Monthly Economic Update

July 2015

FOR PROFESSIONAL ADVISERS ONLY

MOBIUS LIFE

	Index Level 31 Jul 15	% Change July	% Change 1 Year
FTSE All Share £	3653	2.4%	5.4%
FTSE 100 £	6696	2.8%	3.1%
MSCI World $	1766	1.8%	5.5%
S&P 500 $	2104	2.1%	11.2%
MSCI Emerging Markets $	902	-7.3%	-15.4%
	Index Level 31 Jul 15	**Index Level 30 Jun 15**	**Index Level 31 Jul 14**
UK 10 Year Gilt Yield %	1.88	2.02	2.60
GBP/USD	1.56	1.57	1.69
GBP/EURO	1.42	1.41	1.26
Oil - WTI $	47.1	59.5	98.2
Gold $	1096	1172	1283

Source: Bloomberg

- Global markets in July were largely driven by developments in Greece and China. Investors intently followed the progression of Greek bailout negotiations and speculated as to the potential ramifications were they to turn sour. However, a resolution allowed risk assets to rally and post gains, although emerging markets fared significantly worse, exacerbated by Chinese stock price performance.
- Following Greece's missed payment to the IMF on the 30th June, Greece's eurozone membership was brought in to question at the start of July as Greek negotiations with creditors over an additional bailout continued to stall, with Greece unwilling to accept the terms on offer. Alexis Tsipras called a referendum, asking the Greek population to vote on the proposed list of demands from Greece's creditors, in which the Greek population voted unanimously in favour of rejecting the terms. Tsipras stated this was not a vote to leave the eurozone, although this conflicted with messages from the Troika, and that Greece would continue to negotiate on further proposals for more favourable terms. The euro fell following the news, peripheral bond yields rose and equities slumped.

  However, as the situation grew more dire Tsipras subsequently submitted a proposal remarkably similar to the one rejected by Greek voters just days earlier. The new proposals contained timing differences for promised reforms, but were in agreement on the whole with creditors on pension and tax reforms, which were previously sticking points in negotiations. The proposals went to Greek parliaments where they faced significant resistance, however the measures were passed despite public protests against austerity taking place given the farcical referendum. The European Central Bank (ECB) reacted swiftly to the vote, providing a €7 billion loan to ensure the country's short term liquidity needs were met while negotiations continued and Greek banks were allowed to reopen. Global equity markets climbed and Greek bonds rallied as fears over a 'Grexit' eased.

  Despite the short-term resolution, signs that Europe is losing patience with Greece did emerge, with noise emanating particularly from Germany where a sizeable number of Angela Merkel's party voted against the measures. Germany's Federal Minister of Finance Wolfgang Schäuble also put forward the idea of a temporary Greek exclusion from the eurozone if they were unable to provide assurances that proposed measures will be implemented. Although not discussed with other finance ministers, it appeared that some form of Greek exit would be acceptable to the German government, and is something that may rear its head again in future. Up until now there had been no option available for countries to leave the eurozone, and so the initiation of these discussions, albeit on a private level, may serve as a yardstick for any troubled nations in future.
- Chinese shares remained volatile as the start of July saw heavy selling pressure brought on by the unwinding of leverage which sent the Shanghai index significantly lower. However, action by Chinese authorities to curb recent losses produced the largest daily gain in over six years and involved the biggest intraday swing since 1992, sending volatility measure to a seven-year high. Chinese authorities conducted a series of emergency meetings which resulted in several new measures enacted in an attempt to restrict volatility. These included brokerages promising to not sell shares, the creation of a stabilisation fund, share issues being suspended and central bank stating they will supply liquidity. The central bank's promise of liquidity support initially appeared to have instilled confidence into investors following significant declines, with markets reacting positively. However investors have remained skeptical with significant rises being followed by large losses causing Chinese equities to end July significantly lower.
- Despite falls in companies exposed to commodity prices, the S&P 500 Index climbed 2.1% in July as Q1 GDP data was revised upward to show an annualised rise of 0.6%, rather than the 0.2% initially estimated, although initial Q2 data missed estimates. Chair of the Federal Reserve Janet Yellen continued to state that an interest rate rise in the US can be expected later this year. Focusing on US data rather than uncertainty in Greece, Janet Yellen spoke cautiously of a recovering economy. However, the negative impact of the stronger US dollar has been evident to US companies with many missing revenue forecasts.
- Mark Carney, governor of the Bank of England, spoke about the decision to raise interest rates coming into 'sharper relief around the turn of the year', signalling the initial rise may come sooner than markets anticipate. The UK unemployment rate rose for the first time in over two years, increasing to 5.6%. However, wage growth increased, allowing the BoE to look forward with rate rises.
- June data for Japanese inflation showed prices rising just 0.1% year-on-year, with Abenomics currently showing little success in moving inflation towards the 2% target. Naturally, analysts are expecting criticism of Prime Minister Shinzō Abe's policies to build if data does not improve, with some data indicating GDP may have contracted during the second quarter. The Bank of Japan held monetary policy unchanged and maintained its positive assessment of the economy.
- Oil continued along its downward trajectory and completed its largest monthly fall in nearly seven years following Iran voting to immediately increase oil production once sanctions are lifted. This followed earlier news that drilling activity in the US had unexpectedly increased by 21 rigs in just a week, the largest increase in more than a year. Commodities continued to struggle in the current environment with global growth and Chinese demand slowing. Gold also hit its lowest level in five years.

Funding Level Index Update
July 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.

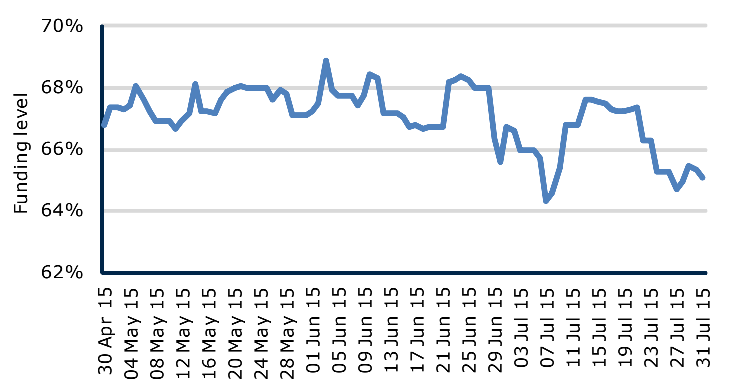
Mobius Life has been using the Index as an in-house tool since 2006 to illustrate the historical patterns of funding levels for a 'typical' small to medium sized pension scheme.

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.

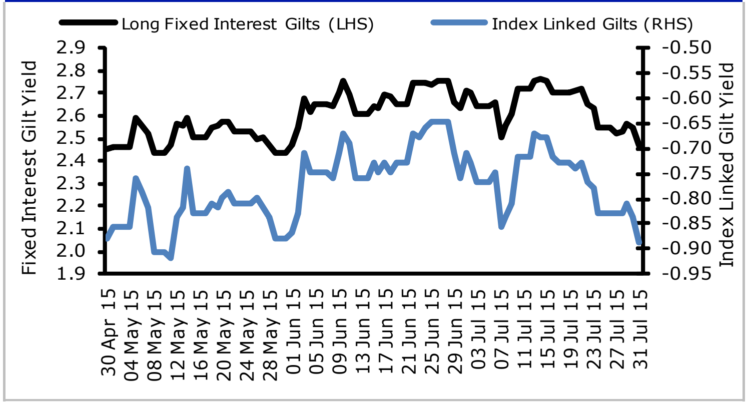
Funding Level Changes over 3 Months

Starting position (30/04/2015)	66.8%
Change due to asset returns	-1.1%
Change due to change in liability value	-0.7%
Ending position (31/07/2015)	65.0%

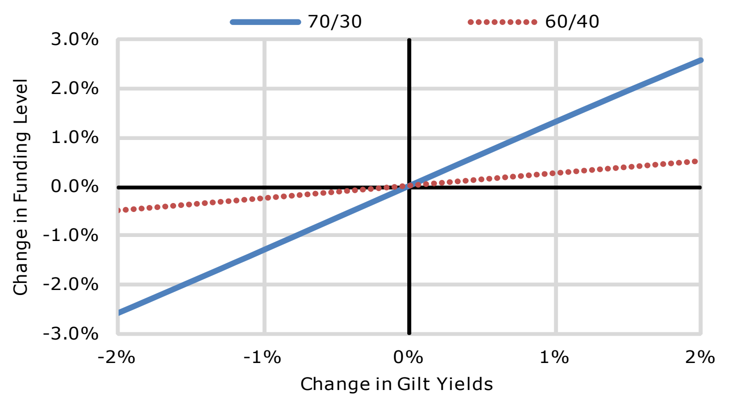
Funding Level Progression over the last 3 Months



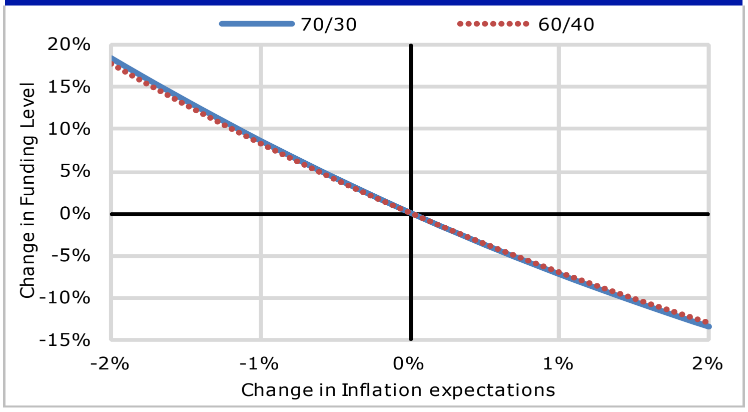
Gilt Yields over the last 3 Months



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 65%. 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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