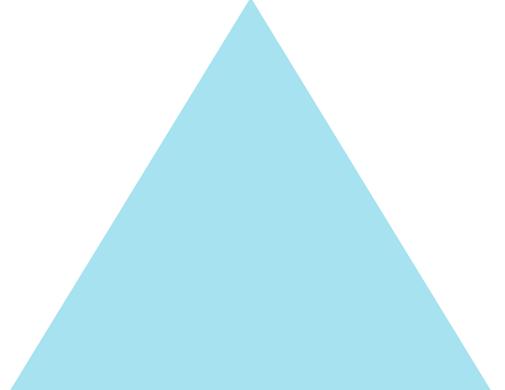
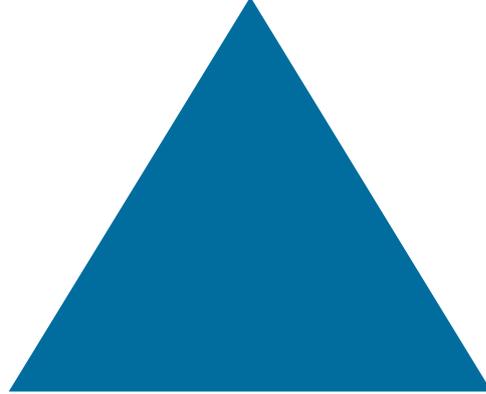
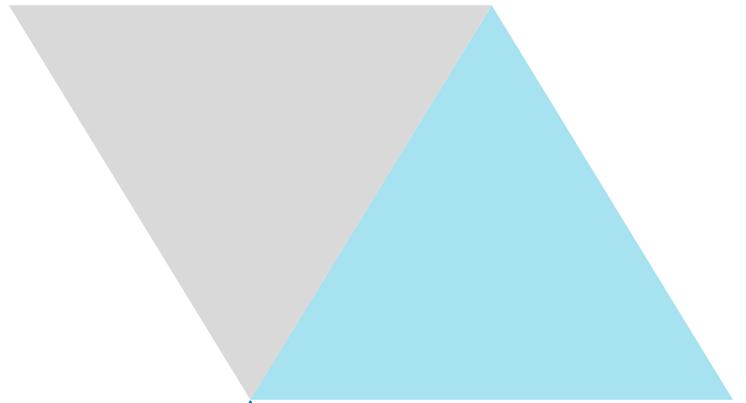


**CLWYD PENSION FUND**  
**ECONOMIC AND MARKET UPDATE**  
**PERIOD ENDING 30 JUNE 2020**



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# 1 MARKET BACKGROUND

## PERIOD ENDING 30 JUNE 2020

### MARKET STATISTICS

Market Returns Growth Assets	3 Mths %	1 Year %	3 Years % p.a.
UK Equities	10.2	-13.0	-1.6
Overseas Developed	19.9	6.5	8.8
North America	21.9	10.9	12.5
Europe (ex UK)	18.9	0.7	3.8
Japan	12.2	6.8	4.9
Asia Pacific (ex Japan)	21.6	-5.4	2.2
Emerging Markets	18.9	-0.4	4.6
Frontier Markets	17.5	-25.1	-8.2
Property	-2.3	-2.7	3.9
Hedge Funds <sup>1</sup>	6.2	-0.7	2.1
Commodities <sup>2</sup>	11.0	-35.6	-10.8
High Yield <sup>2</sup>	11.0	-1.5	1.8
Emerging Market Debt	10.2	0.1	2.8
Senior Secured Loans <sup>2</sup>	10.8	-2.0	0.8
Cash	0.2	0.8	0.7

Yields	% p.a.
UK Equities	4.66
UK Gilts (Over 15 yrs)	0.58
Real Yield (Over 5 yrs ILG)	-2.38
Corporate Bonds (Over 15 yrs AA)	1.45
Non-Gilts (Over 15 yrs)	2.07

Source: Refinitiv Datastream.

Notes: <sup>1</sup> Local Currency. <sup>2</sup> GBP Hedged. <sup>3</sup> Subject to 1-month lag.

Market Returns Bond Assets	3 Mths %	1 Year %	3 Years % p.a.
UK Gilts (Over 15 yrs)	3.9	19.8	10.2
Index-Linked Gilts (Over 5 yrs)	11.5	11.9	7.6
Corporate Bonds (Over 15 yrs AA)	16.3	17.0	8.9
Non-Gilts (Over 15 yrs)	13.3	13.9	7.7

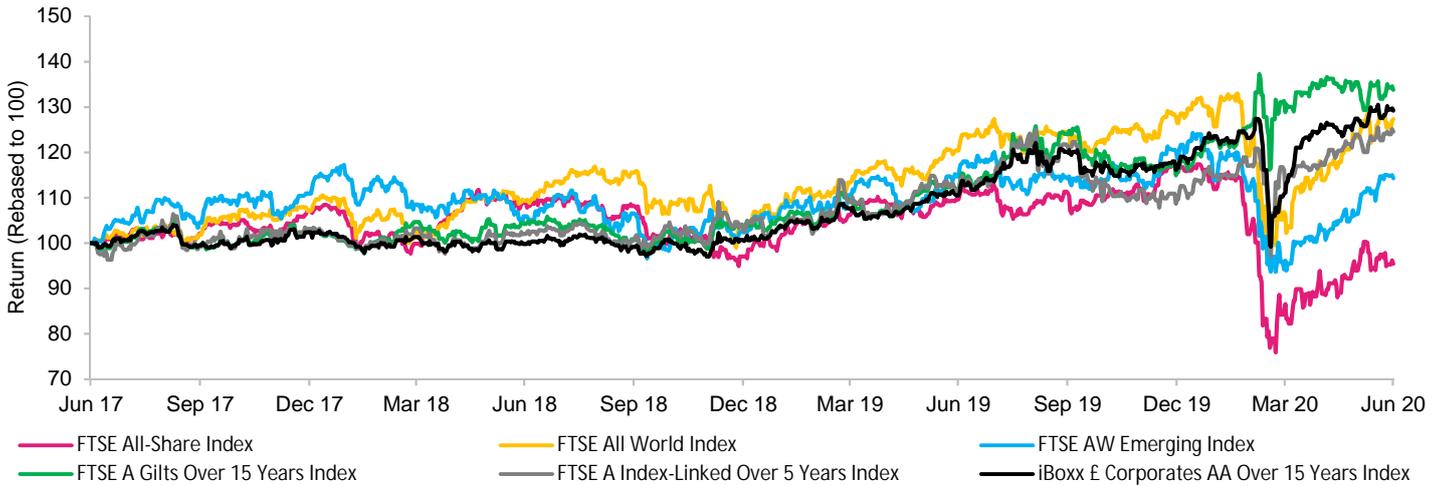
Exchange Rates: Change in Sterling	3 Mths %	1 Year %	3 Years % p.a.
Against US Dollar	-0.35	-2.92	-1.65
Against Euro	-2.65	-1.57	-1.15
Against Yen	-0.42	-2.78	-2.98

Inflation Indices	3 Mths %	1 Year %	3 Years % p.a.
Price Inflation – RPI	0.0	1.1	2.4
Price Inflation – CPI	0.0	0.6	1.7
Earnings Inflation <sup>3</sup>	-0.9	-0.1	2.1

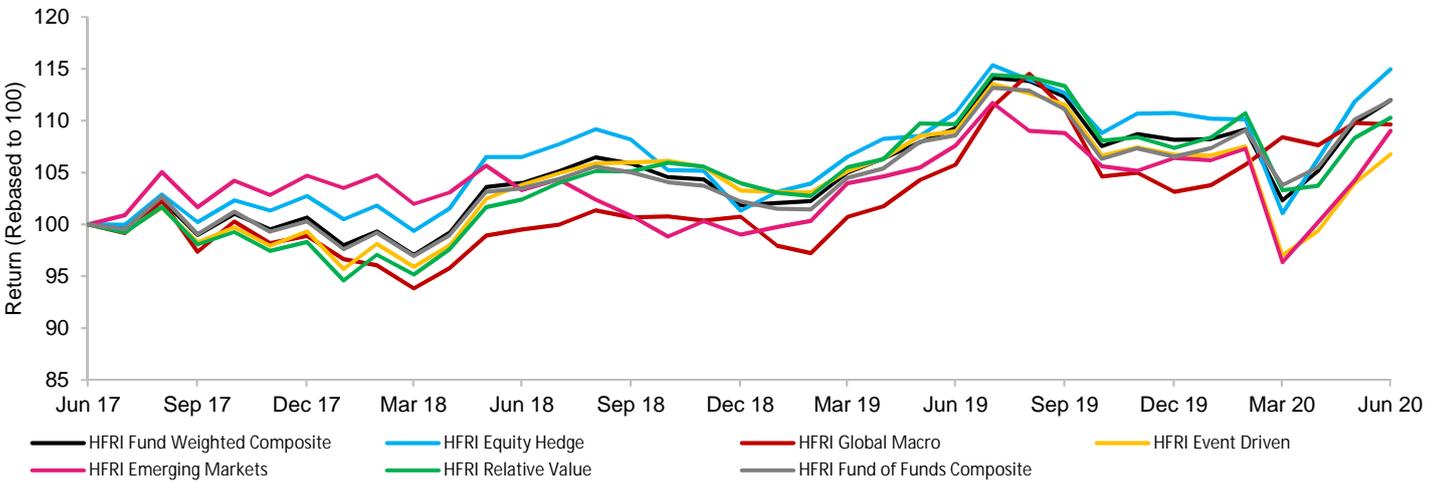
Absolute Change in Yields	3 Mths %	1 Year %	3 Years % p.a.
UK Equities	-0.87	0.53	1.05
UK Gilts (Over 15 yrs)	-0.17	-0.82	-1.22
Real Yield (Over 5 yrs ILG)	-0.46	-0.49	-0.81
Corporate Bonds (Over 15 yrs AA)	-0.86	-0.80	-1.11
Non-Gilts (Over 15 yrs)	-0.74	-0.71	-0.87

# MARKET SUMMARY CHARTS

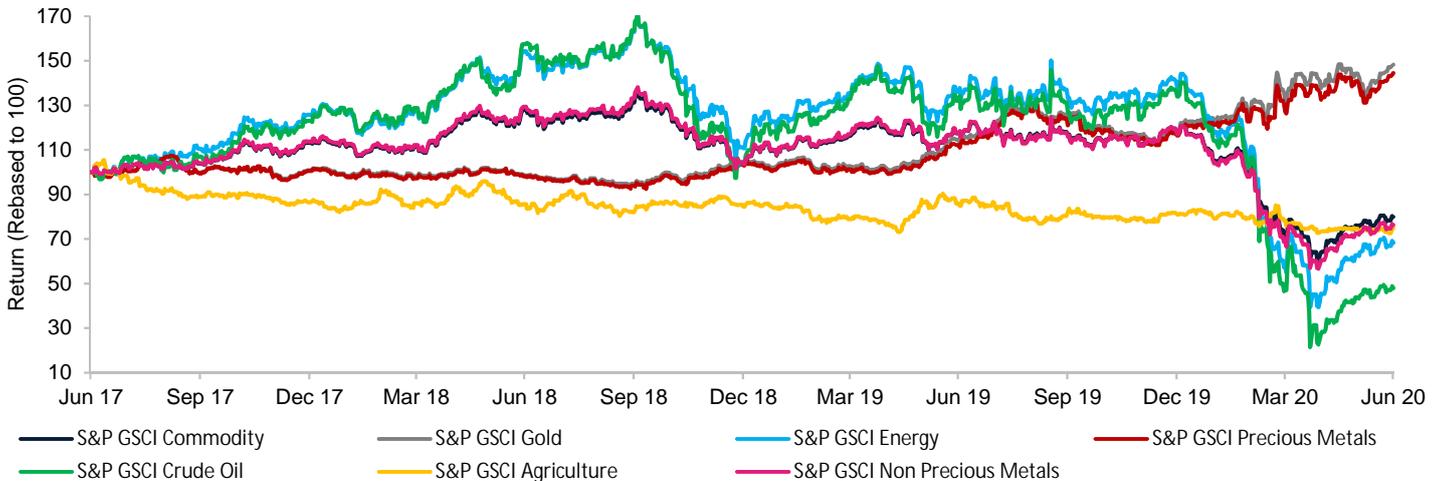
## Market performance – 3 years to 30 June 2020



## Hedge Funds: Sub-strategies performance – 3 years to 30 June 2020

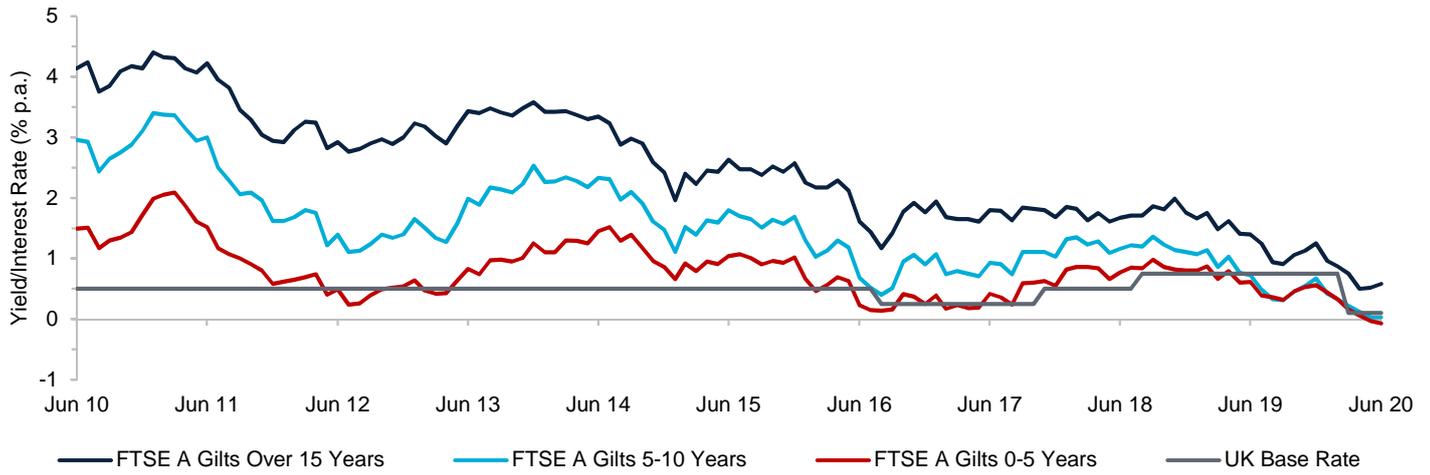


## Commodities: Sector performance – 3 years to 30 June 2020

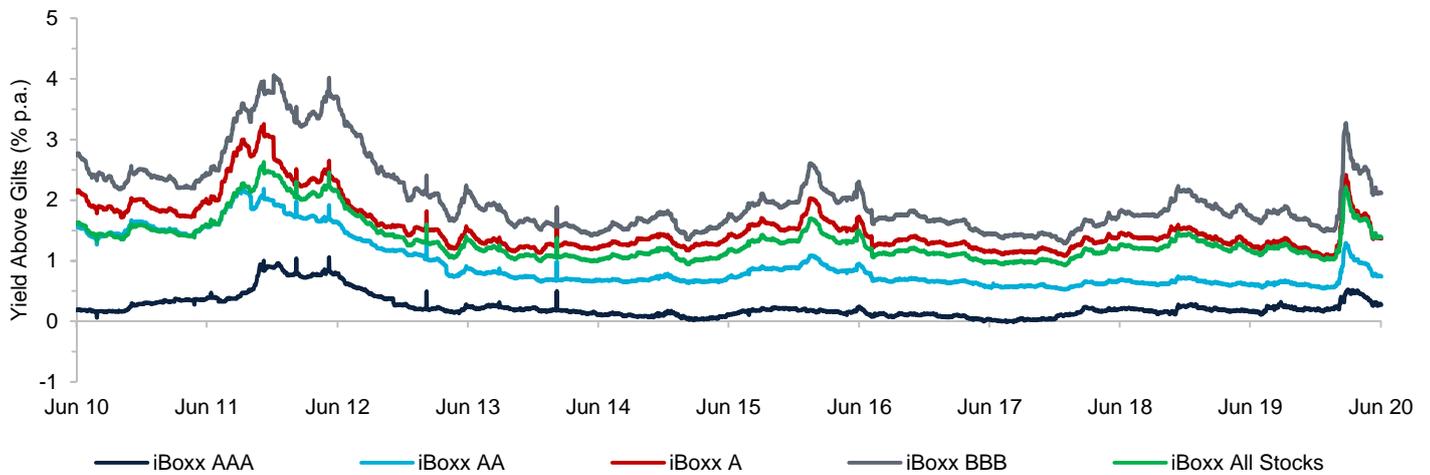


Source: Refinitiv DataStream

**UK government bond yields – 10 years to 30 June 2020**



**Corporate bond spreads above government bonds – 10 years to 30 June 2020**



Source: Refinitiv DataStream

## 2 ECONOMIC STATISTICS

Economic Statistics:	30 June 2020			31 March 2020			30 June 2019		
	UK	Euro <sup>1</sup>	US	UK	Euro <sup>1</sup>	US	UK	Euro <sup>1</sup>	US
Annual Real GDP Growth <sup>2</sup>	-1.7%	-1.3%	0.3%	1.1%	2.8%	2.3%	2.0%	3.1%	2.7%
Annual Inflation Rate <sup>3</sup>	0.6%	0.3%	0.6%	1.5%	0.7%	1.5%	2.0%	1.3%	1.6%
Unemployment Rate <sup>4</sup>	3.9%	7.7%	13.0%	4.0%	7.3%	3.8%	3.8%	7.6%	3.6%
Manufacturing PMI <sup>5</sup>	50.1	46.9	49.6	50.0	47.9	51.9	48.0	47.6	50.6

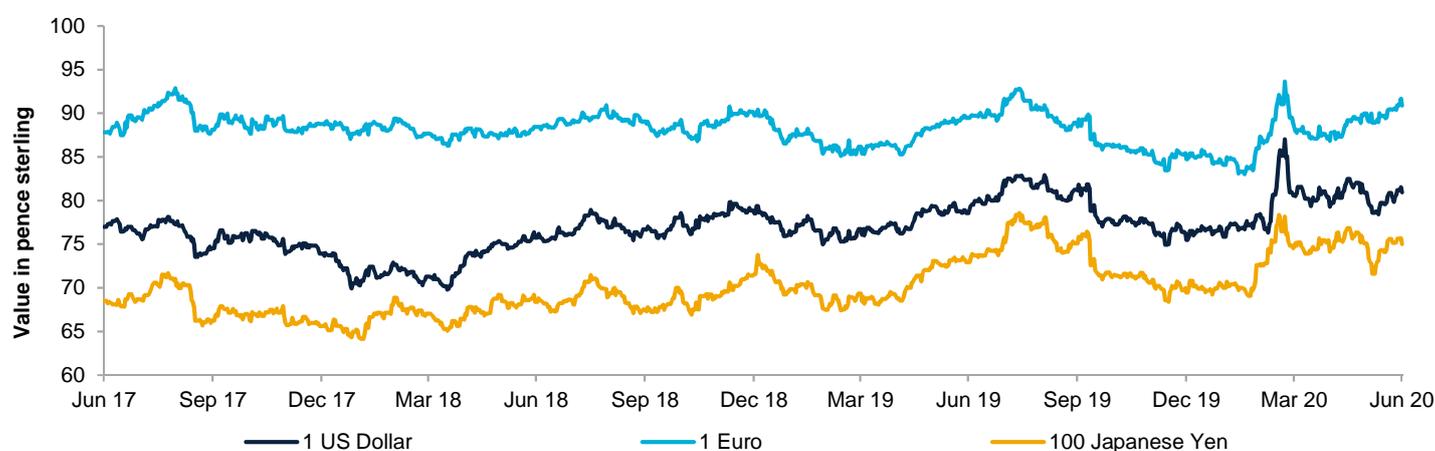
Change over periods ending:	3 months			12 months		
	UK	Euro <sup>1</sup>	US	UK	Euro <sup>1</sup>	US
Annual Real GDP Growth <sup>2</sup>	-2.8%	-4.1%	-2.0%	-3.7%	-4.4%	-2.4%
Annual Inflation Rate <sup>3</sup>	-0.9%	-0.4%	-0.9%	-1.4%	-1.0%	-1.0%
Unemployment Rate <sup>4</sup>	-0.1%	0.4%	9.2%	0.1%	0.1%	9.4%
Manufacturing PMI <sup>5</sup>	0.1	-1.0	-2.3	2.1	-0.7	-1.0

Notes: 1. Euro Area 19 Countries. 2. GDP is lagged by 3 months. 3. CPI inflation measure. 4. UK unemployment is lagged by 1 month. 5. Headline Purchasing Managers Index.

## EXCHANGE RATES

Exchange Rates:	Value in Sterling (Pence)			Change in Sterling	
	30 Jun 20	31 Mar 20	30 Jun 19	3 months	12 months
1 US Dollar is worth	80.93	80.65	78.57	-0.4%	-2.9%
1 Euro is worth	90.90	88.49	89.48	-2.7%	-1.6%
100 Japanese Yen is worth	75.02	74.71	72.93	-0.4%	-2.8%

### Exchange rate movements – 3 years to 30 June 2020



Source: Refinitiv DataStream, Bloomberg.

# 3 MARKET COMMENTARY

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## INTRODUCTION

Q1 2020 saw an unprecedented collapse in economic activity that caused an extraordinary sell-off in risk assets. Over Q2 2020, there was a strong rebound in markets; risk assets, with the exception of property, performed strongly as a whole and defensive assets delivered low single digit returns.

Global equities rallied as early stage trials of potential COVID-19 vaccines fuelled optimism in investors, along with ongoing monetary and fiscal stimulus packages and signs of improvement in economic activity across the globe.

## UNITED KINGDOM

In the UK, quarterly annualised GDP was down -7.8% for Q1 2020. Meanwhile, the Bank of England (BoE) has estimated a 25% contraction in GDP over Q2 2020.

At the meeting in June, the BoE's monetary policy committee voted unanimously to maintain the base rate at 0.1%. The committee also voted to continue with the existing £200bn of bond purchases, as well as increase the target stock of purchased UK gilts by £100bn, which will take the total stock of asset purchases to £745bn.

Additionally, the UK's Chancellor of Exchequer, Rishi Sunak, announced a three-month extension of the COVID-19 job retention scheme; the scheme, which was originally set to finish at the end of July, and will now, continue until the end of October.

Headline CPI inflation fell to 0.5% at the end of May from 1.5% at the end of March. Re-openings also led to a sharp rebound in economic activity indicators towards the end of the quarter.

## NORTH AMERICA

The US economy shrunk by an annualised 5.1% quarter-on-quarter to the end of March 2020 whilst early estimates for the second quarter of 2020 indicate an even worse contraction.

The US Federal Reserve's Open Market Committee (FOMC) held interest rates at the current target range of 0% - 0.25% and officials have predicted that interest rates will remain close to zero until at least the end of 2022. It is also predicted that it will take years to bring unemployment back down to pre-COVID-19 levels.

The downgrade of corporate earnings expectations continues with Factset reporting the largest cuts to S&P500 earnings estimate since records began in 1996. However, signs of a strong rebound emerged with non-farm payrolls showing record levels of job creation in May and June, as many states started to reopen, while retail sales also recovered strongly. This was overshadowed by concerns over rising infection rates in a number of southern US states towards the end of the second quarter.

## EUROPE (EX UK)

European equity markets rose, with unprecedented stimulus and hopes of a COVID-19 vaccine along with fewer virus cases across the European region.

The European Central Bank (ECB) announced a further €600bn increase to the ongoing Pandemic Emergency Purchase Programme (PEPP). This now takes the PEPP to a total of €1.35tn, with the ECB on track to buy €1.4tn of assets this year. The ECB have extended the scheme until at least June 2021

For the Eurozone, quarter-on-quarter GDP collapsed by an annualised 13.6% in Q1 2020. The ECB has predicted an 8.7% overall contraction in the Eurozone for 2020, rising to a 12.6% decline if a new wave of COVID-19 infections takes hold.

## JAPAN

Quarter-on-quarter GDP also collapsed for Japan in Q1 2020 by an annualised 3.6%.

The Bank of Japan confirmed that the monetary policy would remain unchanged for the foreseeable future.

## EMERGING MARKETS

Emerging Market equities rebounded significantly from the downturn experienced in Q1, largely driven by optimism on China's advanced recovery.

## FIXED INCOME

The UK yield curve shifted down somewhat over the quarter. In May, the UK issued £5bn in short-dated bonds at a negative yield for the first time in history. UK monetary policy is as expansive as in other developed countries with the continued quantitative easing providing steady demand for UK bonds. With the exception of the longest dated US Treasury bonds, developed market yields remained below 1% and in negative territory in some cases.

UK real yields shifted down over the quarter, as nominal yields fell slightly while inflation expectations rose.

Credit spreads narrowed over the quarter as risk-on sentiment returned and investors took advantage of attractive spreads earlier in the quarter while central bank purchases added to the demand.

## ALTERNATIVES

Hedge Funds returned 9.5% in Sterling terms and 9.1% in US dollar terms, over the quarter. Equity Hedge strategies were the best performing strategies, returning 13.7% (Sterling) and 13.3% (US dollar). Global Macro strategies were the worst performing strategies over the quarter, returning 1.1% (Sterling) and 0.8% (US dollar).

Commodities rebounded over the quarter driven by the anticipation of rising demand as economies opened. The returns were 10.9% and 10.5% in Sterling terms and US dollar terms, respectively. Energy led returns, rising 19.0% in Sterling terms and 18.6% in US dollar terms. All other commodities were positive with the exception of Agriculture, which declined -4.0% in Sterling terms and -4.3% in US dollar terms.

UK Commercial Property declined by 2.3% in the 3 months to 30 June 2020. Rental income returned 1.4%, whilst capital values fell by 3.6%.

## CURRENCY

Sterling weakened marginally over the quarter against the US Dollar, Euro and Japanese Yen, which enhanced returns slightly for unhedged sterling investors. Even though the UK economy has also started to rebound, there are concerns over another hard Brexit deadline looming after the transition period was not extended in June. By the end of the year, a trade agreement with the EU needs to be in place.

## 4 MARKET STATISTICS AND INDICES USED

Asset Class	Index
<b>Growth Assets</b>	
UK Equities	FTSE All-Share Index
Overseas Developed Equities	FTSE AW Developed Index
North America Equities	FTSE AW North America Index
Europe (ex UK) Equities	FTSE AW Developed Europe (ex UK) Index
Japan Equities	FTSE Japan Index
Asia Pacific (ex Japan) Equities	FTSE AW Developed Asia Pacific (ex Japan) Index
Emerging Markets Equities	FTSE All Emerging Index
Frontier Markets Equities	FTSE Frontier 50 Index
Property	IPD UK Monthly Property Index
Hedge Funds	Credit Suisse Hedge Fund Index (Local Currency)
Commodities	S&P GSCI TR Index (GBP Hedged)
High Yield	ICE BoAML Global High Yield Index (GBP Hedged)
Emerging Markets Debt	JPM GBI-EM Global Diversified Composite Index
Senior Secured Loans	S&P Leveraged Loan Index (GBP Hedged)
Cash	ICE BofA 3 Month LIBOR Index
<b>Bond Assets</b>	
UK Gilts (Over 15 yrs)	FTSE A Gilts Over 15 Years Index
Index-Linked Gilts (Over 5 yrs)	FTSE A Index-Linked Over 5 Years Index
Corporate Bonds (Over 15 yrs AA)	iBoxx £ Corporate Over 15 Years AA Index
Non-Gilts (Over 15 yrs)	iBoxx £ Non-Gilts Over 15 Years Index
<b>Yields</b>	
UK Equities	FTSE All-Share Index (Dividend Yield)
UK Gilts (Over 15 yrs)	FTSE A Gilts Over 15 Years Index (Gross Redemption Yield)
Real Yield (Over 5 yrs ILG)	FTSE A Index-Linked Over 5 Year Index 5% Inflation (Gross Redemption Yield)
Corporate Bonds (Over 15 yrs AA)	iBoxx £ Corporate Over 15 Years AA Index (Gross Redemption Yield)
Non-Gilts (Over 15 yrs)	iBoxx £ Non-Gilts Over 15 Years Index (Gross Redemption Yield)
<b>Inflation</b>	
Price Inflation – RPI	UK Retail Price Index (All Items NADJ)
Price Inflation – CPI	UK Consumer Price Index (All Items NADJ)
Earnings Inflation	UK Average Weekly Earnings Index (Whole Economy excluding Bonuses NADJ)
<b>Exchange Rates</b>	
USD / EUR / JPY vs GBP	WM/Reuters 4:00 pm Closing Spot Rates

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