

## Equities

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It was a mixed month for investors with some markets initially hitting record highs early in the month. However, the possible default of Chinese property developer Evergrande saw sharp markets falls later in the month but the Chinese authorities stepped in to settle nerves to some extent.

The U.S. Federal Reserve hinted at an earlier-than-expected reduction of its bond purchasing programme given the current economic and inflation outlook. This, and comments from both ECB and Bank of England officials hinting at respective interest rate rises, pushed global bond yields sharply higher leading to falls in the share price of many of the larger technology stocks.

## Bonds

Longer-dated Eurozone bond prices fell 3.5% in September, with the yield on the AAA Eurozone 15+ Year Index rising to 0.16% by month-end. The Euro Broad Sovereign 10+ Year Index fell 2.5% with its yield at 0.76% by month-end.

Eurozone bond yields rose by mid-month with the region's inflation hitting a near ten-year high. The ECB also hinted at a reduction in its PEPP stimulus programme as well as possible interest rate rises earlier than expected. Yields then rose further after the U.S. Federal Reserve statement towards the end of the month.

## Sample DB Scheme

The funding level of our sample DB scheme fell to 106.7%, as its assets fell by more than its liabilities (calculated using a MFS proxy) over the month.

## Sample DC Schemes

All three of our sample DC Strategies fell over September, as most asset classes were negative.

All returns are in € terms	Sept '21	3 Months	Year to Date	1 Year	3 Years	5 Years	10 Years
	%	%	%	%	% pa	% pa	% pa
<b>Equities</b>							
FTSE World	-2.0	2.3	19.4	31.4	13.6	13.4	14.5
FTSE World (€ Hedged)	-2.8	0.4	14.2	28.9	13.2	14.1	13.7
FTSE Eurozone	-2.7	1.1	17.3	32.1	8.9	9.8	n/a
FTSE World ex Eurozone	-1.9	2.4	19.6	31.4	14.1	13.8	14.9
FTSE North America	-2.1	3.3	22.8	32.9	16.8	16.4	18.0
FTSE Emerging Markets	-1.9	-4.8	6.3	19.9	9.7	8.8	8.0
<b>Bonds</b>							
Euro Sovereign AAA (15+ yr)	-3.5	0.1	-7.4	-6.1	5.0	1.3	5.8
Euro Broad Sovereign (10+ yr)	-2.5	0.2	-6.5	-4.3	6.9	2.6	7.3
Euro Sovereign Inflation Linked	0.4	2.6	2.3	5.9	3.8	1.5	3.5
Euro Corporate (5+ yr)	-1.2	0.1	-1.1	1.8	4.1	2.4	5.5
<b>Other</b>							
Commodities	6.0	5.2	38.3	58.3	-1.5	3.6	-4.8
Fund of Hedge Funds	0.0	1.2	7.2	14.1	6.1	5.5	4.9
€/£	-1.9	-2.3	-5.2	-1.2	-0.1	0.6	-1.4
€/£	0.1	0.2	-3.9	-5.3	-1.2	-0.2	0.0

Bond Index Yields	31 Aug '21	30 Sept '21	Change (b.p.)
iBoxx Euro Sovereign AAA (15+ yr)	-0.04	0.16	0.20
iBoxx Euro Broad Sovereign (10+ yr)	0.61	0.76	0.15
iBoxx Euro Corporates (5+ yr)	0.56	0.72	0.16

Sample Pension Schemes	Sept '21	3 Months	Year to Date	1 Year	3 Years	5 Years
	%	%	%	%	% pa	% pa
<b>DB Schemes</b>						
Assets	-2.4	1.1	5.5	11.4	8.9	7.1
Liabilities	-1.1	1.0	-0.3	1.3	6.2	4.5
Change in Funding Level	-1.3	0.1	5.8	10.0	2.6	2.5
<b>DC Schemes</b>						
High Risk Strategy	-1.6	1.2	11.0	19.2	9.0	8.3
Medium Risk Strategy	-2.2	1.0	5.8	11.8	8.3	6.7
Pension Purchase Strategy	-2.6	0.0	-5.6	-4.7	3.7	1.0

Sources: LCP, Bloomberg, Reuters, MarketWatch, Markit and iBoxx

## Background

**Global equities** rose 2.3% (in € terms) in Q3 '21 with returns boosted by the U.S. Dollar strengthening against the Euro. Investors were encouraged by positive economic and corporate earnings data over July and August, although there were some concerns in September over rising inflation and the effect of higher bond yields on technology stock prices.

Longer-dated Eurozone government **AAA-rated bond** prices rose 0.1% (and yields fell slightly) over the quarter but September saw bond prices fall (and yields rise) sharply as inflation continued to rise and some Central Banks hinted at a reduction in their bond purchasing programmes and also possible interest rate rises.

## Equity Performance

**July:** Global equity markets rose 1.4% in July (in € terms). Although world equities rose over the month, Eurozone government bonds outperformed equities (Eurozone 15+ AAA government bonds rose by 4.8%). Investors took account of the possibility that Covid strains such as the Delta variant may continue to affect global economies and in turn anticipated growth rates.

Quarterly report data in July from the U.S., including big stock names like Amazon, resulted in falls after disappointing (or not what investors were expecting) quarterly results were announced.

**August:** Global equity markets rose 2.9% in August (in € terms), with some indices hitting record highs early in the month after the release of strong economic data and corporate earnings. Investors also welcomed the passing by the U.S. Senate of the \$1 trillion infrastructure package, and the release of lower-than-expected U.S. inflation data.

Markets were jittery mid-month with the continuing rise of Covid Delta cases, even if both hospitalisations and deaths are much lower than in previous waves. U.S. retail sales and housing data were also mixed and the U.S. Federal Reserve meeting minutes stated that most of its members favoured relaxing monetary support measures in 2021, earlier than investors had expected (although Fed Chair Powell reassured investors somewhat in his Jackson Hole speech).

Markets then finished August strongly, with some indices again hitting record highs, with Pfizer getting full approval for its Covid vaccine from the U.S. FDA and the release of solid economic data in both the U.S. and Europe.

**September:** Global equity markets fell 2.0% in September (in € terms), this fall was lessened for the Euro investor as the U.S. Dollar strengthened against the Euro.

It was a mixed month for investors with some markets initially hitting record highs early in the month. However, the possible default of Chinese property developer Evergrande saw sharp markets falls later in the month but the Chinese authorities stepped in to settle nerves to some extent.

The U.S. Federal Reserve hinted at an earlier-than-expected reduction of its bond purchasing programme given the current economic and inflation outlook. This, and comments from both ECB and Bank of England officials hinting at respective interest rate rises, pushed global bond yields sharply higher leading to falls in the share price of many of the larger technology stocks.

## Bond Performance

Eurozone bond prices rose and yields fell sharply in **July**, on fears that rising Covid cases could again hit economic growth, amid signs that growth was peaking. German government bond yields had their biggest monthly fall since January 2020.

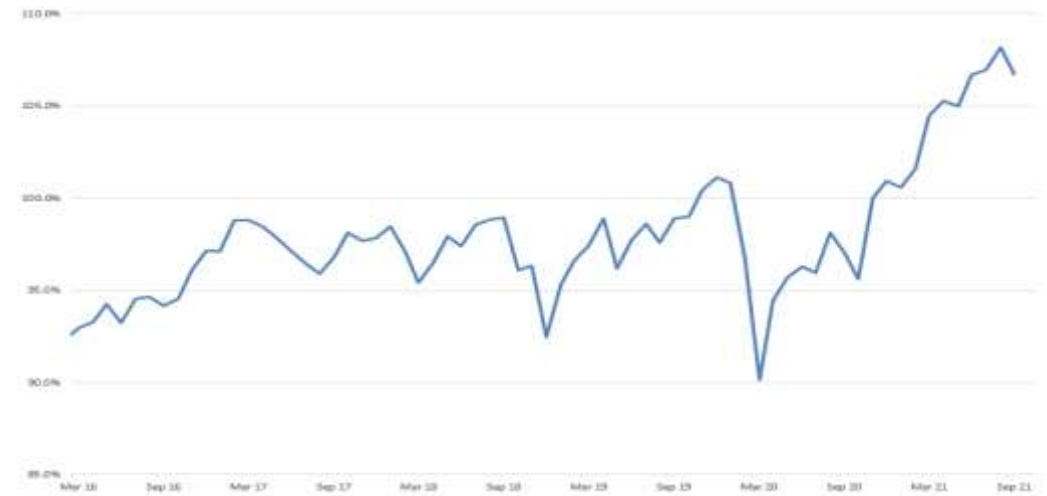
Longer-dated bond yields were flat for most of **August** over fears that the rising Covid case numbers could stall economic growth but yields then rose sharply at month-end after stronger-than-expected German and Eurozone inflation data, with the economic recovery from the pandemic leading to many supply shortages.

In **September**, Eurozone bond yields rose by mid-month with the region's inflation hitting a near ten-year high. The ECB also hinted at a reduction in its PEPP stimulus programme as well as possible interest rate rises earlier than expected. Yields then rose further after the U.S. Federal Reserve statement towards the end of the month.

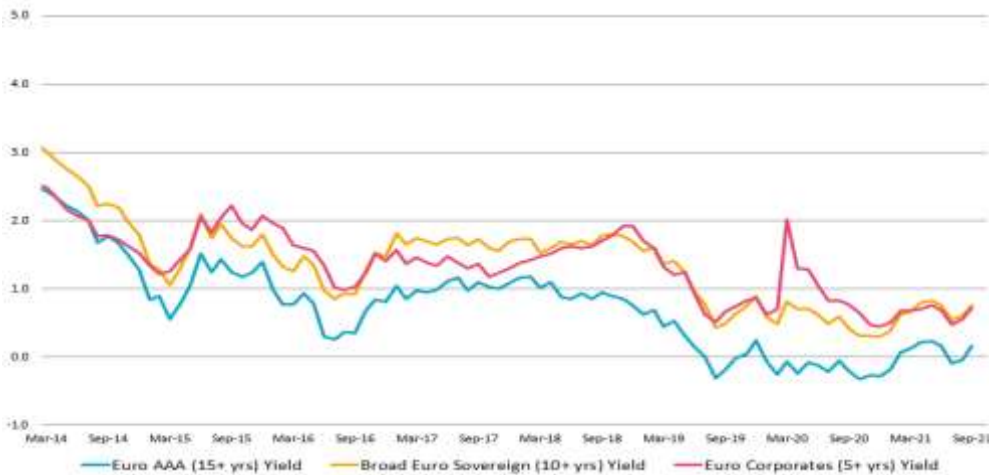
**Equity Market Performance**



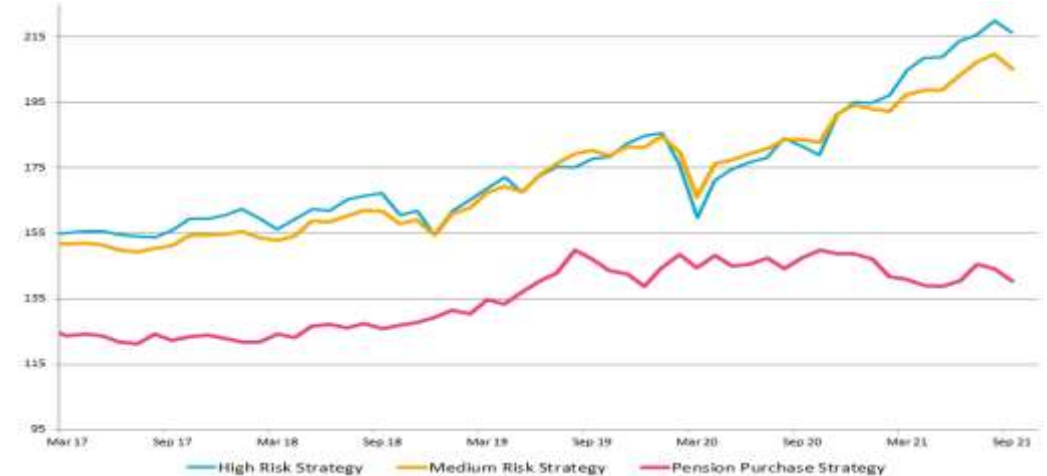
**Sample DB Funding Level Progression**



**Historical Bond Yields**



**Sample DC Scheme Performance**



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