Monthly Economic Update

August 2015

FOR PROFESSIONAL ADVISERS ONLY

MOBIUS LIFE

- Global equities suffered severe losses throughout August as heavy selling took place across global markets, with those countries deemed to have higher exposure to China particularly badly effected. Markets were unsettled by slowing growth, government intervention and large market falls in China alongside ongoing concerns on a potential upcoming tightening monetary policy cycle in the US and UK. Government bond yields fluctuated as investors flocked to safe havens with yields in the US, Germany and Japan falling.
- The FTSE 100 fell below the 6000 mark before recovering as a global sell off took place on continuing fears over China, with miners hit particularly hard. As a result the index had its worst month since May 2012, whilst European and US equity markets had their worst months respectively since August 2011, when the 'taper tantrum' took place.

	Index Level 31 Aug 15	% Change August	1 Year
FTSE All Share £	3435	-5.3%	-2.3%
FTSE 100 £	6248	-6.0%	-5.0%
MSCI World $	1645	-6.6%	-3.6%
S&P 500 $	1972	-6.0%	0.5%
MSCI Emerging Markets $	819	-9.2%	-24.7%
	Index Level 31 Aug 15	**Index Level 31 Jul 15**	**Index Level 31 Aug 14**
UK 10 Year Gilt Yield %	1.96	1.88	2.37
GBP/USD	1.53	1.56	1.66
GBP/EURO	1.37	1.42	1.26
Oil - WTI $	49.2	47.1	96.0
Gold $	1135	1096	1288

Source: Bloomberg

- Unprecedented attempts by the Chinese authorities to stem losses failed to outweigh negative sentiment following China's yuan devaluation, soft economic data and capital outflows. China's factory output reading was the lowest since March 2009 as demand for imports and exports fell. Negative sentiment in the region has spilled out to wider global capital markets. The Chinese Central Bank cut its daily reference rate to which the yuan is fixed by 1.9%, causing the yuan to suffer its largest daily drop since 1994. The daily fixing fell by a further 1.6% the following day, although there was some state intervention to limit the rout on the yuan following the falls with the reference rate raised slightly later in the same week. Policy makers cited the change in fixing as a move to make the currency more aligned with market factors, although the move will also boost the nations exporters. There were several large moves in other foreign exchange markets as a consequence. The People's Bank of China warned further volatility in the yuan may be likely but reiterated that the nation was not looking to spark a currency war, with speculators considering devaluations by rival exporters.
- After the Shanghai Composite Index endured consecutive daily falls of 8.5% and 7.6% the People's Bank of China announced a further cut of 25bps in the interest rate to 4.6%, in addition to a 50bps lower required reserve ratio for banks. However the Chinese government's purchasing of domestic stocks saw the index pare losses at the end of the month, and closed 12.5% lower.
- The S&P 500 showed a fall of 6.0% during August, although suggestion that the Federal Reserve's interest rate rise will be delayed and the revision of US economic growth to 3.7% for the second quarter of 2015 (up from 2.3%) helped the market to recover towards the end of the month. US nonfarm payroll data showed US employers added 215,000 jobs during July, slightly below forecast however previous months were revised upward. As a result the unemployment rate stayed at 5.3%, a seven year low.
- The Bank of England (BoE) Monetary Policy Committee voted eight-to-one in favour of keeping monetary policy unchanged from its current levels. This was taken as a sign the BoE is more dovish than initially believed, pushing out rate rise expectations. The news caused the pound to weaken and sent gilt yields lower. The BoE also warned that energy prices coupled with the strength of the pound could keep inflation low for a prolonged period of time, easing the inflationary pressures on raising rates.
- The Greek government and their creditors continued discussions on the terms of the third bailout, where a swift resolution would allow Greece to access the loan facility from the European Stability Mechanism (ESM) ahead of a payment to the European Central Bank (ECB) due on 20 August. This would enable Greece to pay without additional bridge financing. Indeed, Greece reached a deal with creditors on the terms of their bailout which will allow Greece access to €86bn in funding. The measures needed to be passed through governments and were approved by the Greek government, although with much dissent from within Tsipras' Syriza party, preventing a default on money owed to the ECB. Greece received the first installment of its new bailout agreement with Tsipras announcing he will stand down as prime minister and called for new elections on the same day. This added uncertainty to Greece's future with investors likely to keep attention on Greece in the coming weeks.
- Economic momentum in the eurozone slowed during the second quarter as GDP growth fell to 0.3% from the 0.4% posted in the first quarter. The data, which came during a period of uncertainty surrounding Greece's eurozone membership and Chinese growth, may encourage the ECB to persist with its aggressive stimulus measures through to Autumn 2016 as initially planned. German GDP growth was 0.4% during the second quarter, with the nation's exports particularly exposed to China, although the weakened euro will have boosted exports. French GDP growth stagnated during the quarter following a strong rise during the first quarter. Spanish GDP enjoyed a strong rise, with Greece also surprisingly growing. Growth was positive in Italy, the Netherlands and Austria but has fallen in Finland in every quarter for a year.
- Brent crude fell below $45 per barrel for the first time since 2009 as it looked like the global oversupply will continue as global growth weakens, Iran pledged to boost production and US drilling activity increased. However at the end of August crude oil surged 27% in just 3 days, the biggest gain over this period of time since 1990, after the Organisation of Petroleum Exporting Countries declared that they would be willing to speak to other producers about finding a way to reach fair oil prices. There was also increased optimism that the excess supply of oil may not last as long as previously expected as the Energy Information Administration of the United States lowered forecasts for oil output. The rise in oil price was enough to eradicate the previous month of losses.

Funding Level Index Update

August 2015

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About the Funding Level Index

The Mobius Life SME Pension Funding Level Index reports the health of the UK's small and medium sized pension schemes, which make up the majority of employer-sponsored defined benefit pension schemes in the UK.

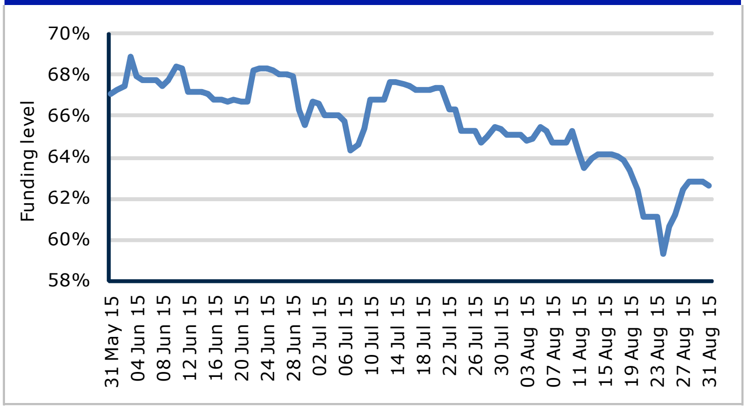
Mobius Life has been using the Index as an in-house tool since 2006 to illustrate the historical patterns of funding levels for a 'typical' small to medium sized pension scheme.

The index is based on a typical scheme allocation of 70% in equities and 30% in bonds. The last time the Index showed 100% funding level was in July 2007.

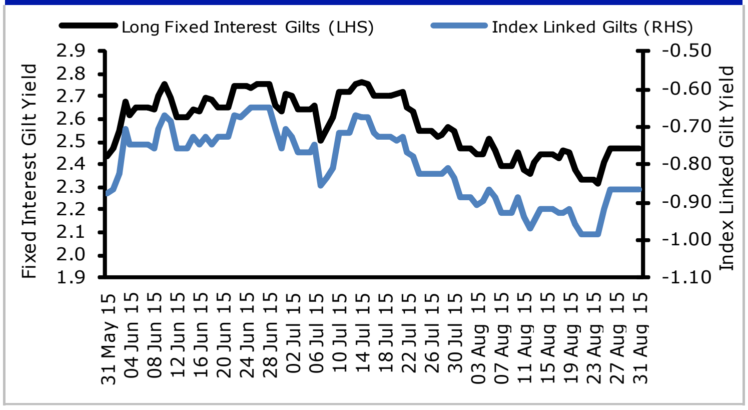
Funding Level Changes over 3 Months

Starting position (31/05/2015)	67.1%
Change due to asset returns	-4.1%
Change due to change in liability value	-0.4%
Ending position (31/08/2015)	62.6%

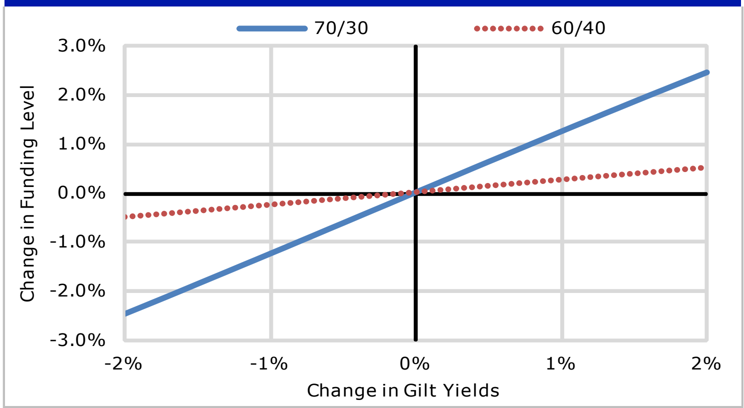
Funding Level Progression over the last 3 Months



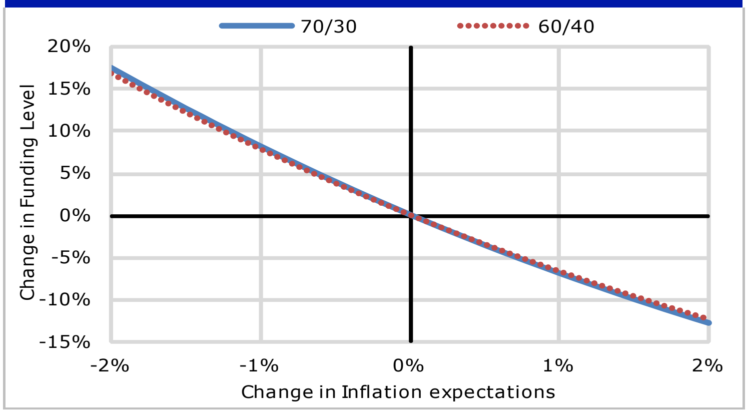
Gilt Yields over the last 3 Months



Effect of Change in Gilt Yields on Funding Level



Effect of Change in Inflation on Funding Level



Sensitivity Charts: Demonstrates the effect of a change to gilt yields or inflation expectations on the funding level, given the current level of 63%. The blue line reflects the scheme in the Mobius Life Funding Level Index, with assets split 70% Equity, 20% Fixed Interest Bonds and 10% Index Linked Bonds. Liabilities are: Fixed 30% and Index Linked 70%, duration for both is 20 years, and convexity for both is 250. As a proxy, the red dotted line in the charts represents a scheme with the same funding position and liability profile however with assets split 60% Equities, 28% Fixed Interest Bonds and 12% Index Linked Bonds.

Notes

The Index reflects the difference in movement of assets and liabilities, solely allowing for market movements. Deficit contributions, benefit payments and demographic changes are not included in the Index.

Standard Scheme Behind the Funding Level Index

Nature of liabilities:
Proportion related to index linked gilts (ILG) = 70%
Proportion related to fixed interest gilts (FIG) = 30%
Duration of liabilities = 20 years
Valuation return = 1.3% p.a. above gilts

Nature of assets:
Equity allocation = 70% (64% passive UK and 36% passive regional overseas). Bond allocation = 30% (33.3% ILG, 33.3% FIG, and 33.3% UK corporate bonds)

Contact Us

For more information about our Funding Level Index please contact our Client Services team using the details in the footer.

This document is based on Mobius Life opinion of the market, and whilst every effort has been made to ensure that the information contained is correct, Mobius Life cannot accept responsibility for any action arising as a result of the information.

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