then of course we will set policy according to that situation, and we will respond accordingly.**"*

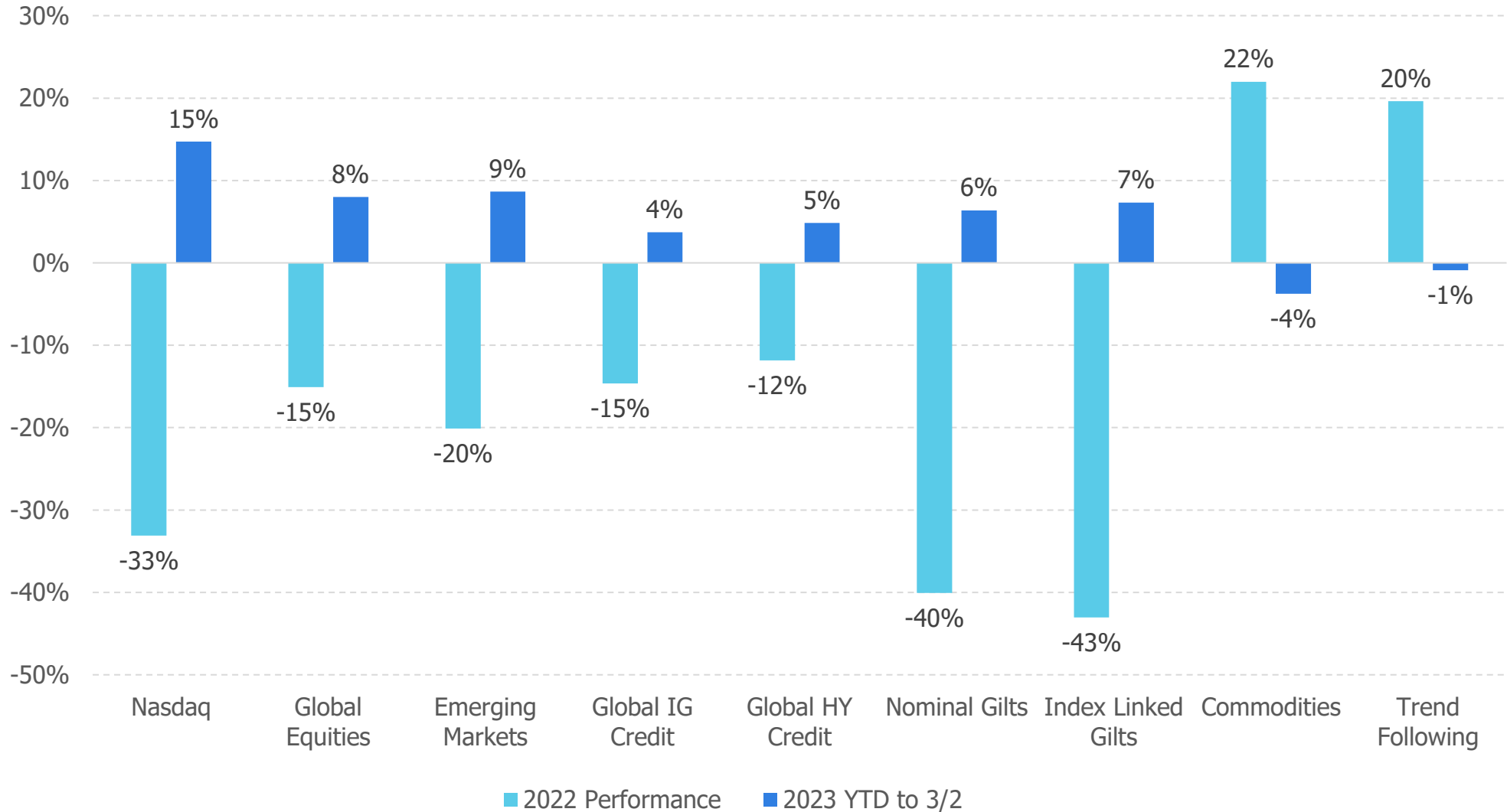
Andrew Bailey, BoE Governor (1 Feb 2023)



ASSET CLASS PERFORMANCE

A POSITIVE START FOR EQUITIES AND BONDS

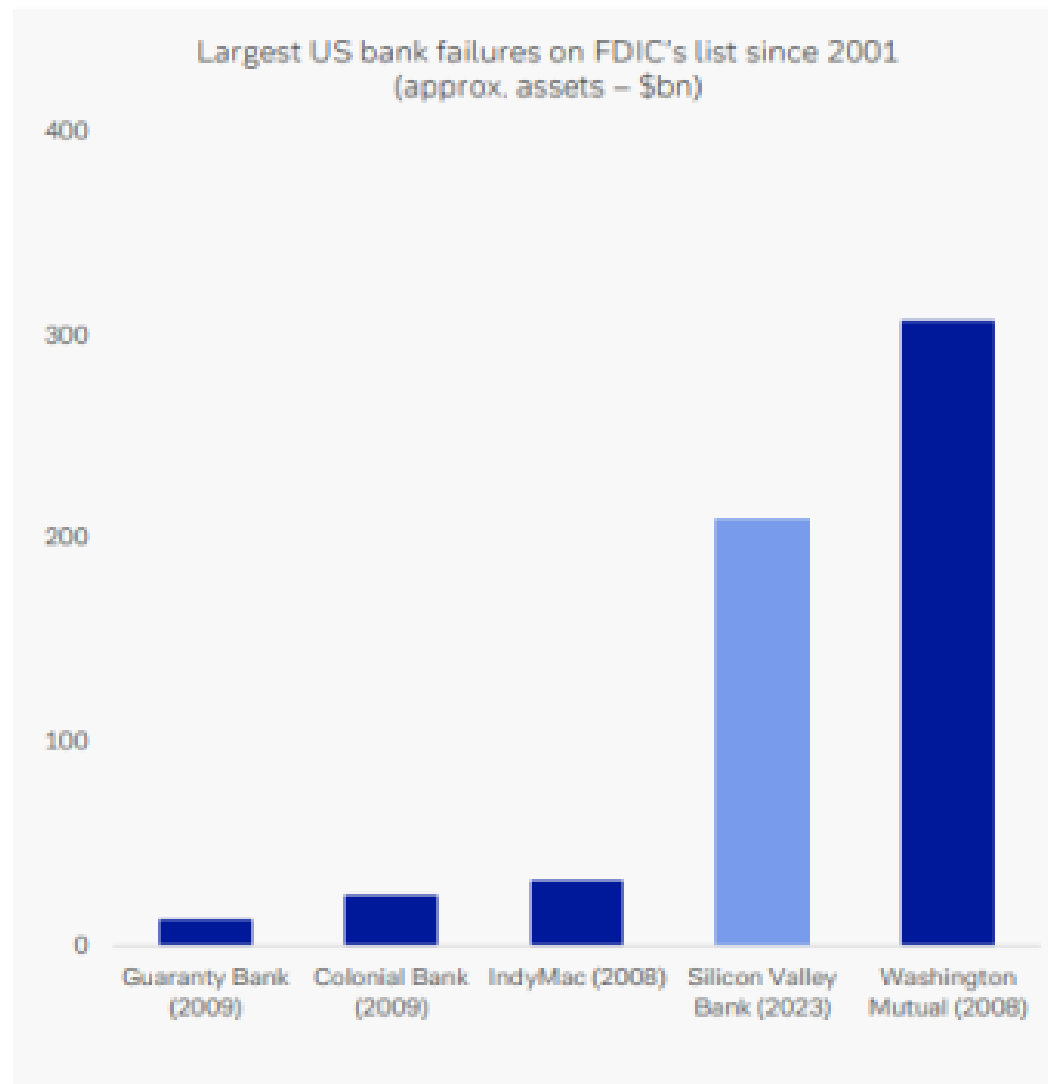
2022 Performance / 2023 Year-to-Date



Source: Bloomberg, ICE

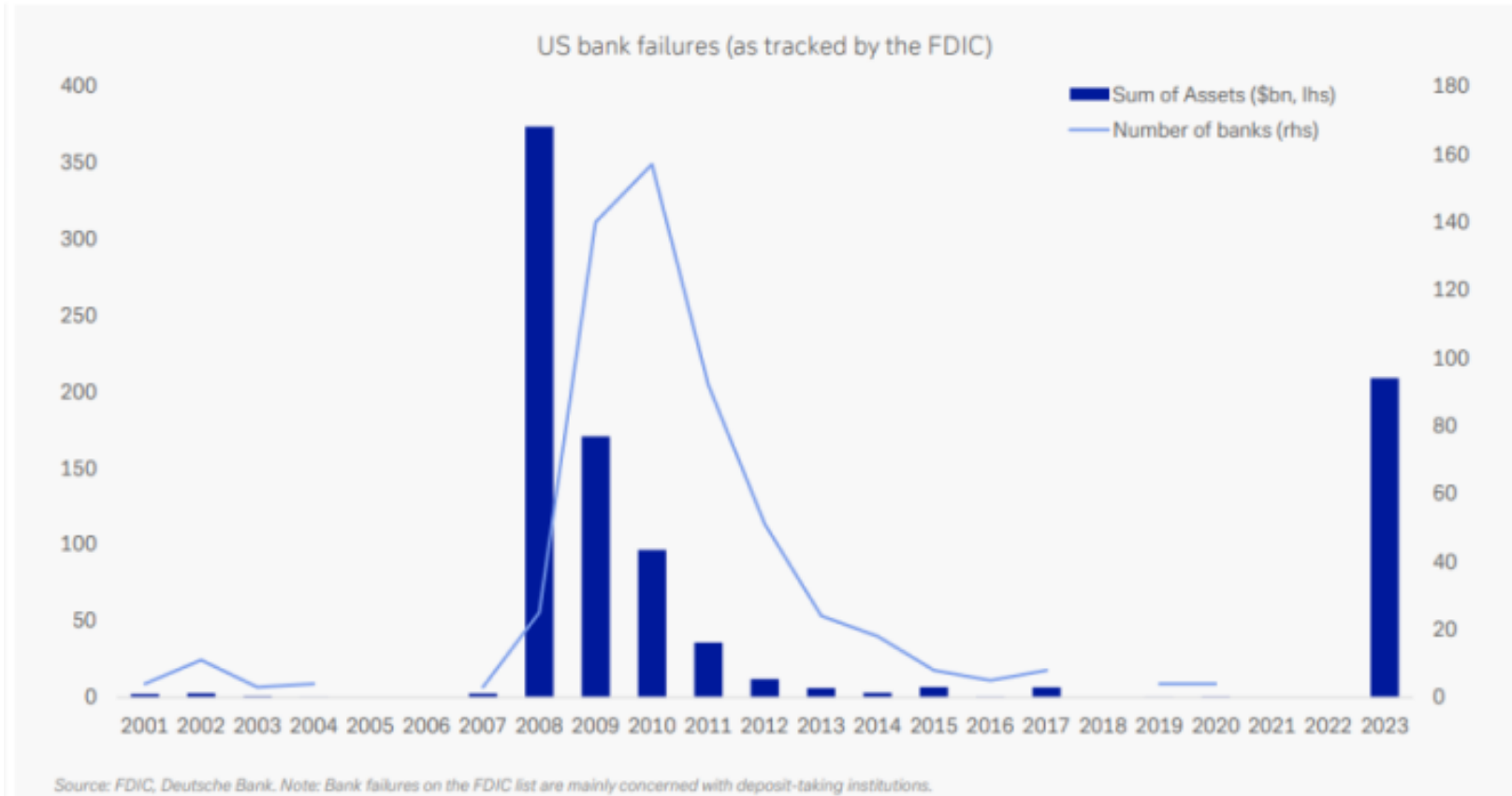
BANKING TROUBLES

SECOND LARGEST BANK FAILURE IN HISTORY



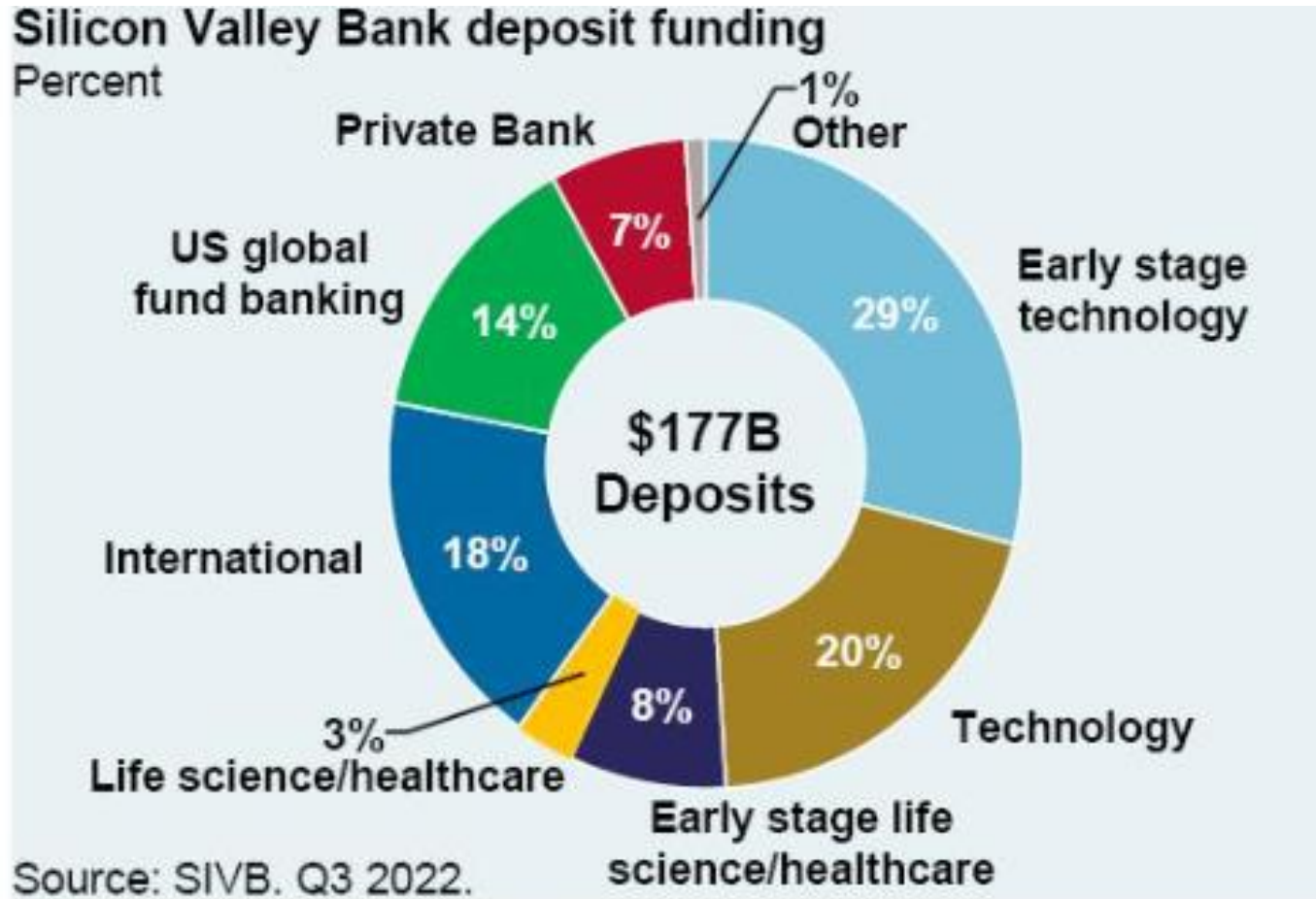
Source: JP Morgan

CANARY IN THE COAL MINE?



Source: JP Morgan

UNUSUAL DEPOSIT BASE...

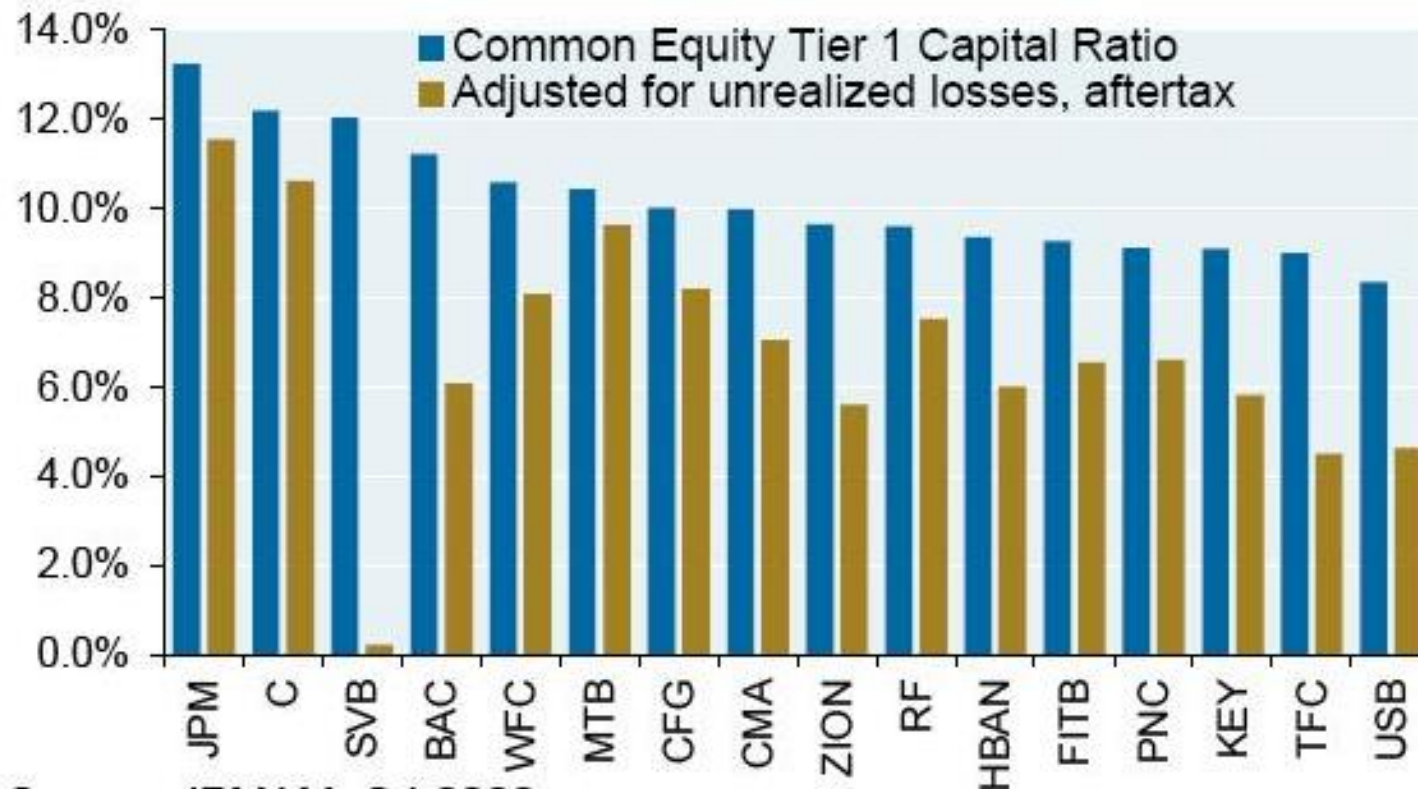


Source: JP Morgan

ASSETS WITH HIGH DURATION RISK

Impact of unrealized securities losses on capital ratios

Percent



Source: JPMAM. Q4 2022.

CREDIT SUISSE RESCUED BY SWISS RIVAL UBS



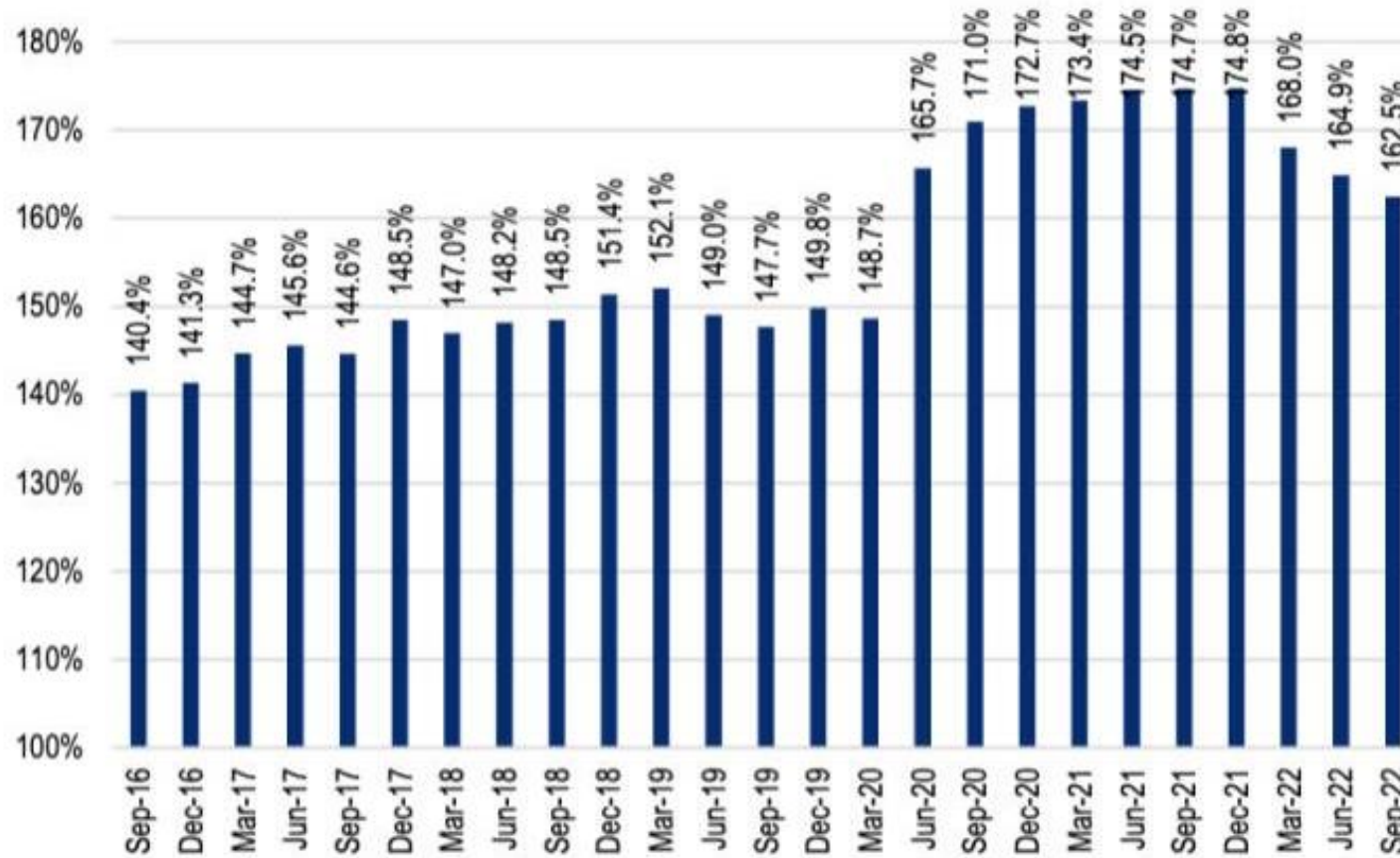
Citi, : "We see very limited read-across from the failure of Silicon Valley Bank to European Banks.."

Sunday 19 March Swiss President "On Friday the liquidity outflows and market volatility showed it was no longer possible to restore market confidence and a swift and stabilising solution was absolutely necessary".

Source: FT

FEW PARALLELS BETWEEN EUROPEAN BANKS AND SVB

European Banks – Average Liquidity Coverage Ratios

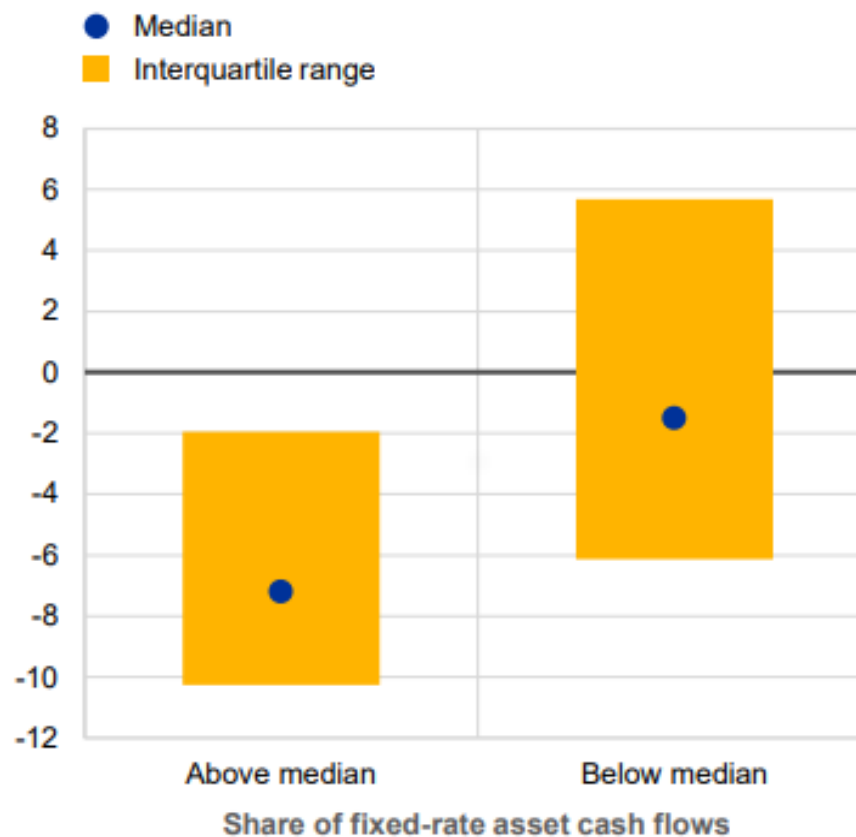


Source: EBA and Citi Research; * Data for EU/EEA.

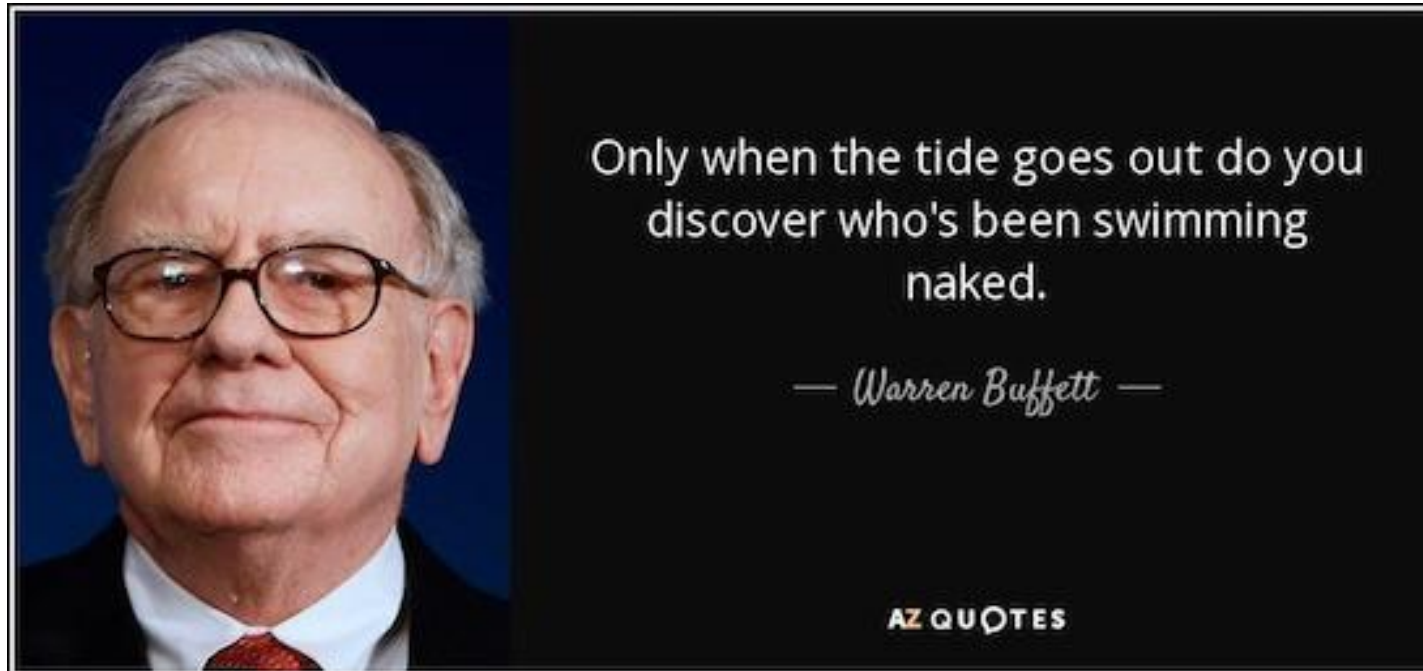
EUROPEAN BANKS RUN VERY LIMITED INTEREST RATE RISK

b) Change in bank net worth due to a 200 basis point increase in rates for banks with an above/below-median share of fixed-rate asset cash flows

(Q4 2021, percentages)



TIDE OF EASY MONEY IS GOING OUT



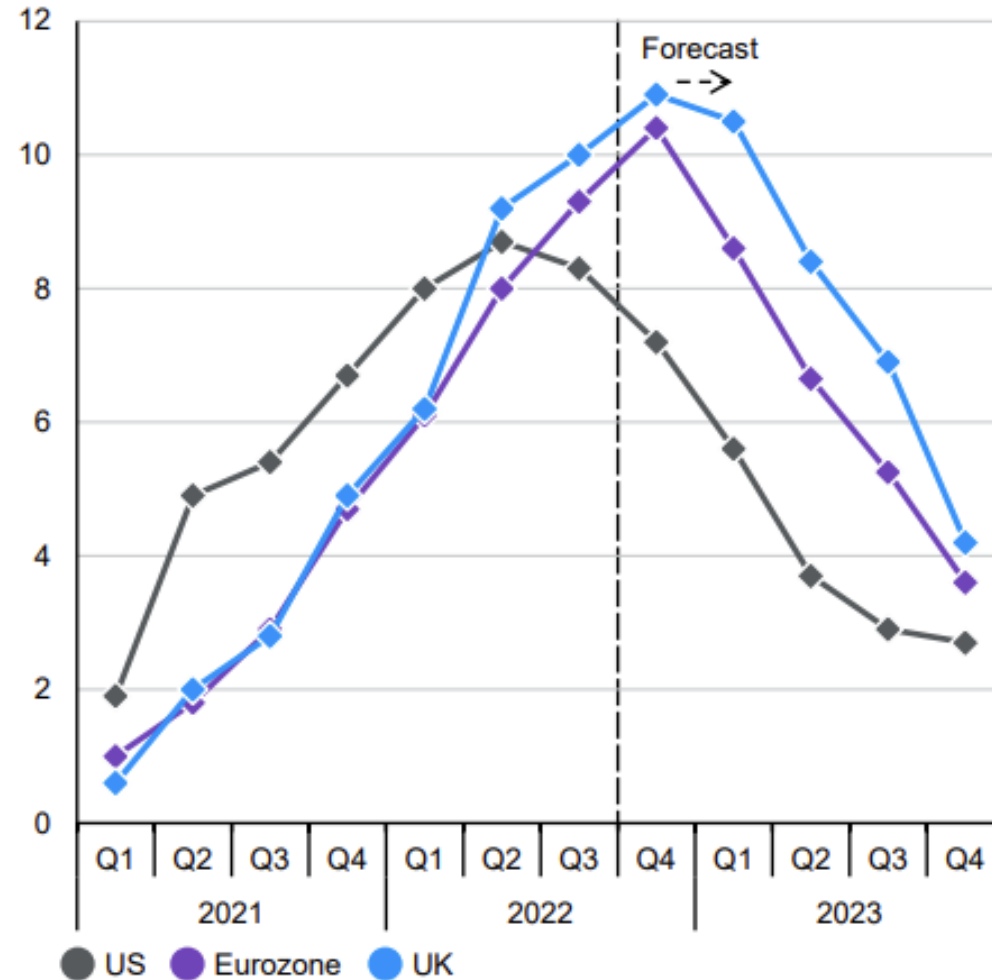
KEY TAKEAWAYS

- SVB collapse and Credit Suisse rescue illustrates sensitivity of markets and economies to rising rates and withdrawal of liquidity – recessionary “hard landing” remains a risk.
- Impact of these dynamics will be uneven across asset classes, regions, sectors so crucial to maintain a well diversified portfolio.
- Skilled active managers who can avoid the most stressed sectors/issues and capitalise on opportunities can add significant value.

LOOKING AHEAD

INFLATION FORECASTED TO FALL SIGNIFICANTLY

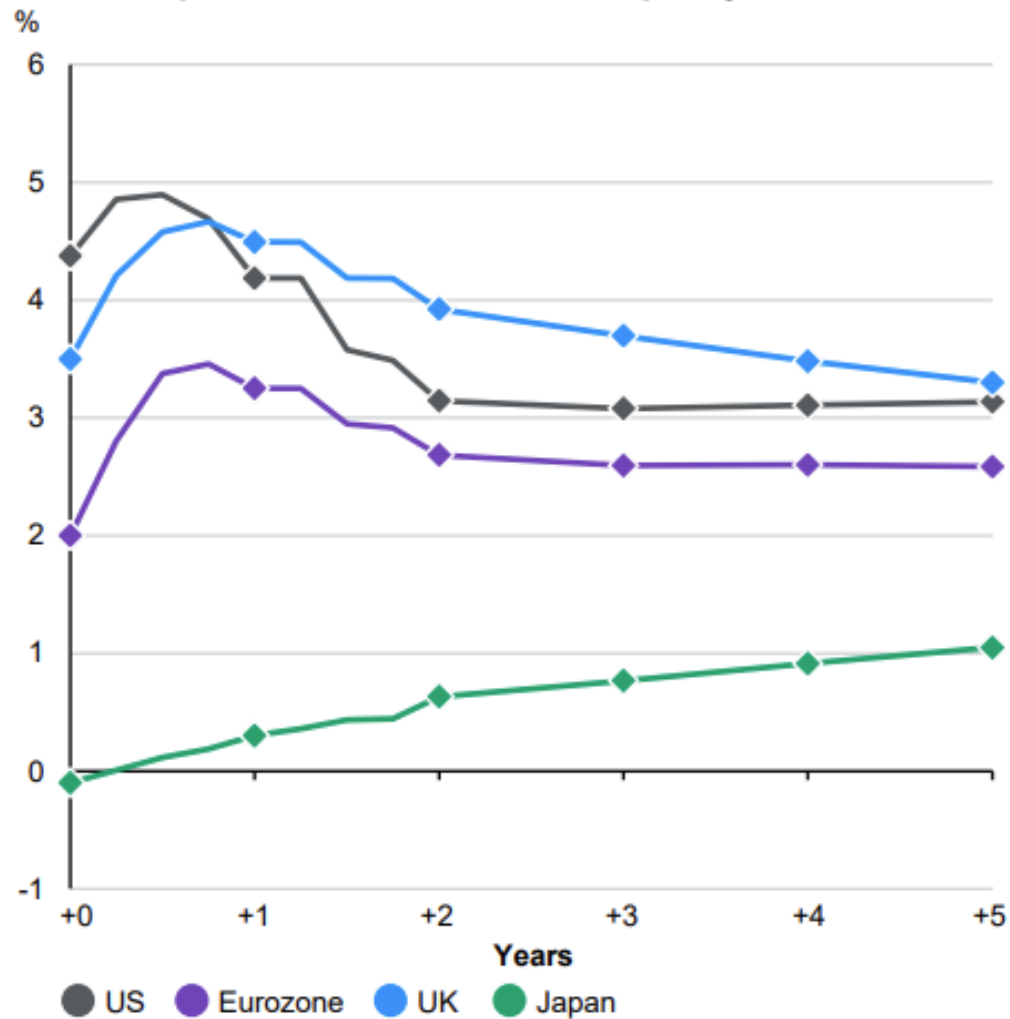
Median of economists' forecasts for headline CPI
% change year on year, quarterly average



Source: J.P. Morgan

INTEREST RATES EXPECTED TO PIVOT AND STABILISE

Market expectations for central bank policy rates

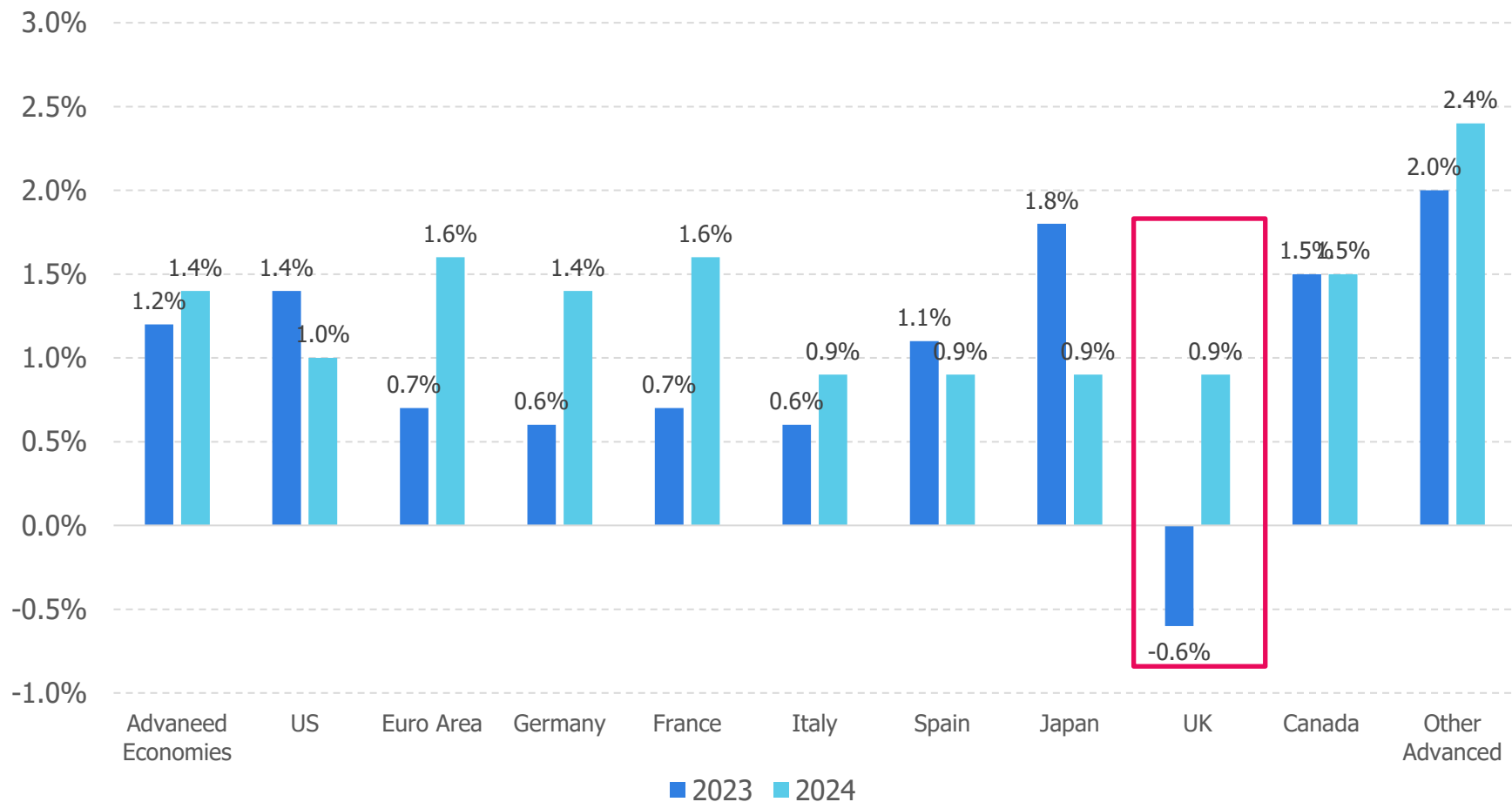


Source: J.P. Morgan

ECONOMIC OUTLOOK

GROWTH EXPECTED IN MOST MAJOR ECONOMIES...

IMF Economic Forecasts



Source: International Monetary Fund

SO WHAT?

Key Takeaways	So what?
<p>New environment of high inflation, higher interest rates and slowing growth has presented significant challenges for investors</p>	<p>The Fund has a long time horizon and has made excellent progress on diversifying its risk/return away from more traditional asset classes. However, the level of inflation linkage and interest rate duration in the portfolio should be considered / understood</p>
<p>Recent data provides some support for “goldilocks” (soft landing) scenario...but markets remain vulnerable to bad news on inflation and/or growth.</p>	<p>There is likely to be a bumpy ride ahead, particularly in equity markets. The Fund’s equity portfolio at more than 25% above target with a high exposure to growth stocks could continue to face headwinds.</p>
<p>Higher yields give attractive opportunities for investors to achieve return objectives at lower risk.</p>	<p>Expected future returns are now higher, particularly in credit, where there is likely to be opportunities in higher quality bonds (although be wary of interest rate risk).</p>

CONTACTS



Lead Consultant
Jill Davys
Head of LGPS

T +44 (0) 20 3540 5873
jill.davys@redington.co.uk



Alternate Lead Consultant
Sam Yeandle CFA
Senior Vice President

T +44 (0) 20 3326 7158
sam.yeandle@redington.co.uk



Consultant
Luke Isaac CFA
Vice President

T +44 (0) 20 3463 8061
luke.isaac@redington.co.uk



2021 FINANCIAL NEWS
**INVESTMENT
CONSULTANT
OF THE YEAR**



2021 PIPA AWARDS
**INVESTMENT
CONSULTANT
OF THE YEAR**



2020 PROFESSIONAL
PENSIONS UK PENSIONS
AWARDS
**DC INNOVATION
OF THE YEAR**



2018 CEO MONTHLY
MAGAZINE
**CEO OF THE YEAR:
LONDON**



2017 PENSION
INSIGHT
DC AWARDS
**BEST
INNOVATION
IN DC**



2017 EUROPEAN
PENSIONS
AWARDS
**RISK
MANAGEMENT
FIRM OF THE YEAR**



2017 FINANCIAL NEWS
AWARDS FOR
EXCELLENCE
**INVESTMENT
CONSULTANT
OF THE YEAR**



2017 INVESTMENT WEEK
WOMEN IN INVESTMENT
AWARDS
**YOUNG INVESTMENT
WOMAN OF
THE YEAR**



2016 LONDON
STOCK
EXCHANGE
**1000 COMPANIES
TO INSPIRE
BRITAIN**



2016 EUROPEAN
PENSIONS
AWARDS
**CONSULTANCY
OF THE YEAR**

Disclaimer

For professional investors only. Not suitable for private customers.

The information herein was obtained from various sources. We do not guarantee every aspect of its accuracy. The information is for your private information and is for discussion purposes only. A variety of market factors and assumptions may affect this analysis, and this analysis does not reflect all possible loss scenarios. There is no certainty that the parameters and assumptions used in this analysis can be duplicated with actual trades. This document is based on information available to Redington Ltd at the date of publication and takes no account of subsequent developments after that data. Further, any historical exchange rates, interest rates or other reference rates or prices which appear above are not necessarily indicative of future exchange rates, interest rates, or other reference rates or prices. Neither the information, recommendations or opinions expressed herein constitutes an offer to buy or sell any securities, futures, options, or investment products on your behalf. Unless otherwise stated, any pricing information in this document is indicative only, is subject to change and is not an offer to transact. Where relevant, the price quoted is exclusive of tax and delivery costs. Any reference to the terms of executed transactions should be treated as preliminary and subject to further due diligence.

Please note, the accurate calculation of the liability profile used as the basis for implementing any capital markets transactions is the sole responsibility of the Trustees' actuarial advisors. Redington Ltd may estimate the liabilities if required but will not be held responsible for any direct, indirect or consequential loss or damage howsoever sustained as a result of inaccuracies in that estimation.

Additionally, the client recognises that Redington Ltd does not owe any party a duty of care in this respect.

Redington Ltd are regulated by the Financial Conduct Authority. Redington Ltd do not advise on all implications of the transactions described herein. This information is for discussion purposes and prior to undertaking any trade, you should also discuss with your professional tax, accounting and / or other relevant advisers how such particular trade(s) affect you. All analysis (whether in respect of tax, accounting, law or of any other nature), should be treated as illustrative only and not relied upon as accurate.

©Redington Limited 2022. All rights reserved. No reproduction, copy, transmission or translation in whole or in part of this presentation may be made without permission. Application for permission should be made to Redington Limited at the following address – Floor 6, One Angel Court, London, EC2R 7HJ.

Redington Limited (06660006) is registered in England and Wales. Registered office: One Angel Court, London, EC2R 7HJ.

Floor 6, One Angel Court, London EC2R 7HJ
+44 (0)20 7250 3331
www.redington.co.uk