Monthly Economic Update

September 2015

FOR PROFESSIONAL ADVISERS ONLY

	Index Level 30 Sep 15	% Change September	1 Year
FTSE All Share £	3336	-2.7%	-2.3%
FTSE 100 £	6062	-2.9%	-5.1%
MSCI World $	1582	-3.6%	-4.6%
S&P 500 $	1920	-2.5%	-0.6%
MSCI Emerging Markets $	792	-3.3%	-21.2%
	Index Level 30 Sep 15	**Index Level 31 Aug 15**	**Index Level 30 Sep 14**
UK 10 Year Gilt Yield %	1.76	1.96	2.43
GBP/USD	1.51	1.53	1.62
GBP/EURO	1.35	1.37	1.28
Oil - WTI $	45.1	49.2	91.2
Gold $	1115	1135	1208

Source: Bloomberg

- Equities endured another choppy month as concerns around global and specifically Chinese growth alongside monetary policy caused volatility to continue. Biotech firms in the US were hit particularly hard, as were car makers in Europe following the Volkswagen controversy.
- September had been widely cited as a potential month for the Federal Reserve (Fed) to initiate a rate hike cycle for the first time since 2006. As such investors closely watched and analysed preceding data releases for clues on the likelihood of a rise and resulting ramifications. Jobs data was mixed as US nonfarm payroll disappointed however the unemployment rate fell from 5.3% to 5.1% and average hourly earnings increased. However, the Fed subsequently announced that interest rates were to be kept on hold. Uncertainty in global markets was cited as the reason to delay the interest rate hike, in part due to the 'downward pressure on inflation in the near term'. This result was largely expected by the majority of investors, however the gloomy tone of Governor Janet Yellen saw the dollar fall. Emerging markets saw their currencies strengthen following the announcement. The nature of Janet Yellen's comments lowered the probability of a 2015 rate rise, although she subsequently announced that she does expect interest rates to rise later this year. The comments suggested that current uncertainty in markets is not significant enough to halt 'liftoff', with inflation expected to move gradually towards its 2% target as the effect of energy price falls and the impact of the strong dollar both reduce. Yellen argued that maintaining low interest rates could 'encourage excess leverage' and lead to further instability in markets.
- At the European Central Bank (ECB) press conference president Mario Draghi confirmed that interest rates and the asset purchase plan are to be left unchanged, although noted that the share limit of its public sector purchase program has been increased. This means the ECB can buy more of a single asset. Draghi however went on to hint that the ECB could expand its quantitative easing program, noting that the asset purchase plan is flexible with regards to size, composition and duration, with tools available to react to the prevailing environment. The ECB also cut its forecasts for growth and inflation for the current and subsequent two years in a gloomy update. The euro fell significantly during the speech.
- The International Monetary Fund (IMF) chief Christine Lagarde warned that global growth will be weaker than previously forecast due to a slower recovery in developed markets and a further slowdown in emerging markets. Lagarde also spoke of the potential for slowing growth in China to impact other emerging nations. Ahead of the Fed decision the IMF also warned the world's largest economies not to raise interest rates in the near future due to risks to the downside in the face of market volatility and limited inflation. The chief of the World Bank reiterated this warning to the Fed until the global economy is more balanced, with an increase in rates having the potential to release 'panic and turmoil' in markets.
- Data from China continued to raise concern for investors as imports fell more than forecast and China's foreign exchange reserves endured their largest ever monthly fall during August as Beijing attempted to disrupt the slide in the yuan and stabilize domestic markets. Factory production and fixed-asset investment were also weaker than expected. The Chinese manufacturing sector continued its slump with the Caixin manufacturing PMI index falling to the lowest level the indicator has been since November 2009. The data added to investor worries over a slowdown in China and equity indices continued to fall. China issued some guidance on reforming state-owned enterprises including 'mixed ownership' and an effort to improve corporate governance.
- The Bank of England voted 8 to 1 in favour of leaving monetary policy unchanged, leaving interest rates at 0.5%. The Bank stated that sterling's appreciation is having a continued downward impact on inflation, whilst they slightly lowered the forecast for Q3 growth although maintained a positive outlook. Meanwhile, Jeremy Corbyn won a clear majority in the Labour party leadership elections. Union bosses have been encouraged by Corbyn's victory and have already posed the threat of coordinated strikes and demonstrations to the incumbent government.
- In Greece Alexis Tsipras' Syriza party won the snap election with 35.5% of votes, retaining the confidence of voters despite the acceptance of austerity measures to remain in the eurozone.
- The Bank of Japan (BoJ) left its monetary policy unchanged, ruling out immediate changes to stimulus. However, there is an acceptance of Japan's exposure to underperforming emerging markets and therefore the potential for further policy easing. Japan's inflation measure turned negative for the year to August, with prices falling by 0.1%, the first fall since April 2013. This puts Abe's policies under further pressure, encouraging the argument for further stimulus following a period of disappointing data in Japan.
- Oil prices continued their downward trend although drilling in the US fell for four consecutive weeks. A worsening outlook on global economic growth, driven by emerging markets, has put downward pressure on the price in September.
- Elsewhere Brazil's debt was cut to junk status by the ratings agency S&P. S&P cited political turmoil and the countries growing debt pile as reasons for the move, with lower commodity prices also weighing on the nation's prospects. New Zealand's central bank cut its benchmark interest rates by 25 basis points to leave the rate at 2.75%. This was the third cut in recent months.

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Funding Level Index Update

September 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.

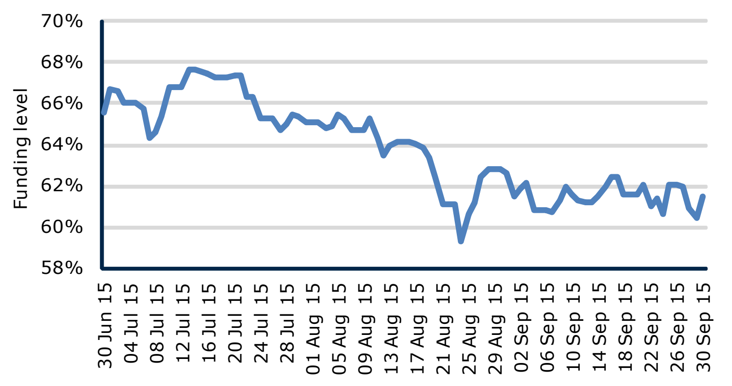
Mobius Life has been using the Index as an in-house tool since 2006 to illustrate the historical patterns of funding levels for a 'typical' small to medium sized pension scheme.

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.

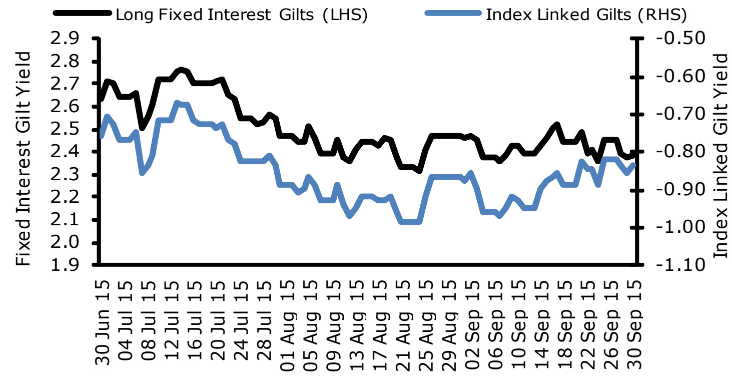
Funding Level Changes over 3 Months

Starting position (30/06/2015)	65.6%
Change due to asset returns	-2.0%
Change due to change in liability value	-2.2%
Ending position (30/09/2015)	61.4%

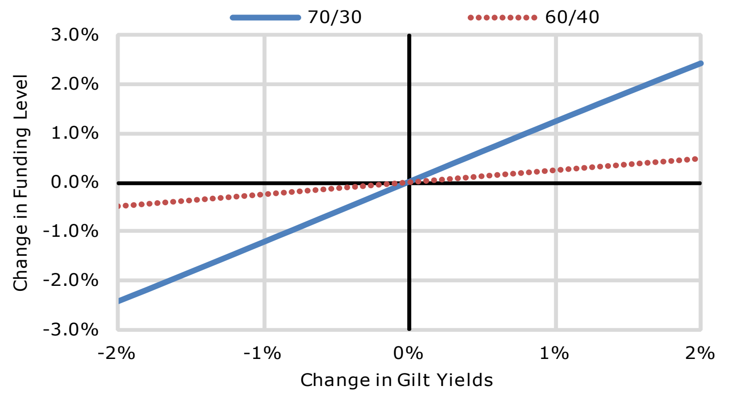
Funding Level Progression over the last 3 Months



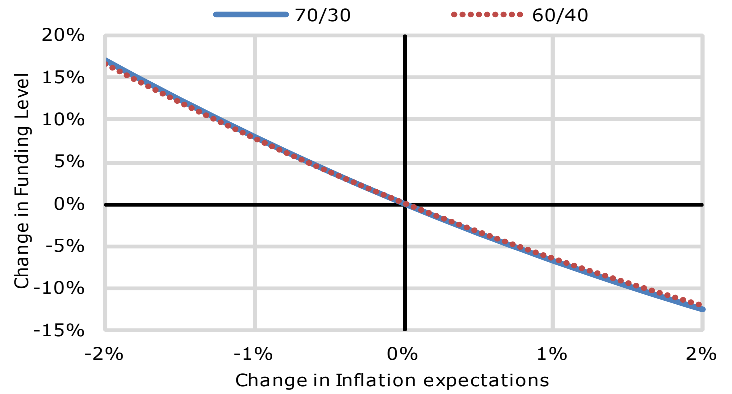
Gilt Yields over the last 3 Months



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 61%. 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.