Monthly Economic Update

October 2015

FOR PROFESSIONAL ADVISERS ONLY

	Index Level 31 Oct 15	% Change October	1 Year
FTSE All Share £	3485	4.7%	3.0%
FTSE 100 £	6361	5.2%	0.8%
MSCI World $	1706	8.0%	2.3%
S&P 500 $	2079	8.4%	5.2%
MSCI Emerging Markets $	848	7.0%	-16.6%
	Index Level 31 Oct 15	**Index Level 30 Sep 15**	**Index Level 31 Oct 14**
UK 10 Year Gilt Yield %	1.92	1.76	2.25
GBP/USD	1.54	1.51	1.60
GBP/EURO	1.40	1.35	1.28
Oil - WTI $	46.6	45.1	80.5
Gold $	1142	1115	1173

Source: Bloomberg

- Global equity markets enjoyed strong rallies throughout October with the surge led by previously lagging commodity names. The gains fed in to other risk assets, with spreads on high yield debt narrowing through the month. The moves came in spite of some weak economic data prints released during the month.
- Market rallies were assisted by a dovish (cautious) interpretation of the Federal Reserve minutes released in the month. However, the minutes did show that US policy setters believed the US could have coped with an interest rate rise last month and that the US outlook has not been materially altered by global concerns. However later in October a statement released by the Federal Open Market Committee made suggestions that an interest rate increase in the US could go ahead this year, referring to the December meeting and removed a reference to global risks, which saw yields rise immediately.
- The number of Americans filing new jobless applications fell to a near 42-year low, set in July, as initial claims fell to 263,000. However, new hires have been less inspiring. Figures released showed that 142,000 people were added to payrolls in the United States in September, below expectations. In addition, wage growth and the unemployment rate remained unchanged, with revised job counts for previous months showing lower numbers. This raised further concerns regarding the health of the US economy and markets as a whole. In September, inflation in the US fell by 0.2%, following a 0.1% fall in August as the low oil price and strong dollar continue to weigh on inflation.
- The Bank of England (BoE) Monetary Policy Committee voted 8 to 1 in favour of leaving interest rates on hold and slightly lowered the forecast for Q3 growth to 0.6%. The Bank also predicted inflation would remain benign for longer, easing pressure on policy makers to raise rates which was welcomed by markets. UK markets ended October higher helped by the FTSE 100 enjoying its strongest weekly gain (4.7%) since December 2011. Data showed unemployment in the UK falling to 5.4%, the lowest since 2008.
- The European Central Bank (ECB) announced it is to 're-examine' its quantitative easing measures during its December meeting whilst leaving its benchmark interest rate at the historic low of 0.05%. The ECB's current €1.1tn quantitative easing plan involves €60bn per month of bond purchases and ECB President Mario Draghi announced the scope of the policy is to be reviewed and may be extended to combat deflation. The euro and European sovereign bond yields fell immediately following the announcement and European equities continued a strong rally. The news came with deflation present as consumer prices fell by 0.1% in the euro area in the year to September. Falling PMI readings and consumer prices across the eurozone had led speculators to discuss the possibility of increased stimulus measures by the ECB. The euro has been strengthening since March and some investors believe a move may be made to encourage growth which may have been subdued by the strong euro.
- China's economy grew at an annual rate of 6.9% in the third quarter. This is below the government's official 7% growth target and represents the slowest quarterly growth since 2009, but weaknesses in the manufacturing sector are being counteracted to an extent in the GDP figures by improvements in consumption and the tertiary sector. The release however was above market expectations for growth following a period of disappointing macroeconomic data. The disappointing data included a decline in China's Producer Price Index as weak demand encouraged manufacturers to lower their prices in order to remain competitive. Imports data was also weak, showing a 17.7% decline for the previous year and an 11th successive monthly decline. However, exports fell less than expected, with the devaluation of the yuan providing some help to exporters. However, later in the month the People's Bank of China announced cuts in its lending and deposit rates alongside a cut in the bank reserve requirement, propelling Chinese equities higher. At the end of October China also announced that its one-child policy will be relaxed, allowing all couples to have two children and targeting a change in demographics in the nation.
- The International Monetary Fund (IMF) cut its forecast for global growth to 3.1% this year and 3.6% next year due to slowing emerging markets. The Fund predicted that advanced economies would continue to recover, led by the US and the UK. The IMF also warned on the significant increase in emerging market debt over the last decade and advised emerging economies to be ready for a US interest rate increase. A sustained period of low commodity prices and low Chinese demand are worries for the IMF, as is the volatility currently exacerbated by uncertainty around interest rate movements and the Syrian refugee crisis.
- The Indian central Bank lowered its main interest rate by 0.5%, a bigger cut than the 0.25% expected. As a large importer of commodities, the country has benefitted from falling prices, and the resultant low inflation has encouraged the stimulus.
- The price of oil rallied early in October on the prospect of reduced supply and as OPEC predicted an increase in demand. The US Energy Information Administration cut its production estimates and US rig counts have been decreasing.
- The UK welcomed Chinese President Xi Jinping and delegates during October. Jinping and British Prime Minister David Cameron sealed several deals for investment worth billions of pounds to both nations. Jinping also told Cameron he would like to see a united

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Funding Level Index Update

October 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.

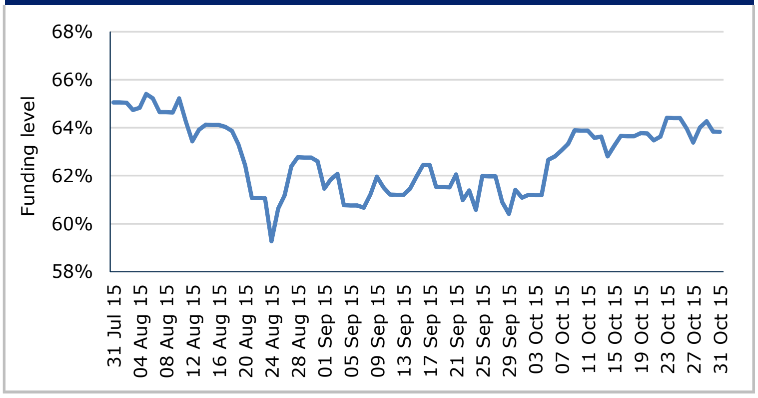
Mobius Life has been using the Index as an in-house tool since 2006 to illustrate the historical patterns of funding levels for a 'typical' small to medium sized pension scheme.

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

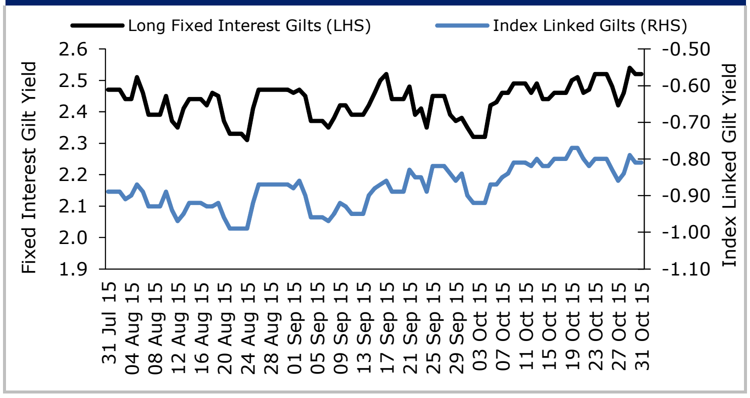
Funding Level Changes over 3 Months

Funding Level Changes over 3 Months	
Starting position (31/07/2015)	65.1%
Change due to asset returns	-1.5%
Change due to change in liability value	0.3%
Ending position (31/10/2015)	63.9%

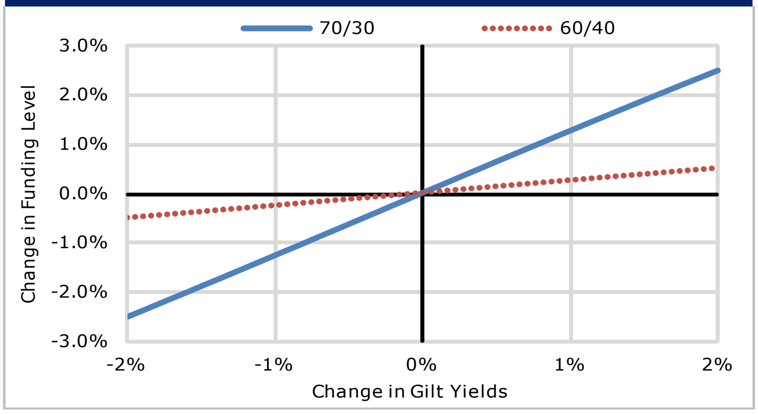
Funding Level Progression over the last 3 Months



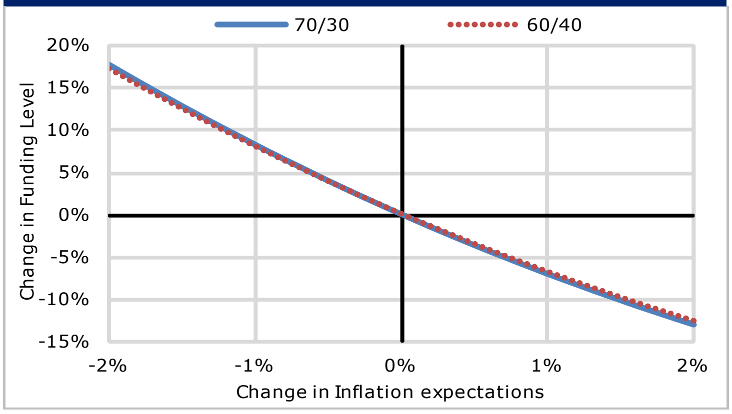
Gilt Yields over the last 3 Months



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.

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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