Monthly Economic Update

March 2015

- A mixed month in markets as diverging monetary policies saw UK and US equity markets end lower, falling from intra-month highs, whilst European and Japanese equities continued to rally driven by loose monetary policy. Gilt yields tightened through March with the 10-year Gilt lowering by 22 basis point to close at 1.58%, although did touch an intra-month low of 1.44%.
- The FTSE 100 hit a milestone during the month by breaking the 7,000 mark, however some risk aversion and profit taking saw the index end lower. Despite the profit taking, March's close meant the FTSE 100 recorded its best quarterly performance since the last quarter of 2013, rallying by 3.15%.

	Index Level 31 Mar 15	% Change March	1 Year
FTSE All Share £	3664	-1.7%	6.6%
FTSE 100 £	6773	-2.0%	6.3%
MSCI World $	1741	-1.5%	6.6%
S&P 500 $	2068	-1.6%	12.7%
MSCI Emerging Markets $	975	-1.6%	-2.0%
	Index Level 31 Mar 15	**Index Level 28 Feb 15**	**Index Level 31 Mar 14**
UK 10 Year Gilt Yield %	1.58	1.80	2.74
GBP/USD	1.48	1.54	1.67
GBP/EURO	1.38	1.38	1.21
Oil (WTI) $	47.6	49.8	101.6
Gold $	1184	1213	1284

Source: Bloomberg

Please note past performance is not indicative of future performance

- The Bank of England (BoE) held policy measures unchanged although touched on the possibility of a rate cut if deflationary pressures persist. Investors appear to be pricing in an interest rate rise for early 2016; a median forecast shows analysts are expecting a small UK interest rate rise in Q4 2015. The BoE reported that inflation expectations for 2015 have fallen to 1.9%, the lowest since 2001. Then followed the news UK inflation fell to 0.0% for the first time since records began in 1989, driven by falls in energy and food prices. This came in below estimates whilst core inflation, which strips out food and energy, rose by 1.2%. The threat of deflation has split opinions at the BoE, with some members arguing the falls may merit further rate cuts whilst other members eye up interest rate hikes in the current environment. Several BoE members made a concerted effort to play down the likelihood of rate cuts, including Governor Mark Carney.
- Talks continued between Greece and representatives from the European Commission, European Central Bank (ECB) and the International Monetary Fund following Eurozone ministers temporarily extending the bailout until the end of June. An agreement over reform measures is necessary in order to unlock access to credit to meet its upcoming obligations. Greek bonds have soared in response with 10-year bond yields climbing above 12% whilst Greek banks faced a deposit flight. The three-year bond yield, one of the most sensitive to 'Grexit' fears, jumped to nearly 25% at one stage. Greece was mandated to submit a reform list to Eurozone finance ministers, the Eurogroup, at the end of March, with previous discussions lacking the necessary detail to unlock credit. Without access to credit it is predicted Greece will run out of cash within weeks; fear over short term defaults caused 3-year note yields to trade as much as 10% wider over 10-year bonds.
- The euro plunged to a twelve year low versus the US dollar, encroaching on parity levels, as investors took stead of diverging monetary policies. The ECB president Mario Draghi announced the start of the €1.1tn quantitative easing programme. The ECB will look to buy €60bn per month with an option to extend the programme if sufficient recovery is not seen. The policy has sent the euro and European sovereign bond yields lower.
- The timing of a US rate rise is still hotly debated as strong data prints brought forward expectations whilst Federal Reserve (Fed) rhetoric has dampened these. Combined with the strong dollar, the uncertainty has caused some jitters in US markets with equities seeing some large daily falls. In spite of removing the word 'patience', the Fed released a conservative policy statement as Janet Yellen lowered her outlook for growth and the rate at which policy will be tightened. This pushed risk assets higher in anticipation of an extended period of loose monetary policy.
- Japan's Nikkei reached its highest level since April 2000, buoyed by the large Japanese and European quantitative easing programs.
- China's Premier of the State Council, Li Keqiang, revealed a lower growth target of 7% for 2015, describing the lower-growth environment as the 'new normal'. Data showed Chinese growth struggling early in 2015 as industrial output, retail sales, fixed asset investment and preliminary Chinese 'Flash' PMI data disappointed. The news came in spite of the Chinese monetary policy aimed at spurring growth.
- India's central bank unexpectedly cut their interest rate by 0.25% for the second time this year. This was met with a positive reaction in markets, with the rupee rising against the dollar.

Funding Level Index Update

March 2015

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.

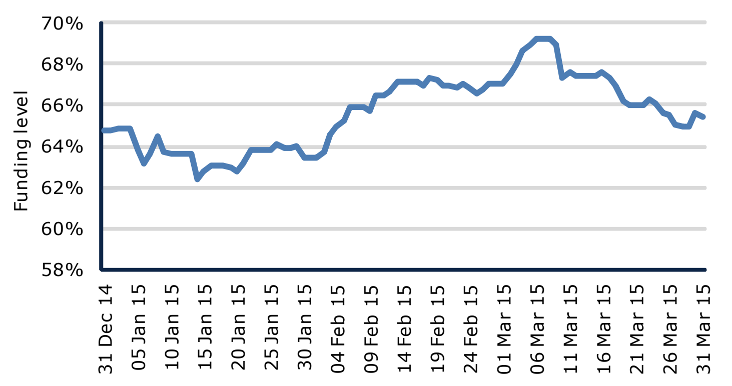
Mobius Life has been using the Index as an in-house tool since 2006 to illustrate the historical patterns of funding levels for a 'typical' small to medium sized pension scheme.

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.

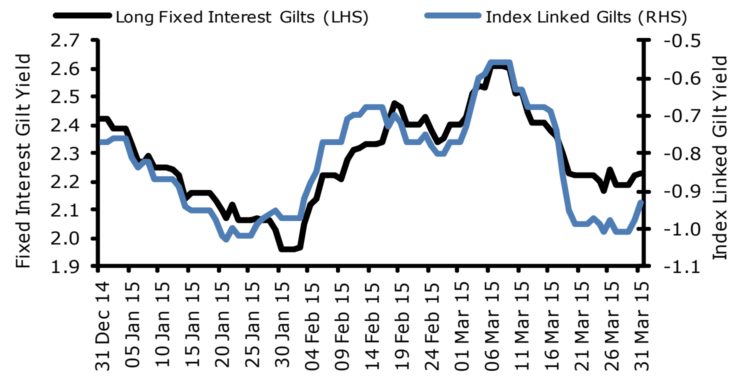
Funding Level Changes over 3 Months

Starting position (31/12/2014)	64.7%
Change due to asset returns	3.5%
Change due to change in liability value	-2.8%
Ending position (31/03/2015)	65.4%

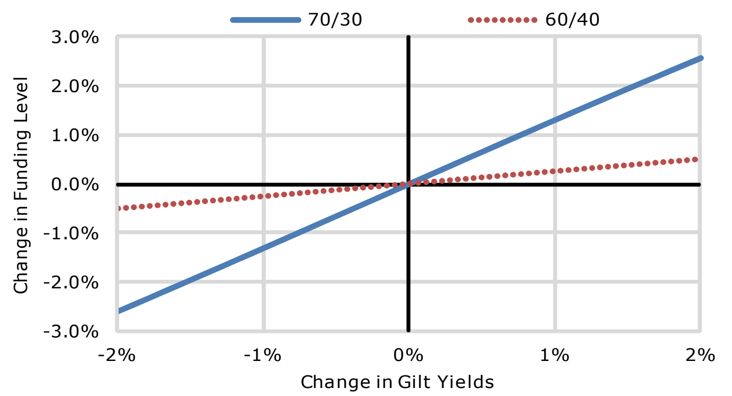
Funding Level Progression over the last 3 Months



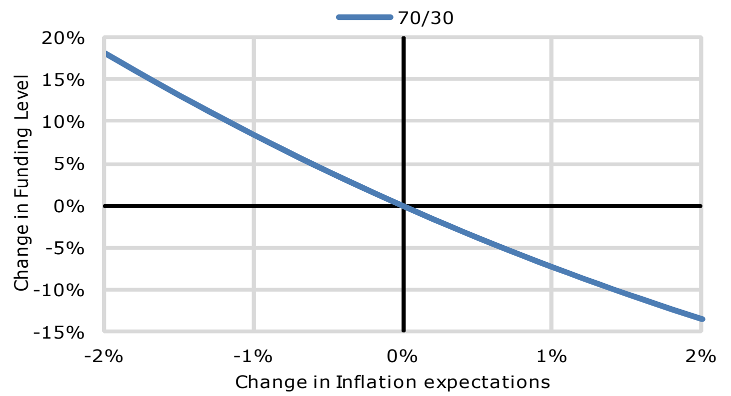
Gilt Yields over the last 3 Months



Effect of Change in Gilt Yields on Funding Level



Effect of Change in Inflation on Funding Level



Sensitivity Assumptions: The Scheme represented is 65% funded with assets split 70% Equity, 20% Fixed Interest Bonds and 10% Index Linked Bonds. Liabilities are: Fixed 30% and Index Linked 70%. Duration of both is 20. Convexity of both is 250. The red line in the yield sensitivity chart 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 characteristics of the standard scheme modelled in the Index are set out below. 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 your Adviser or our Client Services team in the address 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 in this Market Update is correct, Mobius Life cannot accept responsibility for any action arising as a result of the information.

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