Monthly Economic Update

May 2015

FOR PROFESSIONAL ADVISERS ONLY

	Index Level 31 May 15	% Change May	% Change 1 Year
FTSE All Share £	3797	1.4%	7.5%
FTSE 100 £	6984	0.7%	5.7%
MSCI World $	1779	0.4%	6.3%
S&P 500 $	2107	1.3%	11.8%
MSCI Emerging Markets $	1004	-4.2%	-2.3%
	Index Level 31 May 15	Index Level 30 Apr 15	Index Level 31 May 14
UK 10 Year Gilt Yield %	1.81	1.83	2.57
GBP/USD	1.53	1.53	1.68
GBP/EURO	1.39	1.37	1.23
Oil - WTI $	60.3	59.6	102.7
Gold $	1191	1184	1250

Source: Bloomberg

Please note past performance is not indicative of future performance

- Global equity markets posted mixed returns over the month, as the UK, US and Japanese markets made gains whilst European and emerging markets fell. The 10-year UK Gilt yield fell 2 basis points on the month, although the small shift masks the yield movement during the period.
- Equity volatility was relatively contained despite the sharp moves in government bond yields in the frist half of the month, notably in Europe. German bonds saw a significant sell off as 10 year bunds rose to highs of 0.73%, as investors rotated out of crowded sovereign bond positions. The moves were exacerbated by the low liquidity in bond markets. The sell off coincided with rising inflation expectations as oil prices headed higher and positive European economic data that showed momentum was building.
- The standoff between Greece and its creditors continued during May. Yanis Varoufakis, the Greek Finance Minister, insisted his government is willing push to the end in its agreement negotiations with creditors. Greece used emergency funds to make a repayment of €750m to the International Monetary Fund. Greek Prime Minister Alexis Tsipras warned that the 'red lines' including wages and pensions would not fade and Greece will not simply make an agreement with creditors at any cost. The endgame is nearing as the country must repay a total of €1.6bn in June. Investors are worried over the potential for contagion from Greece to other peripheral nations, particularly as regional elections in Spain in May showed a move towards anti-austerity parties.
- Minutes from a meeting of the European Central Bank showed discussions about the supply in bond markets concluding that the illiquidity concerns have been overstated, and as such an alteration of the current position is not required. The eurozone showed a Q1 GDP growth of 0.4%, the highest in almost two years, driven by the European Central Bank stimulus, the weak euro and falling energy prices. There was unexpectedly strong GDP growth of 0.6% in France whereas Germany's fell from 0.7% to 0.3%. The Greek economy fell into recession with a 0.2% fall in GDP. Eurozone economic confidence remained at 103.8 in May, the second highest reading since July 2011. The German consumer confidence index rose above expectations whilst France's measure slipped lower.
- Speculation on the timing of rate rises in the US continued in light of rhetoric from the Federal Reserve (Fed) and mixed economic data. Minutes from the April meeting suggested that a June interest rate rise is unlikely, given mixed views across the committee. Janet Yellen, chair of the Fed, stated that an interest rate rise is anticipated for this year if the economy grows as expected. Loretta Mester, president of the Fed in Cleveland, said that inflation growth and encouraging employment figures suggested that the economy is approaching conditions necessary for a rate rise, following transitory weak data in Q1. Revisions to GDP for Q1 showed the economy contracted by 0.7% and surveys showed a fall in consumer sentiment. The strong dollar and resulting weak exports hurt the manufacturing sector in April, with output falling by 0.3%. Core CPI however increased by 0.3% in April, the largest gain in over 2 years. Both US home sales and prices rose whilst durable goods demand for March was revised higher.
- Japan's Nikkei reached a 15-year high in May, as economic data showed signs of momentum with core inflation rising 0.3% one year to April and industrial production rose 1.0% in April from the previous month, surprising investors by beating expectations. Unemployment fell to a new low of 3.3%. Retail sales were up 5.0% from a year ago, and marked the first increase this year. The country's current account fell back into deficit in April, but less so than expected. Exports to the US have risen by 21.4% over the last 12 months, although data on household spending was weaker than expected.
- The People's Bank of China cut interest rates for the third time in six months, lowering the rate by 25 basis points to 5.1% in a bid to spur the economy. April trade and inflation data highlighted the headwinds facing the economy as demand waned. Falling property prices in China slowed their decline in April suggesting a bottom may taking place. The government has reduced import taxes on certain consumer goods by 50% in a bid to boost domestic demand. The current tariffs were believed to be driving consumers abroad for good deals, and the hope is to support the economy following recent falls in levels of investment and manufacturing. Chinese shares continued to reach record highs as investors anticipate further policy easing. Volatility picked up towards the end of the month as the central bank sought to contain money flowing in to markets by selling repos to selected financial institutions and brokerage firms tightened rules on margin financing.
- Oil prices moved to the highest level of 2015 as demand picked up, Saudi Arabia increased its official selling prices and US output slowed. Saudi Arabia also signaled it had no intention to reduce its own production giving an indication of their positive outlook whilst looking to increase market share. The US Department of Energy lowered forecasts for oil production to 20,000 barrels per day in 2016, as current slowdowns of drilling activity take effect.
- The Institute of International Finance (IIF) warned that thin liquidity caused by depleted bank inventories alongside US interest rates moving higher could trigger violent swings in markets. The IIF, which represents the world's largest banks, cited the current lack of liquidity in markets as the main issue in its high level talks.

Funding Level Index Update

May 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.

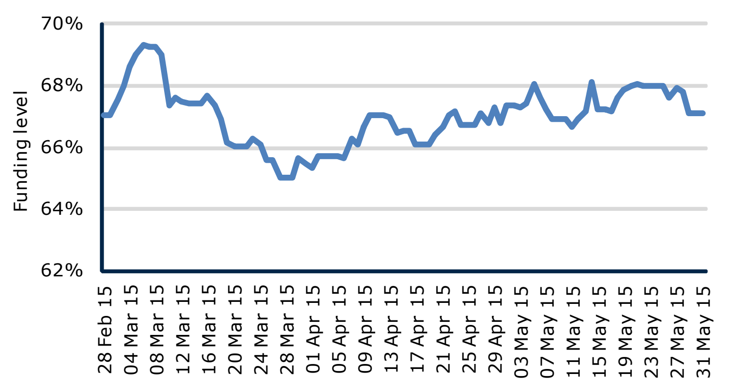
Mobius Life has been using the Index as an in-house tool since 2006 to illustrate the historical patterns of funding levels for a 'typical' small to medium sized pension scheme.

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.

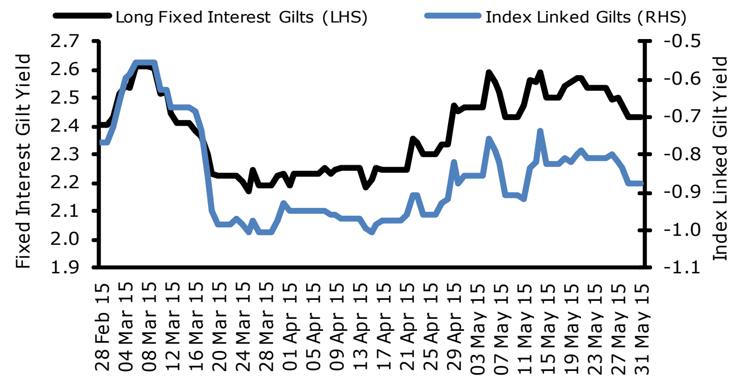
Funding Level Changes over 3 Months

Starting position (28/02/2015)	67.0%
Change due to asset returns	1.6%
Change due to change in liability value	- 1.6%
Ending position (31/05/2015)	67.0%

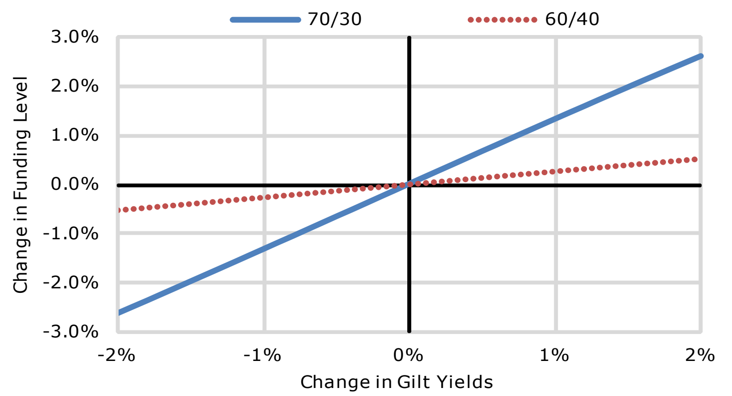
Funding Level Progression over the last 3 Months



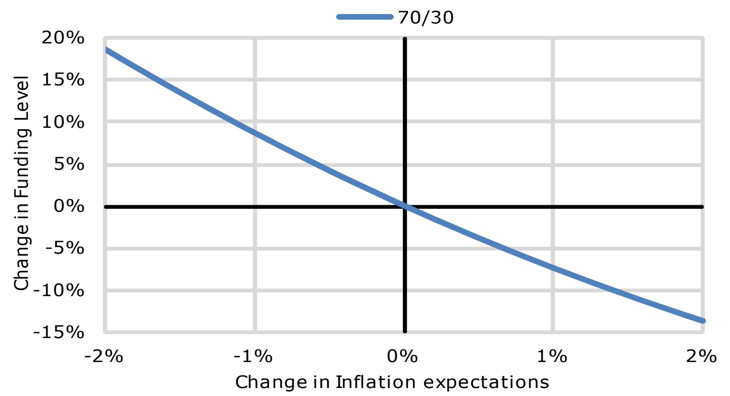
Gilt Yields over the last 3 Months



Effect of Change in Gilt Yields on Funding Level



Effect of Change in Inflation on Funding Level



Sensitivity 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.

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.

Mobius Life Limited provides information on our products and services to enable you to make your own investment decisions, and this document should not be regarded as a personalised recommendation. Past performance should not be seen as a guide to future performance as it may not be repeated. The value of investments may go down as well as up and investors may not get back the amount originally invested. Performance is quoted using close of business valuations. Currency exchange rates may cause the value of overseas investments to rise or fall. Investing in emerging markets involves a high degree of risk and should be seen as long term in nature.

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