Monthly Economic Update

June 2015

FOR PROFESSIONAL ADVISERS ONLY

	Index Level 30 Jun 15	% Change June	% Change 1 Year
FTSE All Share £	3571	-5.7%	2.6%
FTSE 100 £	6521	-6.4%	0.2%
MSCI World $	1736	-2.3%	2.0%
S&P 500 $	2063	-1.9%	7.4%
MSCI Emerging Markets $	972	-3.2%	-7.5%
	Index Level 30 Jun 15	**Index Level 31 May 15**	**Index Level 30 Jun 14**
UK 10 Year Gilt Yield %	2.02	1.81	2.67
GBP/USD	1.57	1.53	1.71
GBP/EURO	1.41	1.39	1.25
Oil - WTI $	59.5	60.3	105.4
Gold $	1172	1191	1327

Source: Bloomberg

- June proved to be a difficult month for global equity and fixed income markets as Greek fears sparked investor selling, volatility and markets generated significant losses. The situation in Greece continued to dominate headlines as the likelihood of Greece reaching an agreement with its creditors seemingly reduced as June progressed. This led markets to increase the probability of a Greek default and weigh the likely outcomes were a default to take place followed by a 'Grexit' from the euro. As a result European markets were down and yields on Greek bonds soared.
- In a further escalation in the confrontation between Greece and its creditors, Greece deferred its payments to the International Monetary Fund (IMF) and in doing so became the first country since the 1980s to take advantage of legislation allowing payments to be bundled during a month. The move left €1.6bn payable on June 30th, the date of the expiration of the previous bailout agreement. Greek shares dived as ministers confirmed Greece will need to clinch a deal with the EU and IMF to prevent a default on its debt. This came after IMF negotiators dramatically pulled out of discussions, citing major differences with the Greek government and creditors views. Negotiations had been stalling over disagreements regarding Greece's future budget goals, reforms and taxes. Greek prime minister Alex Tsipras gave a defiant speech in which he showed no intent to compromise on reforms with the IMF and accused lenders of attempting to humiliate Greece.
- With negotiations appearing to make little progress, Tsipras shocked the eurozone by proposing a referendum on July 5th, asking the Greek population to vote 'no' to the demands of creditors whilst Tsipras described the proposals as 'humiliating austerity without end and without prospect'. The European Central Bank (ECB) duly elected to freeze the maximum Emergency Liquidity Assistance available to Greek banks as Greek residents flocked to ATMs in order to withdraw funds. The country chose to close banks until July 6th and capital controls were implemented in an attempt to limit the outflow of cash from Greek banks and into other countries. The introduction of capital controls opposes existing regulations regarding the free flow of euros to countries that share the currency, in theory providing a basis for a Greek exit from the eurozone.
- Indeed, on 30 June Greece became the first developed country to default on the IMF, as its five-year rescue programme from creditors expired. Greece failed to transfer the €1.6bn to the IMF; this is the largest single missed repayment in the IMF's history. A last minute request for a new two-year rescue package to aid the troubled economy was dismissed by German Chancellor Angela Merkel. With Greece's eurozone membership coming in to question, eurozone finance ministers were searching for a solution to resolve the Greek issues as the nation struggles with an economy which has been on life-support from creditors over the last few years. As at the end of June, investors are focusing on the upcoming Greek referendum, with any further implications of Greek negotiations and the potential of a Grexit being continuously analysed.
- It was a volatile month for sovereign bond markets as bond prices continued to fall with Gilt, Treasury and Bund yields hitting their highest points this year. The selloff has been attributed to increased confidence in growth as well as higher inflation rates coming through the system. German bunds suffered the biggest two-day increase in yields since the formation of the eurozone as the 10-year Bund yield touched 1%, marking a significant increase from the lows of 0.07% seen in April. However, yields on major sovereign bonds fell significantly during the last couple of days of June as nervousness in markets led to a flight to safety, and as such the aforementioned bonds pared back some of June's earlier losses.
- The IMF called on the Federal Reserve (Fed) to postpone interest rate hikes until 2016 as it cut its growth forecast for the US. The IMF warning followed two Fed governors questioning whether the contraction seen in the US economy during the first quarter was transitory. However, US consumer spending rose 0.9% in May, the fastest in 6 years, suggesting the economy is on course for a September rate rise as Fed Chair Janet Yellen hinted a gradual rise in interest rates may be on the horizon.
- Within the UK, figures released by the Office for National Statistics showed that the number of people in work climbed to a record high of 31.05m people with unemployment also falling. Pay growth was shown to have risen by 2.7%, the largest increase since 2009, which may encourage the Bank of England to consider raising interest rates. Sterling rallied following the announcements.
- The Shangai Composite Index fell by 20% in the two weeks to the end of June, forcing the 4th interest rate cut since November as the People's Bank of China cut interest rates by a further 0.25%, to 4.85%. The required reserve ratio of lenders was also lowered following significant falls in the stock market and a slowdown in investment. However, there was some positive news for China as forward looking indicators of confidence increased at their fastest pace since 2007, the housing market looked to rebound and output showed signs of picking up as the impacts of credit easing feed through the system.
- Japanese exports rose at the slowest pace since August, increasing at an annual 2.4% compared to expectations of a 3.0% rise with some commentators blaming slowing Chinese growth on the lower number. The Bank of Japan held monetary policy unchanged and maintained its positive assessment.

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Funding Level Index Update

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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.

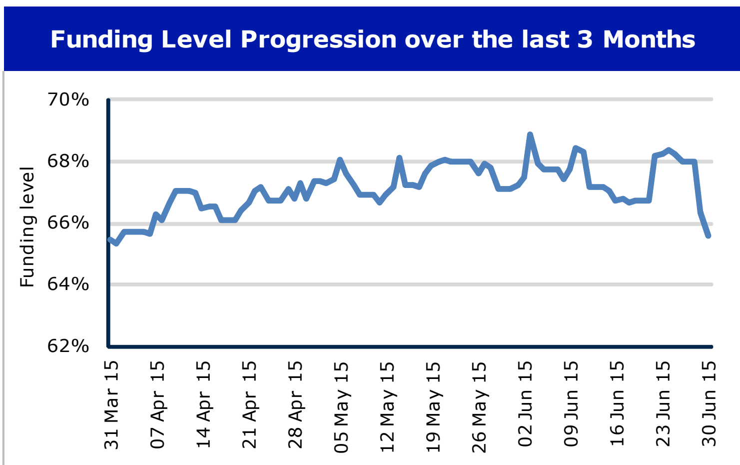
Mobius Life has been using the Index as an in-house tool since 2006 to illustrate the historical patterns of funding levels for a 'typical' small to medium sized pension scheme.

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.

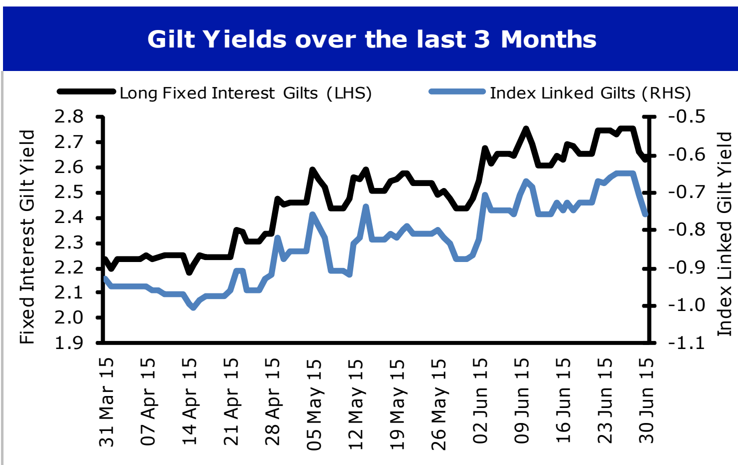
Funding Level Changes over 3 Months

Funding Level Changes over 3 Months	
Starting position (31/03/2015)	65.4%
Change due to asset returns	-2.3%
Change due to change in liability value	2.5%
Ending position (30/06/2015)	65.6%

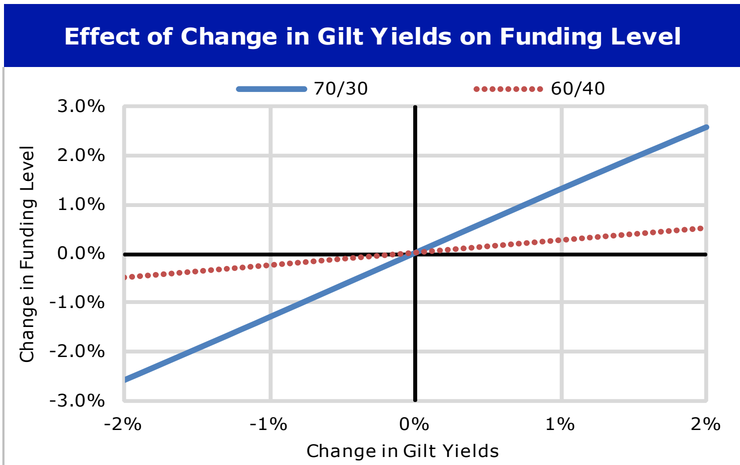
Funding Level Progression over the last 3 Months



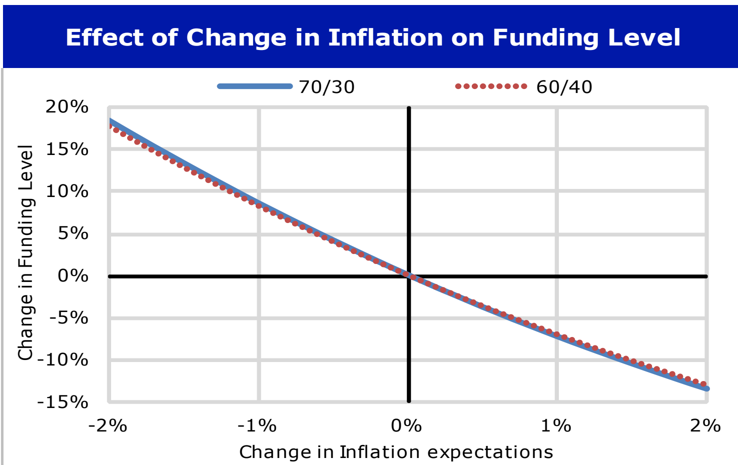
Gilt Yields over the last 3 Months



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 66%. 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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