Monthly Economic Update

April 2015

FOR PROFESSIONAL ADVISERS ONLY

- Global equity markets performed well during April, despite some slight falls toward the end of the month. Nevertheless, equity markets ended the month higher with emerging markets faring particularly well driven by strong rises in Chinese and Hong Kong stock exchanges. Government bond yields increased through the month, with the 10-year UK gilt yield increasing from 1.58% to 1.83%. These upward moves were also matched in US treasuries and developed European yields, albeit from a very low level.
- Sterling fell to its lowest level against the US dollar for nearly five years early in April as disappointing macroeconomic data releases and uncertainty over the upcoming general election combined to unsettle traders. However, in a reversal of the recent trend the sterling and euro subsequently strengthened to end the month stronger versus the greenback. However there is underlying uncertainty as Greek debt negotiations continued to falter alongside some poor macroeconomic data releases, although the lure of extended easy monetary policy allowed risk assets to rally.

	Index Level 30 Apr 15	% Change April	% Change 1 Year
FTSE All Share £	3760	3.0%	7.5%
FTSE 100 £	6961	3.2%	6.4%
MSCI World $	1778	2.4%	8.0%
S&P 500 $	2086	1.0%	13.0%
MSCI Emerging Markets $	1048	7.5%	5.3%
	Index Level 30 Apr 15	Index Level 31 Mar 15	Index Level 30 Apr 14
UK 10 Year Gilt Yield %	1.83	1.58	2.66
GBP/USD	1.53	1.48	1.69
GBP/EURO	1.37	1.38	1.22
Oil (WTI) $	59.6	47.6	99.7
Gold $	1184	1184	1292

Source: Bloomberg

Please note past performance is not indicative of future performance

- Greece is still negotiating with lenders over reforms to see further necessary credit unlocked to meet obligations and sent an updated list of reforms to financial lenders in a bid to unlock aid. The situation in Greece has remained difficult with the International Monetary Fund (IMF) warning they will not support a delay in payments of debt, triggering a new flight from Greek bonds and causing yields to soar. Investors have been following developments in Greece to ascertain whether any deal is becoming more likely as debt negotiations continue with European creditors. Greece shuffled their team for the negotiations, with the Greek finance minister, Yanis Varoufakis, being replaced by an economics professor in the leading role, although Mr Varoufakis would continue to supervise the talks. This was in a move to alleviate tensions between the negotiating parties in a bid to push through a deal following several heated clashes between euozone ministers and Mr Varoufakis.
- US data releases have been disappointing, with US non-farm payroll data undershooting consensus forecasts, recording the lowest monthly rise since December 2013. This prompted investors to push out their expectations for an interest rate rise in the US, causing the dollar to fall against the euro and US treasury yields to fall following the news. The Federal Open Market Committee (FOMC) left economic policy unchanged, leaving interest rates at record lows as was indicated in March. However, the FOMC also removed all calendar references from its statement and some descriptions of economic conditions. US GDP grew by 0.2% during the first quarter of this year, significantly lower than initial estimates. A rise in personal consumption and private investment was eroded by declines in exports, capital investment, state spending as the US suffered from severe weather, the West Coast port strike, the strength of the dollar and a sharp drop in spending by energy companies.
- The IMF stated during their World Economic Outlook that recent exchange rate changes should boost global growth, particularly helping Europe and Japan. Overall global growth expectations were broadly unchanged, with faster expected growth in the eurozone and India offset by large cuts to Russia and Brazil. The IMF warned of the potential negative implications that the Federal Reserve raising US interest rates at a quicker pace than anticipated may cause to global asset prices and emerging markets. The IMF cited unprecedented levels of US debt worldwide, a dollar shock and investors being underprepared as reasons for a negative shock.
- Switzerland made history by becoming the first government in history to sell its 10-year sovereign bonds at negative interest rates; 10-year debt was sold at a yield of –0.055%. Mexico also made history in the bond markets by becoming the first nation to sell 100-year government notes in euros.
- Crude oil prices increased following forecasts that US shale output will fall for the first time in years, alongside ongoing geopolitical tensions in Yemen which threatens to disturb the supply of oil. The Nasdaq index reached a record high, exceeding the level reached during the dot-com bubble in 2000. This coincided with oil prices reaching their highest levels of 2015.
- Continuing to be buoyed by the weak yen, Japanese data showed a trade surplus for the first time since 2012 on strong export figures. Japan has been importing high levels of oil since the closure of its nuclear plants in 2011, and the recent fall in the oil price has softened import costs.
- The People's Bank of China (PBoC) cut the reserve requirement for banks for the second time in two months, boosting liquidity and spurring growth. This followed a fall in the official GDP growth rate to 7.0%, the slowest pace of growth in six years, although in line with the official target. China's manufacturing endured the largest monthly contraction for a year in April as the rate of growth of China's economy continues to slow. This appears to have heightened investor beliefs that there will be further stimulus from the PBoC. The PBoC approved more foreign investment in to their domestic bond market in another sign that the country is opening itself up to outside investment. Hong Kong and China A shares soared in April on the back of the increased stimulus and as mainland Chinese investors utilised the newly formed Shanghai-Hong Kong Stock Exchange to move money in to Hong Kong listed stocks.
- The Reserve Bank of Australia cut its interest rate by 0.25% to a record low of 2.0%. This is the second cut this year and follows falling iron ore prices and concern over the strength of the Australian dollar.

Mobius Life Limited
3rd Floor, 1 Royal Exchange, London EC3V 3LN
t: +44 (0)20 7847 3300 f: +44 (0)20 7847 3399
enquiries@mobiuslife.co.uk
www.mobiuslife.co.uk

Funding Level Index Update

April 2015

FOR PROFESSIONAL ADVISERS ONLY

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.

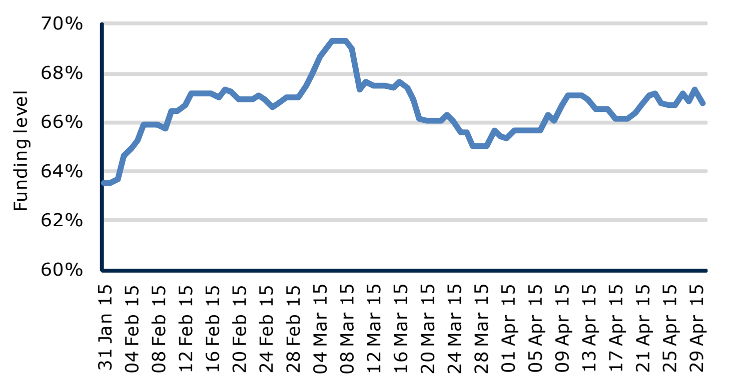
Mobius Life has been using the Index as an in-house tool since 2006 to illustrate the historical patterns of funding levels for a 'typical' small to medium sized pension scheme.

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.

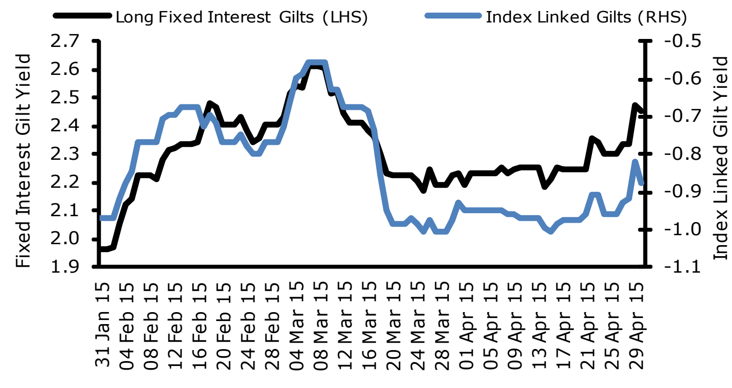
Funding Level Changes over 3 Months

Starting position (31/1/2015)	63.5%
Change due to asset returns	1.1%
Change due to change in liability value	2.2%
Ending position (30/4/2015)	66.8%

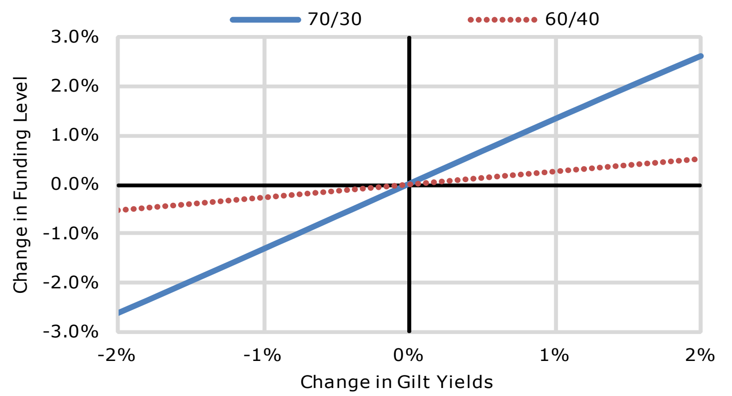
Funding Level Progression over the last 3 Months



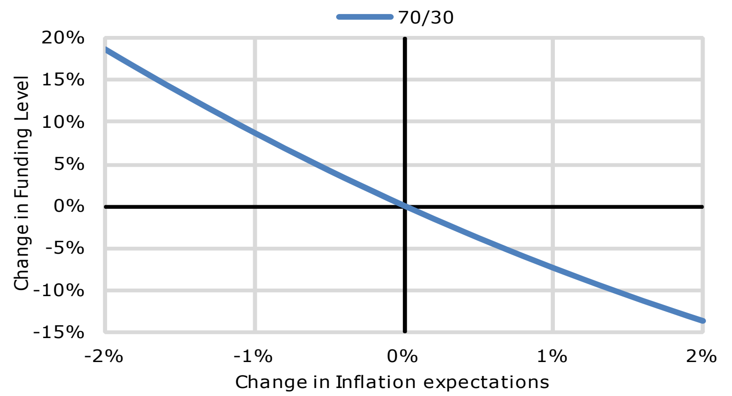
Gilt Yields over the last 3 Months



Effect of Change in Gilt Yields on Funding Level



Effect of Change in Inflation on Funding Level



Sensitivity Assumptions: The Scheme represented is 67% funded 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. The red dotted 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 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.

Mobius Life Limited
3rd Floor, 1 Royal Exchange, London EC3V 3LN
t: +44 (0)20 7847 3300 f: +44 (0)20 7847 3399
enquiries@mobiuslife.co.uk
www.mobiuslife.co.uk