Monthly Economic Update

November 2015

FOR PROFESSIONAL ADVISERS ONLY

MOBIUS LIFE

	Index Level 30 Nov 15	% Change November	1 Year
FTSE All Share £	3492	0.6%	0.6%
FTSE 100 £	6356	0.3%	-1.9%
MSCI World $	1694	-0.4%	-0.2%
S&P 500 $	2080	0.3%	2.7%
MSCI Emerging Markets $	814	-4.0%	-19.0%
	Index Level 30 Nov 15	**Index Level 31 Oct 15**	**Index Level 30 Nov 14**
UK 10 Year Gilt Yield %	1.83	1.92	1.93
GBP/USD	1.50	1.54	1.56
GBP/EURO	1.42	1.40	1.26
Oil - WTI $	41.7	46.6	66.2
Gold $	1065	1142	1167

Source: Bloomberg

- Following a strong recovery in October, global equity markets were more subdued during November with most developed markets generating benign returns although emerging markets once again came under pressure. Sovereign bond yields ended the month lower and commodities continued to come under pressure driven by global supply imbalances.
- Mark Carney, Governor of the Bank of England (BoE), announced policy makers at the Bank voted eight-to-one in favour of keeping interest rates at the current record low of 0.5% and lowered their forecasts for growth and inflation. The news sent the pound lower following a period of speculation that an interest rate rise may be looming. Gilts also strengthened as the BoE announced they will not start selling the bonds they purchased during their quantitative easing measures until base rates hit 2%. Carney reiterated that interest rates in the UK would be low for a significant period of time, stating that rate rises must be 'consistent with the strength of the domestic economy' as the BoE predicted UK inflation will remain below 1% until at least the second half of next year whilst highlighting there are risks to the downside for this outlook. However, the reading for UK Manufacturing PMI unexpectedly surged to the highest level in 16 months in a positive sign for the UK economy.
- Federal Reserve (Fed) Chair Janet Yellen indicated that an interest rate rise in December is more likely given the strength of the US economy. Strong employment, growth and outlook for US inflation mean that the US may now be able to withstand an increase in the benchmark interest rate. The minutes of the Federal Reserve's (Fed) October meeting also suggested that the Fed is on course to raise interest rates during its December meeting with officials appearing confident the macroeconomic picture is in line to meet conditions necessary.
- In stark contrast to the Fed looking to tighten, Mario Draghi, European Central Bank (ECB) President, reiterated the ECB stands ready to act where it must to stimulate economic growth in the region and keep deflation at bay. The ECB is considering adding additional stimulus this year with potential extensions including the potential to add more regional municipal bonds to their bond buying list. The European Commission slashed its forecast for inflation and growth, largely attributed to a slowdown in emerging markets. European economic growth was 0.3% in the third quarter, below forecasts, whilst inflation currently stands at 0.1% and Draghi's speech highlighted the concern the ECB has that this will slip further.
- Japan has officially moved back into a recession for a second time under Prime Minister Shinzo Abe's policies, contracting at an annualised rate of 0.8% in the third quarter, the second successive quarter of falling GDP. Nevertheless the Bank of Japan resisted increasing its quantitative easing program. The weak yen continues to be beneficial for Japanese competitiveness, giving a boost to exporters.
- The Shanghai Composite Index fell as regulators intensified investigations into brokerage companies as they attempt to limit trading that can encourage volatility in markets. Investors have been uncertain of the potential effects of the investigations due to a lack of transparency on the issue, leading to investors selling Chinese shares.
- The International Monetary Fund is looking to add the Chinese yuan to their Special Drawing Rights currency basket, a boost for China which had strived to attain reserve currency status. This is seen as a step forward for China, encouraging more countries to hold the currency and further opening up the economy to the rest of the world.
- Oil prices declined in spite of military action in the Middle East against ISIS as the global supply glut continued to weigh on investor sentiment. Brent oil fell below $45, a three month low, as the Organisation of the Petroleum Exporting Countries reported that crude oil's supply is the highest it has been for a decade, with the inventories of advances economies currently 210 million barrels higher than the average over the last 5 years. Saudi Arabia continues to maintain production in order to compete on market share and Iraq is currently producing at record levels.
- The selling pressure on commodities continued as Chinese manufacturing concerns persisted and the US dollar continued to strengthen as the expected December decision to raise interest rates in the US approaches. Copper extended its fall to the lowest level since 2009 as slowing Chinese growth worries continue to impact commodities markets. Nickel is at its lowest level since 2003. Iron ore futures fell below $40 per tonne for the first time as supply continued to climb and demand from China remained at risk of falling further.
- Greece reached an agreement to unlock the first major tranche of credit as agreed as part of the recent €86bn bailout. In passing the first hurdles demanded by creditors, Greece has had an initial €12bn released.
- The Organisation for Economic Co-operation and Development revised their annual growth estimate for this year down to 2.9%, with the slowdown in trade driven by China edging close towards levels 'associated with global recession'.

Mobius Life Limited 7th Floor, 20 Gresham Street, London EC2V 7JE

t: + 44 (0)20 7847 3300 **f**: + 44 (0)20 7847 3399 **w**: www.mobiuslife.co.uk

Funding Level Index Update

November 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.

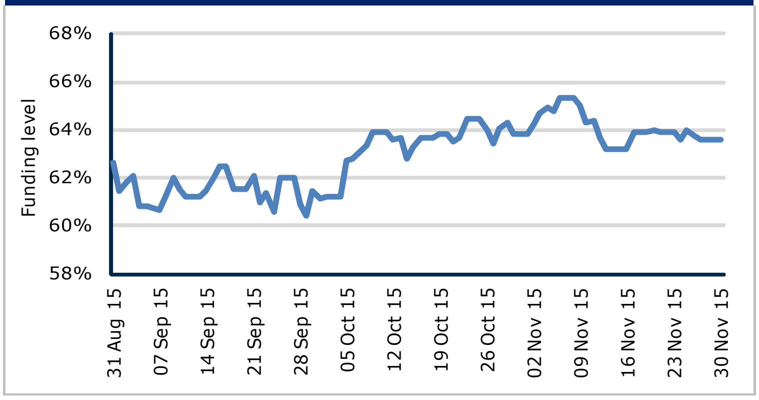
Mobius Life has been using the Index as an in-house tool since 2006 to illustrate the historical patterns of funding levels for a 'typical' small to medium sized pension scheme.

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.

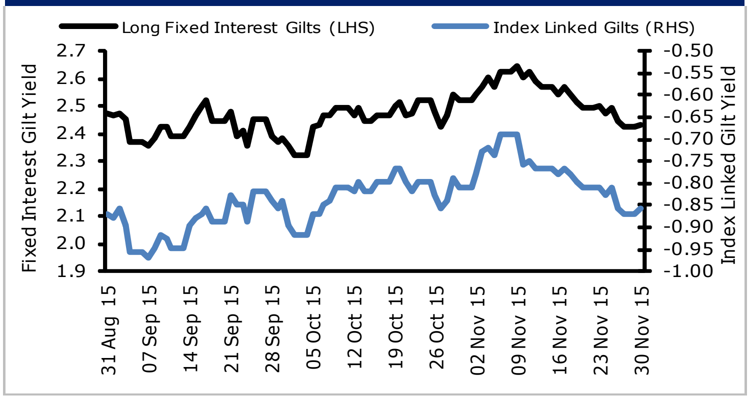
Funding Level Changes over 3 Months

Starting position (31/08/2015)	62.6%
Change due to asset returns	1.7%
Change due to change in liability value	-0.7%
Ending position (30/11/2015)	63.6%

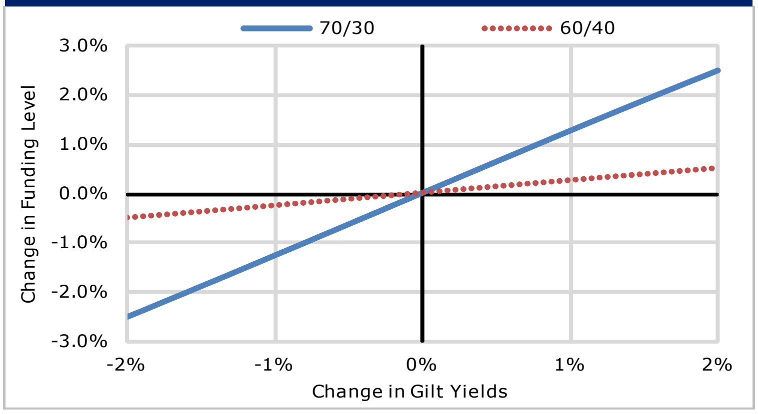
Funding Level Progression over the last 3 Months



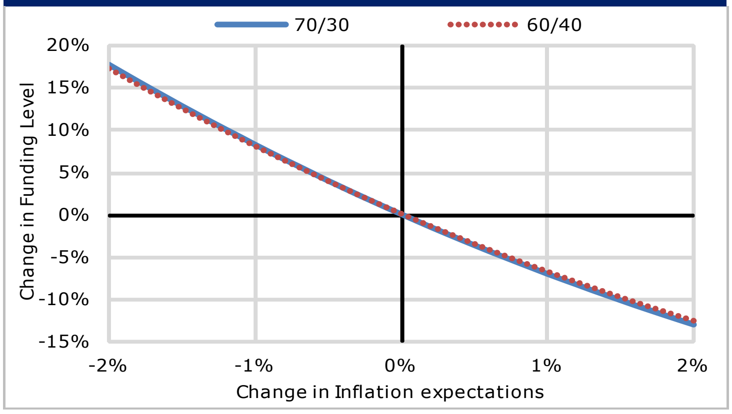
Gilt Yields over the last 3 Months



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 64%. 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.

Mobius Life Limited 7th Floor, 20 Gresham Street, London EC2V 7JE
t: + 44 (0)20 7847 3300 **f**: + 44 (0)20 7847 3399 **w**: www.mobiuslife.co.uk