

Clwyd Pension Fund

Economic and Market Update

Q4 2023

Monthly capital market monitor

Markets close out a strong 2023

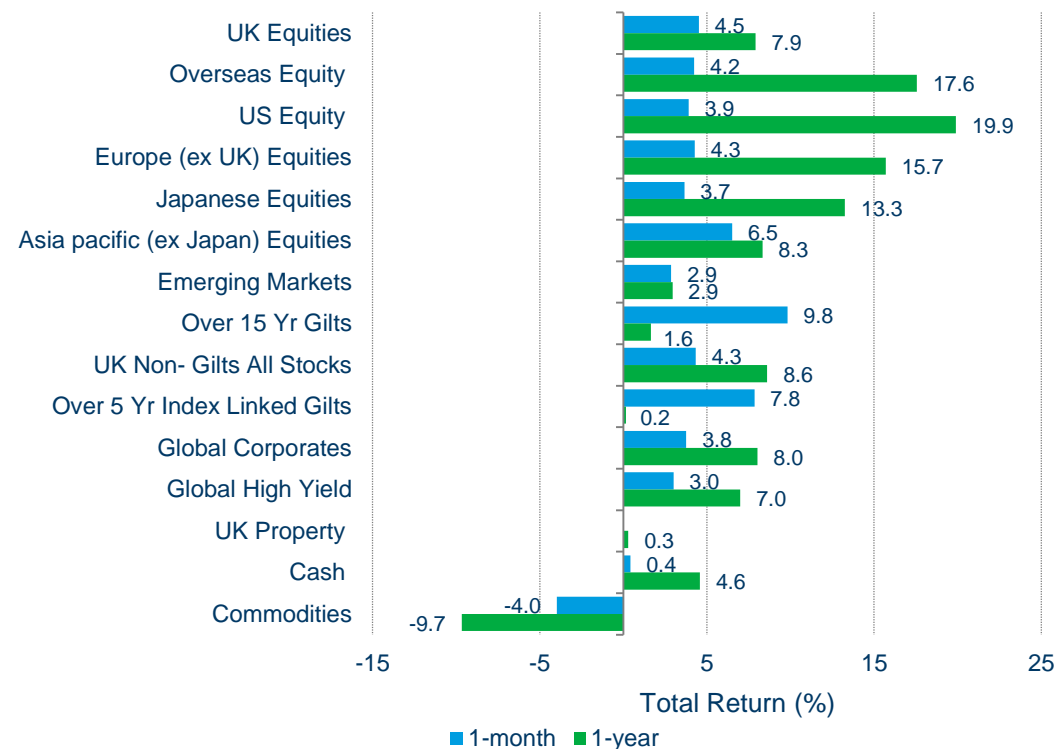
2023 ended on a strong note, with global equities and fixed income continuing to rally into the final month of the year. In December, UK equities outperformed global equities and outperformed emerging market equities. For 2023, UK equities underperformed global equities. Strong equity and bond returns during December were driven by declining bond yields across the curve, especially after an unexpected Fed pivot to more dovish rhetoric. This strengthened investors' conviction in a soft landing. Chinese equities and commodities posted negative returns for the year. The S&P 500 returned more than 26% fully recovering from its drawdown that began in early 2022, global equities returned over 20% and global bond and credit returns were in the mid-single to low double digits.

In December, the forward-looking composite purchasing manager indexes (PMI) were in expansionary territory in much of the developed world, with the eurozone being the notable exception. China's economy showed tentative signs of improvement towards year end as the composite PMI rose to expansion territory even if this was not enough to convince equity investors. Throughout 2023, the narrative for the global economy shifted repeatedly between fears of 'higher yields for longer' leading to a hard landing and a soft landing as inflation gets brought under control without major casualties. Equity markets firmly positioned for the latter scenario in the fourth quarter of 2023.

UK headline inflation fell in November to 3.9% year-over-year, while core inflation also fell to 5.1%. Inflation in the US and Eurozone fell and reached levels not seen since 2021, inflation in Japan also fell during the month. China experienced deflation for its second month in a row. Overall inflation trended down in 2023 in most major regions as demand pressure eased and supply chains fully recovered. Nonetheless, inflation ended the year above central bank targets. Major central banks left interest rates unchanged in December and reiterated their goal of bringing inflation down to targets. In the US, the Fed shifted to more dovish rhetoric with the market now pricing in cuts in 2024.

On the geopolitical front, Israel and Hamas continue to fight. In the Red Sea, a US destroyer came under drone and missile attacks, disrupting major shipping operations which only resumed after the US formed a naval coalition to defend vessels from attacks. Short term volatility aside, geopolitical events did not have a significant market impact in December as oil prices closed the month and 2023 down almost 6% and 11% respectively.

Sterling weakened against major developed and emerging market currencies except from the dollar amid the risk on environment in December and had mixed performance for 2023. Falling real yields supported the price of gold which closed the year with mid double-digit returns. Commodities stood out as the only major asset class with negative returns, mostly driven by declining oil prices throughout 2023 after an exceptionally strong year for commodities in 2022.



Source: Refinitiv. Data as of 31/12/23. 1-year UK property returns are shown as 11-month return to 30/11/2023.

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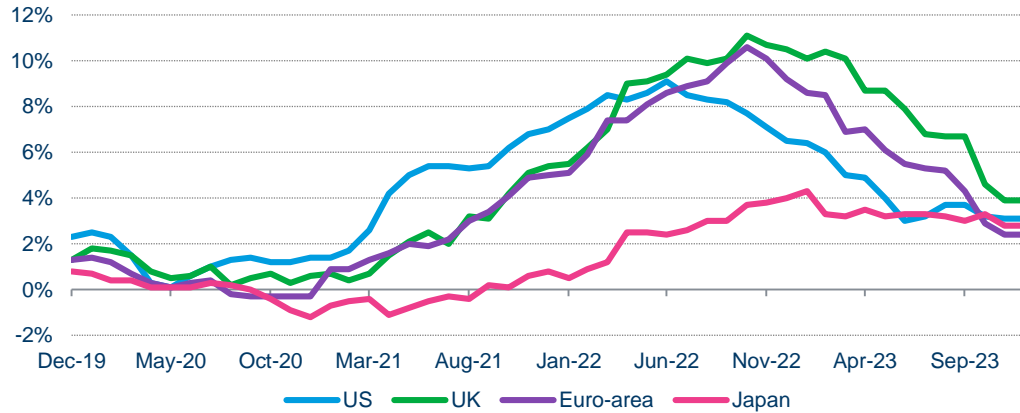
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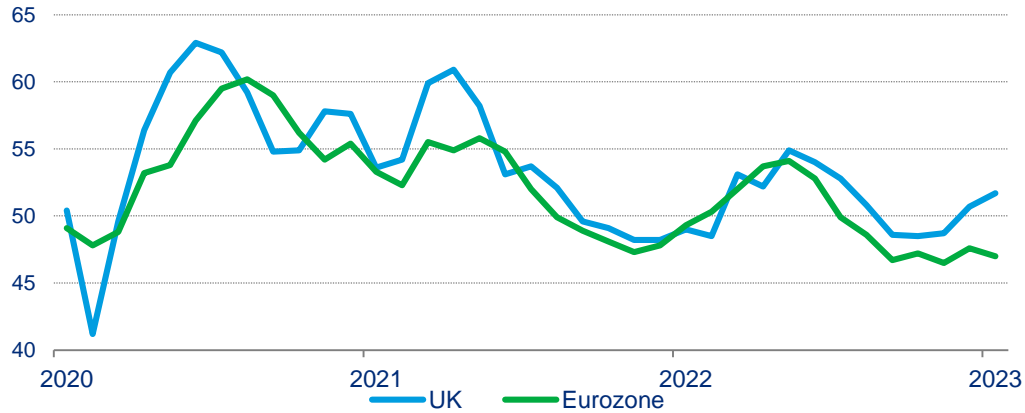
Key drivers

Global year-on-year consumer price inflation



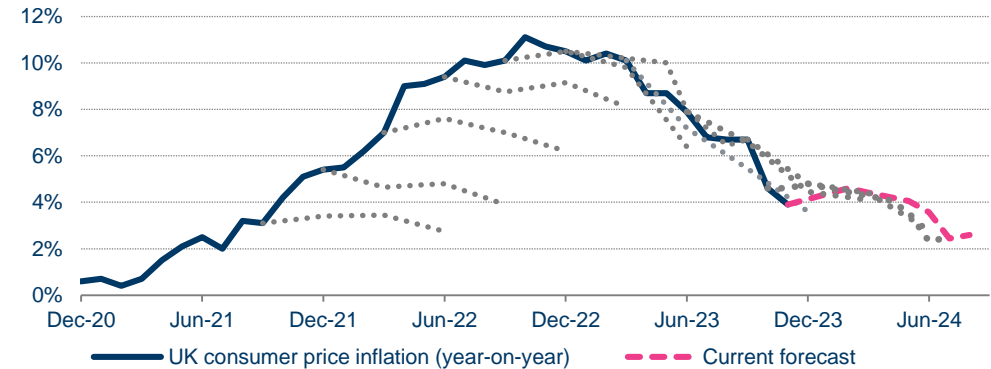
Source: Bloomberg. Data as of 31/12/2023

UK and EZ PMI



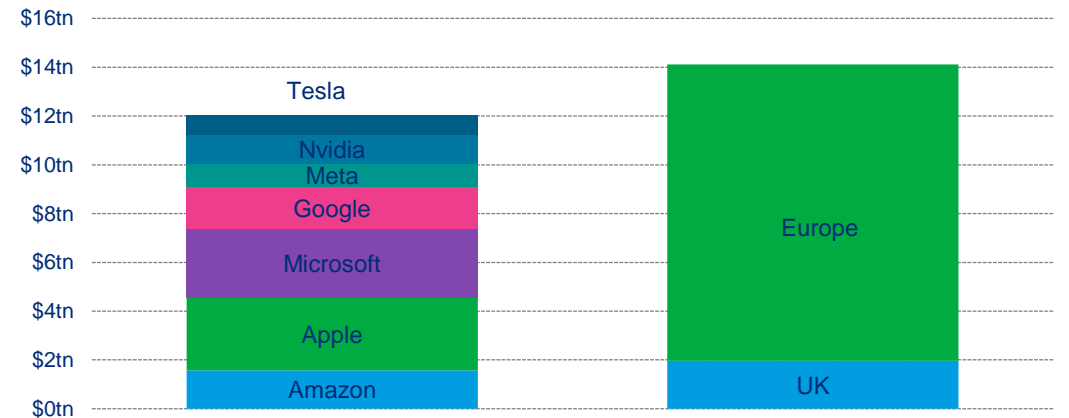
Source: Bloomberg. Data as at 31 December 2023.

UK year-on-year inflation – current and forecast



Source: Bloomberg. Data as of December 31, 2023. The consensus forecast lines are four quarter forecasts as at each

Magnificent 7 market cap size vs Europe and UK equity market cap size

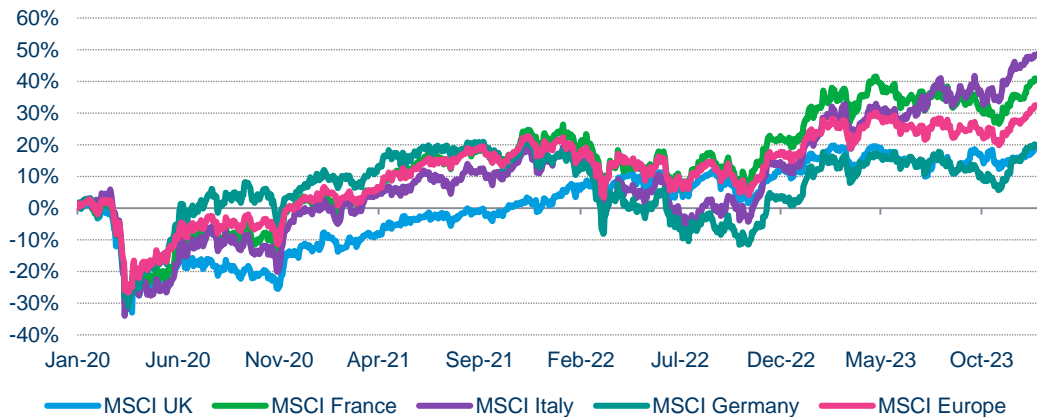


Source: Bloomberg. Data as at 31 December 2023. MSCI UK and MSCI Europe indices used.

Equities

- UK equities returned 4.5% over December 2023 in Sterling terms and outperformed global equities and US equities which returned 4.2% and 3.9% respectively. Strong performance in UK equity was driven by strong returns in real estate and consumer discretionary sectors.
- In the US, equities returned 3.9% over December and outperformed against emerging market equities but underperformed against developed market equities. This was driven by a surprising dovish rhetoric by the Fed amid continued falling inflation. Returns in continental Europe were also strong driven amid falling inflation.
- For Q4 2023 the estimated earnings growth rate for the S&P 500 is 2.4%. If 2.4% is the actual growth rate it would mark the send consecutive quarter of year on year earnings growth.¹
- Emerging markets returned 2.9% over December underperforming against developed markets. China was one of the few countries in the world to record negative returns in December which offset strong returns in other EM constituents. Over 2023 EM returns were positive but weak relative to developed markets.

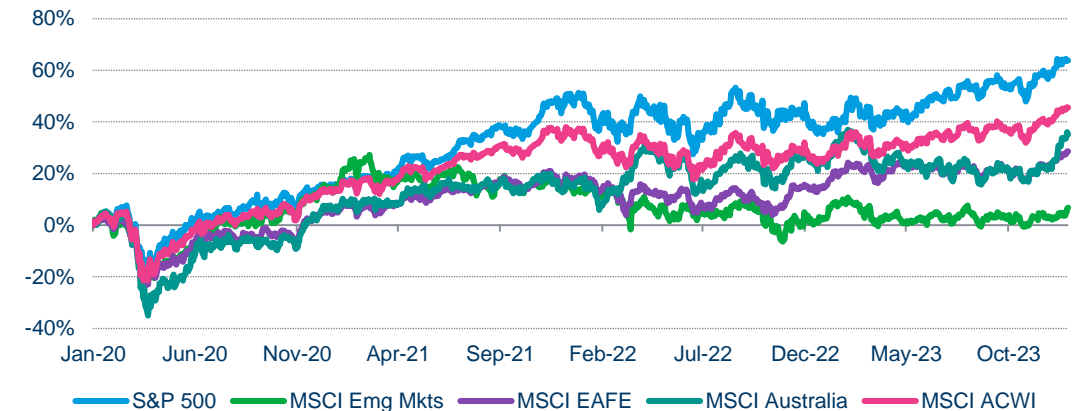
European Equity Performance (GBP)



Source: Refinitiv, Data as at 31/12/2023

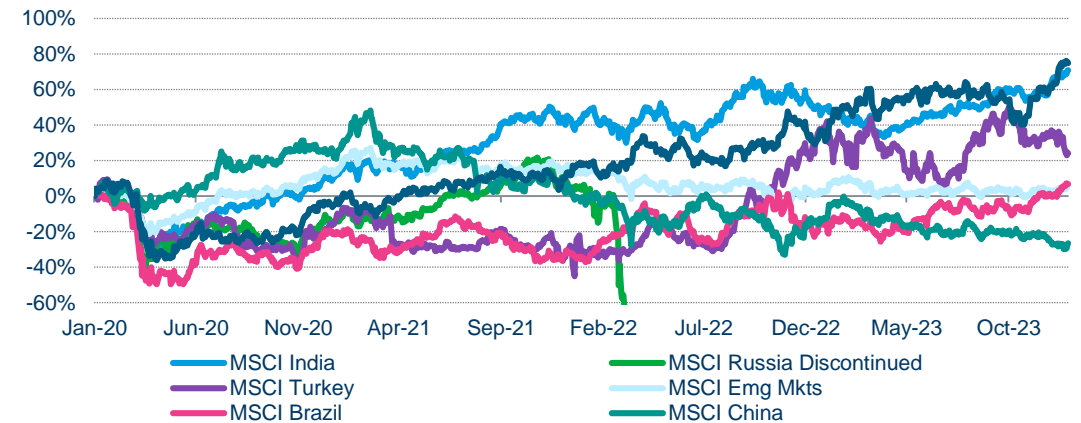
¹ https://advantage.factset.com/hubfs/Website/Resources%20Section/Research%20Desk/Earnings%20Insight/EarningsInsight_121523.pdf

Global Equity Performance (GBP)



Source: Refinitiv, Data as at 31/12/2023

Emerging Market Equity Performance (GBP)



Source: Refinitiv, Data as at 31/12/2023

UK Fixed Income

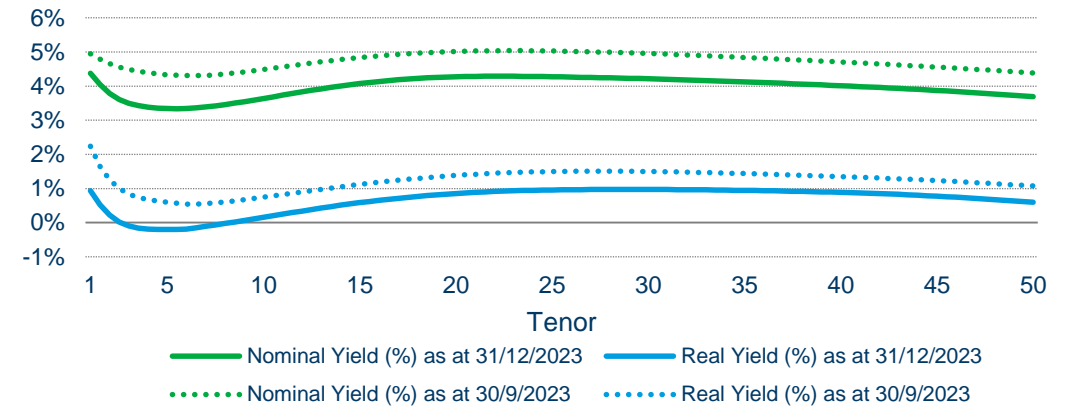
- Global bond markets witnessed a sharp drop in yields across the curve through December. Bond yields fell as a result of expectations of the end of the hiking cycle amid central bankers pivoting towards a dovish stance, as well as inflation surprising to the downside.
- In the UK, yields fell in parallel across the curve amid dovish sentiment global that central banks will begin to cut rates in 2024. 2-year yields fell by 63bps and 10-year yields fell by 64bps. Given the parallel nature in which yields fell over the month, the yield curve remains inverted.
- Market based measures of inflation expectations fell slightly over the month. The 10-year UK breakeven decreased to 3.5% from 3.6% in the month prior. The November headline CPI print surprised and fell to 3.9%, while core inflation fell to 5.1%.
- Credit spreads tightened during the month, with UK credit spreads decreasing 7bps, global investment-grade spreads decreasing 43 bps and high yield spreads decreasing 7 bps.

Corporate bond spreads



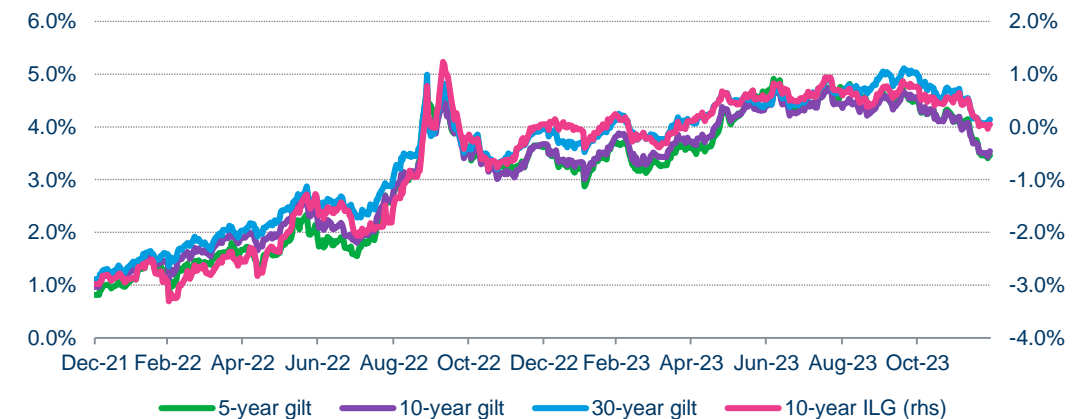
Source: Refinitiv, Data as at 31/12/2023

UK gilt curves



Source: Mercer. Data as of 31/12/2023

UK government bond yields

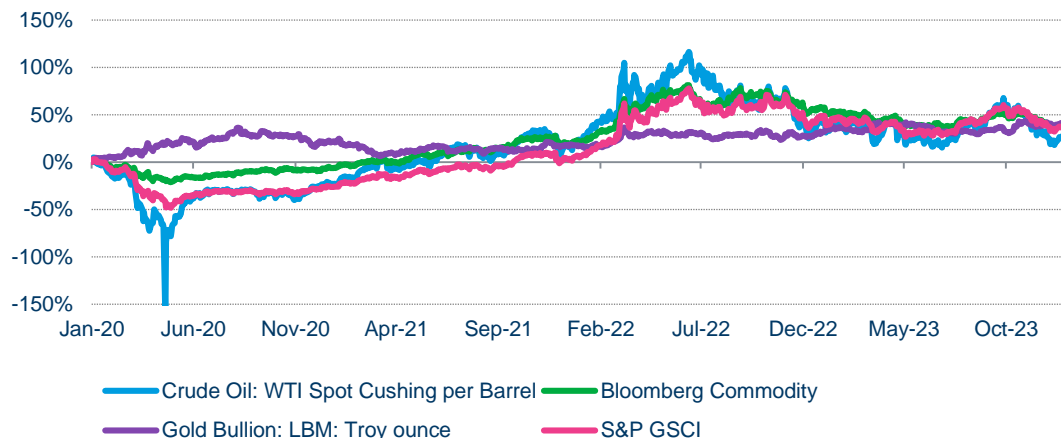


Source: Refinitiv, Data as at 31/12/2023

Currency and commodities

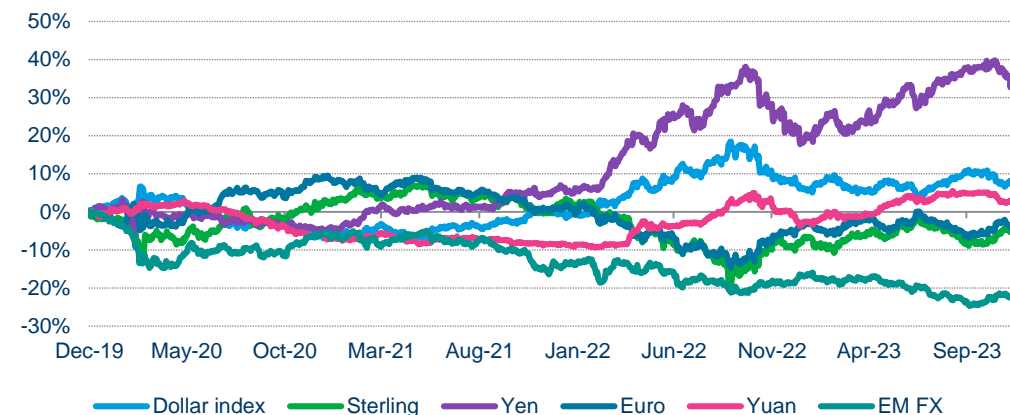
- Broad commodity returns were down through December driven by the weak performance of oil which declined by -6.3% over December driven by weak global economic growth.
- Sterling depreciated versus all major currencies except for the US dollar through December. The US dollar weakened against almost all major currencies over the month due to the risk on sentiment amid falling inflation.
- Gold rose over December, reaching an all-time high (\$2,081), as falling real yields helped to support the price.

Commodity performance (GBP)



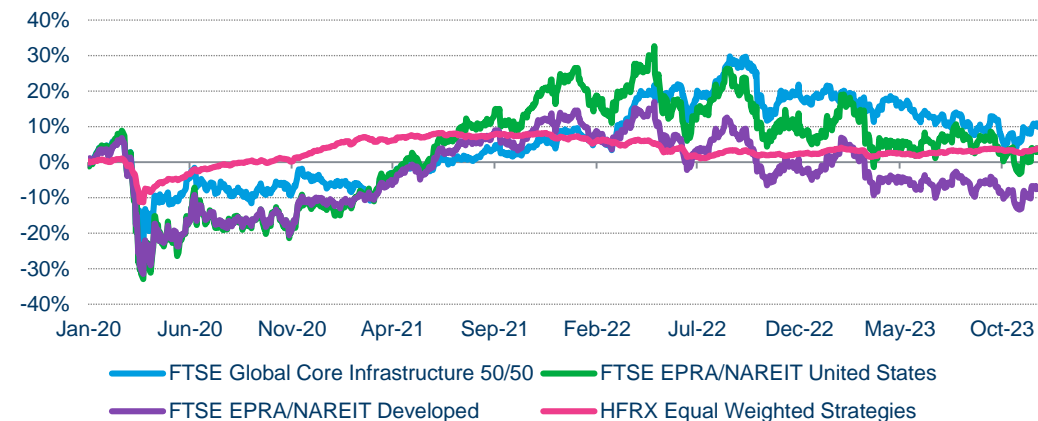
Source: Refinitiv, Data as at 31/12/2023

Currency performance



Source: Refinitiv, Data as at 31/12/2023

REITs, Hedge funds, Infrastructure performance (GBP)



Source: Refinitiv, Data as at 31/12/2023

Valuation and yields

Ending 31 December 2023

Valuations

FTSE ALL-Share	31-12-2023	30-09-2023	30-06-2023	31-03-2023
Index Level	9056.2	8772.8	8610.8	8650.3
P/E Ratio (Trailing)	12.1	11.8	10.5	10.5
CAPE Ratio	17.1	16.6	17.0	17.1
Dividend Yield	3.9	4.0	4.1	4.2
P/B	1.7	1.6	1.6	1.6
P/CF	7.9	8.1	5.8	5.8
MSCI World ex-UK	31-12-2023	30-09-2023	30-06-2023	31-03-2023
Index Level	9772.2	8755.5	9077.1	8480.6
P/E Ratio (Trailing)	21.0	18.9	19.4	18.3
CAPE Ratio	27.4	25.2	26.1	24.6
Dividend Yield	1.9	2.1	2.0	2.1
P/B	3.2	2.9	3.0	3.0
P/CF	14.2	13.9	13.4	12.3
MSCI EM	31-12-2023	30-09-2023	30-06-2023	31-03-2023
Index Level	533.8	494.9	509.8	505.3
P/E Ratio (Trailing)	15.4	13.8	13.0	12.6
CAPE Ratio	17.6	16.6	16.8	16.4
Dividend Yield	2.7	2.9	3.0	3.2
P/B	1.6	1.5	1.5	1.6
P/CF	8.3	8.2	8.3	7.5

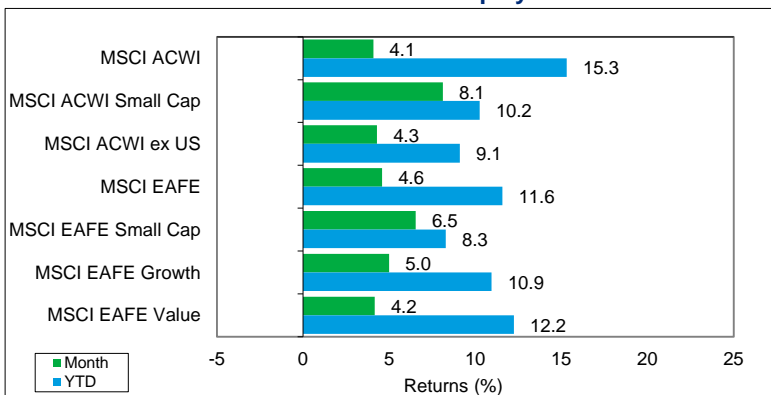
Yields

Global Bonds	31-12-2023	30-09-2023	30-06-2023	31-03-2023
Germany – 10Y	2.02	2.84	2.39	2.29
France - 10Y	2.56	3.40	2.93	2.79
US - 10Y	3.88	4.57	3.84	3.47
Switzerland – 10Y	0.70	1.10	0.96	1.25
Italy – 10Y	3.70	4.78	4.07	4.10
Spain 10Y	2.99	3.93	3.39	3.30
Japan – 10Y	0.61	0.77	0.40	0.35
Euro Corporate	3.56	4.52	4.44	4.22
Euro High Yield	7.35	8.43	8.29	8.18
EMD (\$)		9.66	8.55	9.57
EMD (LCL)	6.54	7.01	6.66	6.78
US Corporate	5.06	6.04	5.48	5.17
US Corporate High Yield	7.59	8.88	8.52	8.96
UK Bonds	31-12-2023	30-09-2023	30-06-2023	31-03-2023
SONIA	5.19	5.19	4.93	4.18
10 year gilt yield	3.60	4.44	4.39	3.38
30 year gilt yield	4.08	4.89	4.42	3.83
10 year index linked gilt yield	0.06	0.59	0.52	-0.29
30 year index linked gilt yield	0.95	1.47	0.95	0.37
AA corporate bond yield	4.39	5.42	5.71	4.76
A corporate bond yield	4.80	5.82	6.08	5.13
BBB corporate bond yield	5.39	6.45	6.82	5.84

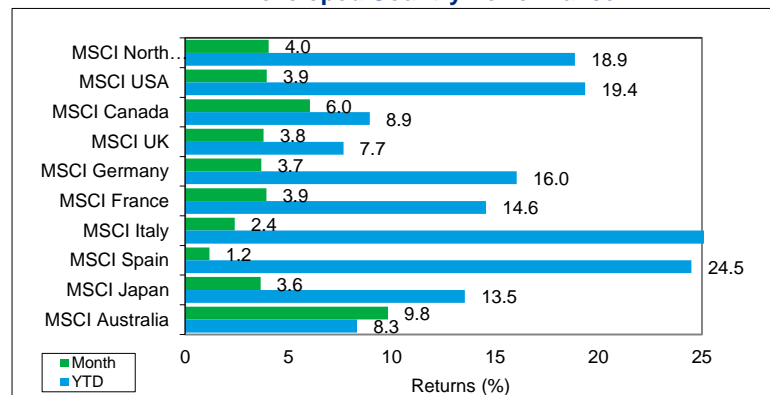
Performance summary (GBP)

International Equity ending 31 December 2023

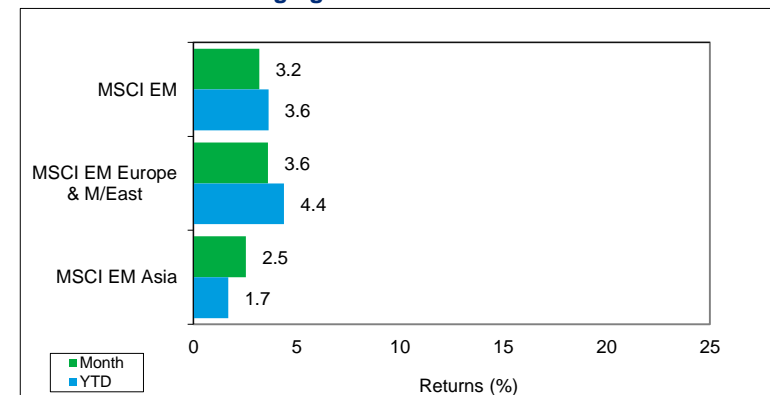
International Equity Performance



Developed Country Performance



Emerging Market Performance

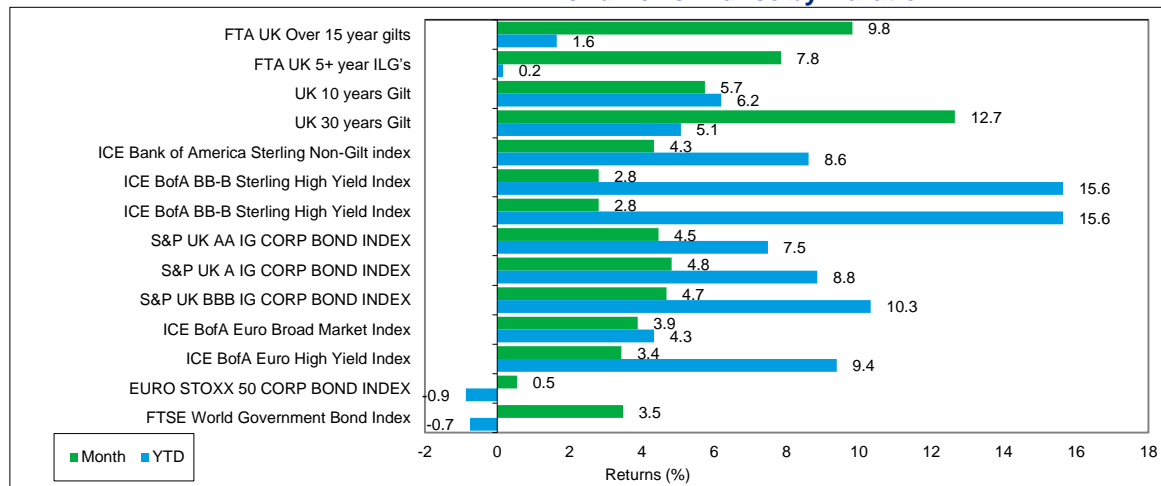


Index Returns	1 Mth	3 Mth	YTD	1 Year	2 Years	3 Years	5 Years	7 Years	10 Years	20 Years	2022	2021	2020	2019	2018
MSCI ACWI	4.7	1.7	10.8	5.4	1.7	7.6	9.2	9.4	10.4	9.3	-8.1	19.6	12.7	21.7	-3.8
MSCI ACWI IMI	4.8	1.4	10.3	5.0	1.7	7.8	9.4	9.6	10.8	9.9	-7.7	19.8	13.2	22.1	-4.0
MSCI ACWI Small Cap	4.8	-2.0	2.0	-2.2	-2.7	4.7	6.3	6.7	8.7	9.9	-8.4	17.2	12.7	19.8	-9.1
MSCI ACWI ex US	4.5	1.3	4.6	2.8	0.3	3.5	5.2	5.8	6.1	7.4	-5.4	8.8	7.2	16.8	-8.9
MSCI EAFE	4.7	1.4	6.7	5.7	2.7	5.7	6.2	6.4	6.6	7.3	-3.7	12.3	4.5	17.3	-8.4
MSCI EAFE Growth	6.1	0.3	5.7	3.4	-3.3	1.8	6.7	7.3	7.5	7.8	-13.2	12.3	14.6	23.0	-7.4
MSCI EAFE Value	3.4	2.4	7.8	8.0	8.9	9.4	5.2	5.3	5.5	6.8	6.3	11.9	-5.6	11.6	-9.5
EM	3.5	1.2	0.4	-2.0	-5.2	-2.3	2.5	4.2	4.8	8.7	-10.0	-1.6	14.7	13.8	-9.3
North America	4.9	1.8	14.2	6.5	2.5	10.3	12.0	11.9	13.6	10.7	-9.4	27.6	16.2	25.7	0.1
Europe	5.3	1.7	8.5	7.4	3.9	7.6	7.2	7.3	6.6	7.5	-4.4	17.4	2.1	19.0	-9.6
EM Europe & M/East	1.5	-0.4	0.8	-3.1	-14.6	-1.9	-1.6	1.0	-0.7	4.4	-27.2	25.1	-10.4	14.6	-2.2
EM Asia	3.1	0.8	-0.8	-2.6	-6.6	-4.1	3.1	5.0	6.4	9.1	-11.2	-4.2	24.4	14.6	-10.2
Latin America	9.3	6.2	16.4	10.6	21.6	13.1	4.4	5.2	3.7	9.9	22.6	-7.2	-16.5	12.9	-0.8
USA	4.8	1.9	14.8	7.0	2.6	10.4	12.1	12.2	14.0	10.8	-9.7	27.6	17.0	25.8	0.9
Canada	5.8	1.2	2.7	-3.3	1.5	9.0	8.0	6.3	6.8	8.6	-1.9	27.1	2.1	22.6	-12.1
Australia	5.3	1.3	-1.4	-4.3	3.9	6.4	7.0	6.3	6.5	9.6	6.7	10.4	5.4	18.2	-6.5
UK	2.3	1.5	3.7	2.3	7.9	11.0	5.3	5.3	5.0	6.5	7.1	19.6	-13.2	16.4	-8.8
Germany	8.6	2.0	11.9	10.8	0.5	2.5	4.3	4.5	4.5	7.5	-12.6	6.3	8.1	16.1	-17.3
France	5.0	-0.1	10.2	8.9	6.1	9.2	8.6	9.1	8.2	7.8	-2.4	20.6	0.9	20.9	-7.3
Italy	6.1	5.0	26.3	25.0	13.0	12.7	10.6	10.4	6.8	4.1	-3.6	16.1	-1.3	22.4	-12.6
Spain	10.3	7.2	23.1	24.8	15.5	9.7	4.7	5.7	3.8	6.2	4.4	2.3	-7.7	7.7	-11.0
Japan	4.1	1.6	9.5	8.7	1.2	2.4	4.7	5.4	7.3	6.3	-6.1	2.6	10.9	15.0	-7.5
Brazil	9.5	10.3	17.7	13.0	24.2	11.8	3.4	5.6	4.3	10.7	28.5	-16.6	-21.5	21.4	5.7
China	-1.7	-4.5	-13.5	-9.9	-15.2	-15.5	-3.4	0.7	3.4	9.0	-12.1	-21.0	25.5	18.7	-13.8
India	2.3	5.3	6.2	-0.6	5.6	14.7	10.2	10.8	12.3	12.5	3.6	27.4	12.0	3.4	-1.5

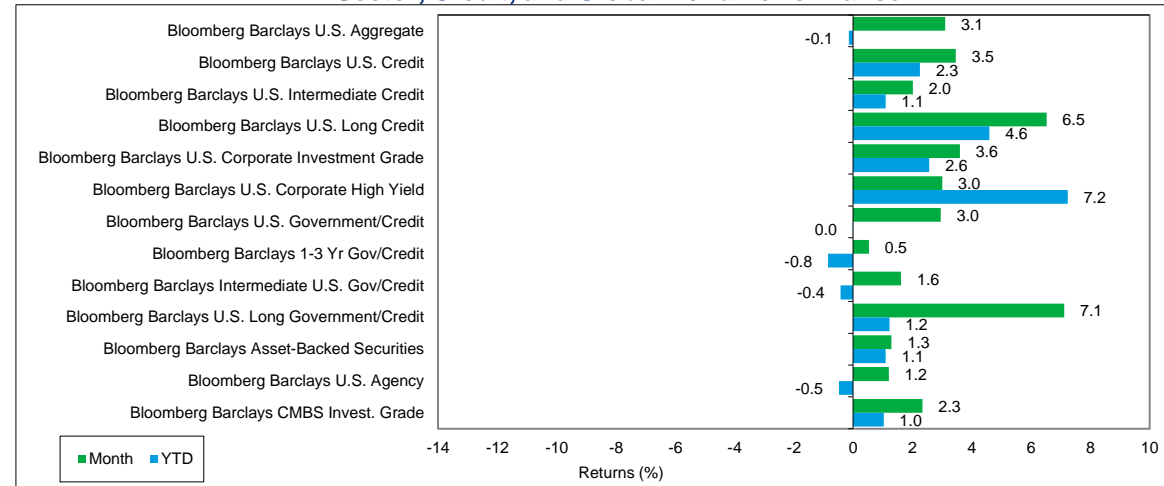
Performance summary (GBP)

Fixed Income ending 31 December 2023

Bond Performance by Duration



Sector, Credit, and Global Bond Performance

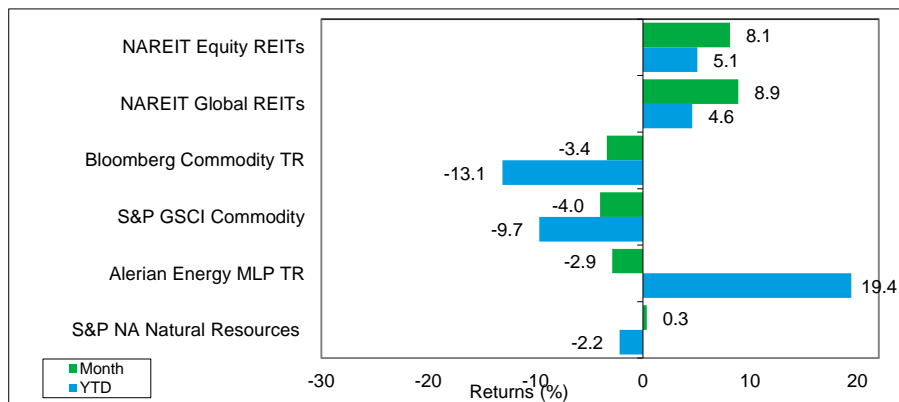


Index Returns	1 Mth	3 Mth	YTD	1 Year	2 Years	3 Years	5 Years	7 Years	10 Years	20 Years	2022	2021	2020	2019	2018
FTA UK Over 15 year gilts	9.8	14.4	1.6	1.6	-21.9	-17.3	-6.3	-4.1	1.1	3.5	-40.1	-7.3	13.9	12.0	0.3
FTA UK 5+ year ILG's	7.8	10.5	0.2	0.2	-21.2	-13.5	-4.9	-3.3	1.9	4.5	-38.0	4.2	12.4	6.8	-0.4
UK 10 years Gilt	5.7	8.9	6.2	6.2	-7.9	-7.2	-2.1	-0.9	1.8	3.8	-20.1	-5.7	6.6	5.2	2.0
UK 30 years Gilt	12.7	19.0	5.1	5.1	-22.4	-17.4	-6.5	-4.2	1.1	3.5	-42.7	-6.4	13.8	11.7	0.4
ICE Bank of America Sterling Non-Gilt index	4.3	7.4	8.6	8.6	-5.5	-4.7	0.5	0.7	2.8	4.1	-17.8	-3.0	8.0	9.5	-1.6
ICE BofA BB-B Sterling High Yield Index	2.8	6.9	15.6	15.6	1.4	1.9	5.0	4.5	5.4	9.2	-11.1	3.0	6.1	13.8	-1.4
S&P UK AA IG CORP BOND INDEX	4.5	7.5	7.5	7.5	-5.7	-5.3	-0.4	0.1	2.4	3.9	-17.3	-4.6	7.7	7.3	-0.3
S&P UK A IG CORP BOND INDEX	4.8	8.1	8.8	8.8	-6.6	-5.7	0.1	0.4	2.8	4.0	-19.9	-3.7	8.4	10.4	-1.5
S&P UK BBB IG CORP BOND INDEX	4.7	8.2	10.3	10.3	-4.5	-3.8	1.6	1.5	3.3	5.0	-17.4	-2.3	8.7	11.6	-2.6
ICE BofA Euro Broad Market Index	3.9	6.4	4.3	4.3	-4.3	-5.8	-1.7	-0.3	1.5	3.9	-12.2	-8.8	9.9	0.1	1.6
ICE BofA Euro High Yield Index	3.4	5.4	9.4	9.4	1.2	-0.3	2.5	2.9	3.8	7.3	-6.5	-3.1	8.6	5.1	-2.5
EURO STOXX 50 CORP BOND INDEX	0.5	-0.1	-0.9	-0.9	-3.9	-5.1	-1.7	-0.4	1.0	--	-6.9	-7.3	8.5	-0.9	0.1
FTSE World Government Bond Index	3.5	3.5	-0.7	-0.7	-4.4	-5.0	-1.4	-0.5	2.3	3.6	-8.0	-6.1	6.7	1.8	5.3
Bloomberg Barclays U.S. Aggregate	3.1	2.5	-0.1	-0.1	-1.4	-1.1	1.1	0.9	4.3	4.7	-2.5	-0.7	4.3	4.6	5.8
Bloomberg Barclays U.S. Credit	3.5	3.7	2.3	2.3	-1.4	-1.0	2.4	1.8	5.4	5.6	-4.9	-0.2	6.0	9.4	3.7
Bloomberg Barclays U.S. Intermediate Credit	2.0	1.2	1.1	1.1	1.5	1.0	2.4	1.8	5.0	5.2	1.9	-0.1	3.8	5.4	5.9
Bloomberg Barclays U.S. Long Credit	6.5	8.9	4.6	4.6	-6.3	-4.3	2.7	2.1	6.5	6.7	-16.0	-0.3	9.8	18.6	-1.1
Bloomberg Barclays U.S. Corporate Investment Grade	3.6	4.0	2.6	2.6	-1.5	-1.1	2.6	2.0	5.5	5.7	-5.5	-0.2	6.5	10.2	3.3
Bloomberg Barclays U.S. Corporate High Yield	3.0	2.8	7.2	7.2	3.3	4.2	5.3	4.1	7.1	7.9	-0.5	6.1	3.9	10.0	3.6
Bloomberg Barclays U.S. Government/Credit	3.0	2.3	0.0	0.0	-1.6	-1.3	1.4	1.1	4.5	4.8	-3.1	-0.9	5.6	5.6	5.4

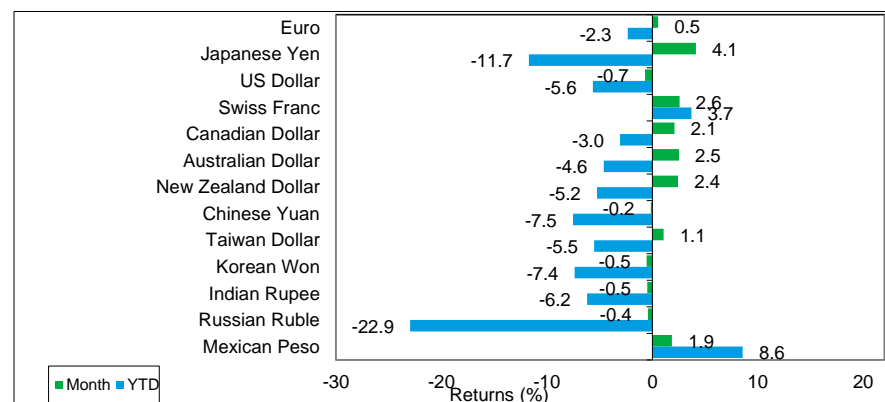
Performance Summary (GBP)

Alternatives ending 31 December 2023

Real Asset Performance



Performance of Foreign Currencies versus the US Dollar



Index Returns	1 Mth	3 Mth	YTD	1 Year	2 Years	3 Years	5 Years	7 Years	10 Years	20 Years	2022	2021	2020	2019	2018
NAREIT Equity REITs	8.1	13.0	5.1	5.1	-5.8	8.2	7.6	5.5	10.8	10.1	-15.5	42.6	-8.1	23.7	1.9
NAREIT Global REITs	8.9	10.7	4.6	4.6	-5.6	4.6	3.8	3.1	7.3	8.5	-14.9	28.4	-11.0	18.3	1.2
Bloomberg Commodity TR	-3.4	-8.7	-13.1	-13.1	6.6	13.4	7.2	3.1	1.5	1.6	30.7	28.3	-6.1	3.5	-5.7
S&P GSCI Commodity	-4.0	-14.5	-9.7	-9.7	13.2	22.0	8.7	4.3	-1.0	0.2	41.9	41.6	-26.1	13.1	-8.5
Alerian Energy MLP TR	-2.9	0.5	19.4	19.4	32.7	35.5	12.0	4.9	4.6	10.1	47.4	41.5	-30.9	2.4	-7.0
Oil	-6.3	-24.4	-15.8	-15.8	0.6	16.6	9.5	3.7	-0.6	5.8	20.2	56.4	-23.0	29.3	-20.2
Gold	0.0	6.3	7.0	7.0	9.7	5.4	10.1	8.3	8.4	10.2	12.5	-2.6	20.6	14.3	3.9
S&P NA Natural Resources	0.3	-5.4	-2.2	-2.2	21.5	27.8	13.1	5.3	5.6	8.8	51.0	41.2	-21.5	13.1	-16.2
Euro	0.5	-0.1	-2.3	-2.3	1.6	-1.1	-0.7	0.2	0.4	1.0	5.7	-6.2	5.6	-5.6	1.1
Japanese Yen	4.1	1.3	-11.7	-11.7	-6.8	-7.7	-4.9	-3.1	-0.3	0.3	-1.7	-9.5	2.0	-2.9	9.1
US Dollar	-0.7	-4.3	-5.6	-5.6	3.1	2.4	0.0	-0.4	2.7	1.7	12.6	0.9	-3.1	-3.9	6.2
Swiss Franc	2.6	4.1	3.7	3.7	7.2	4.0	3.2	2.3	3.2	3.7	10.9	-2.1	6.2	-2.1	5.0
Canadian Dollar	2.1	-1.8	-3.0	-3.0	0.9	1.2	0.7	-0.2	0.5	1.6	5.0	1.8	-1.4	1.3	-2.6
Australian Dollar	2.5	1.6	-4.6	-4.6	-0.1	-1.7	-0.7	-1.3	-0.1	1.2	4.6	-5.0	5.9	-4.0	-4.0
New Zealand Dollar	2.4	1.8	-5.2	-5.2	-0.8	-2.1	-1.2	-1.8	0.0	--	3.8	-4.5	3.1	-2.9	0.2
Chinese Yuan	-0.2	-1.4	-7.5	-7.5	-2.3	-0.4	-0.7	-0.7	1.0	2.5	3.2	3.6	3.2	-5.2	0.7
Taiwan Dollar	1.1	0.7	-5.5	-5.5	-2.1	-0.6	0.0	0.3	2.4	2.2	1.4	2.5	3.4	-1.4	2.8
Korean Won	-0.5	0.3	-7.4	-7.4	-1.0	-3.3	-2.8	-1.4	0.6	1.3	5.9	-7.8	3.2	-7.2	1.9
Indian Rupee	-0.5	-4.5	-6.2	-6.2	-2.6	-2.0	-3.5	-3.3	-0.3	-1.3	1.2	-0.8	-5.3	-6.0	-2.9
Russian Ruble	-0.4	4.5	-22.9	-22.9	-5.6	-3.9	-5.0	-5.7	-7.1	-3.8	15.7	-0.5	-18.6	7.4	-11.9
Brazilian Real	0.8	-1.3	2.6	2.6	10.4	4.7	-4.4	-6.0	-4.5	-0.9	18.8	-5.9	-24.9	-7.4	-9.1
Mexican Peso	1.9	-1.7	8.6	8.6	13.3	8.1	3.0	2.4	0.0	-0.4	18.2	-1.7	-8.2	0.3	5.5
BofA ML All Convertibles	5.4	2.2	6.6	6.6	-1.2	1.6	11.9	9.9	11.8	9.9	-8.5	7.3	41.7	18.4	6.4
60%S&P 500/40% Barc Agg	3.5	5.1	11.4	11.4	2.4	7.1	9.8	8.1	10.7	8.8	-5.7	17.7	10.6	17.7	3.3

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