

LCP Market Update – October 2022

Equities

Following a fall of roughly 13% over August and September, global equity markets rebounded by 6% in October (in € terms). The unhedged euro investors experienced a similar return with a slight weakening of the US dollar. October saw the US dollar give up some of its recent gains following the publication of a weak economic outlook that affirmed rumours of a slowdown in the US Federal Reserve rate hike cycle. The news from across the Atlantic was welcomed as the Euro climbed 0.9% for the month, but remains down 13% YTD.

A rebounding equity market performance throughout October was fuelled by large cap stocks. The energy sector reported record breaking Q3 profits on the back of soaring energy bills, with discussions of a windfall tax offering little to dent bullish investor sentiment.

Bonds

Longer-dated Eurozone bond prices fell by 1.4% over the month, with the yield on the AAA Eurozone 15+ Year Index rising to 2.3% by month-end. However, the Euro Broad Sovereign 10+ Year Index increased slightly by 0.1%, with its yield climbing to 3.2% by the end of October.

UK Bond markets welcomed the news of Rishi Sunak's appointment as Prime Minister. Sterling corporate bond yields experienced their second biggest daily fall following news that the Sunak Government would adopt a cautious fiscal policy in comparison to their predecessor. There continues to be little contagion in the rest of Europe due to the events in the UK.

Inflation continued to rise despite recent interest rate hikes by the European Central Bank (ECB) and is a primary concern for investors. Eurozone inflation hit a new record of 10.7% in October fuelled by high energy and food prices. The ECB made a further interest rate rise of 0.75% towards the end of the month to help combat the persistently high inflation figures. However, the impact rising interest rates will have on the economy is to be determined.

Sample DB Scheme

The funding level of our sample DB scheme increased to 100% as its assets increased by more than its liabilities (calculated using an MFS proxy) over October.

Sample DC Schemes

Two of our three sample DC Strategies produced positive returns as most asset classes were positive for the month.

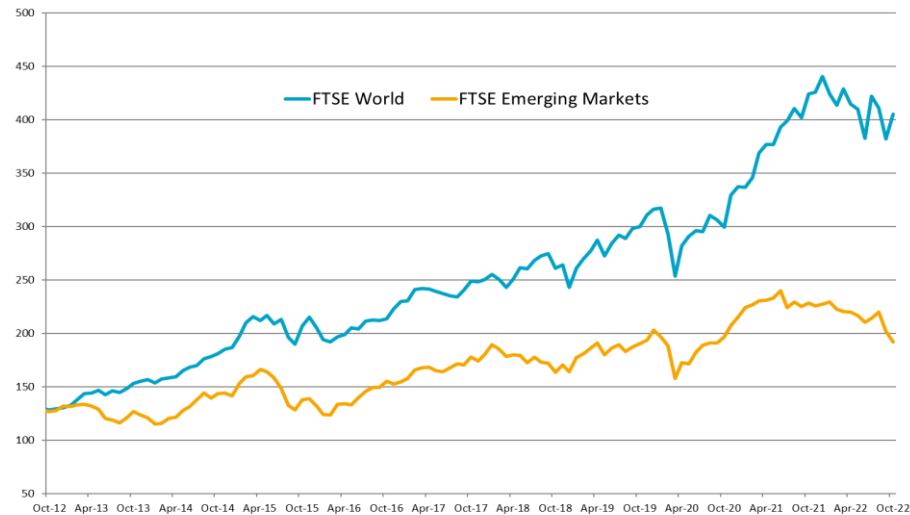
All returns are in € terms	Oct '22 %	3 Months %	Year to Date %	1 Year %	3 Years % pa	5 Years % pa	10 Years % pa
Equities							
FTSE World	6.0	-4.0	-8.0	-4.4	10.4	9.9	12.0
FTSE World (€ Hedged)	6.0	-5.6	-16.5	-14.8	7.1	7.0	10.2
FTSE Eurozone	7.9	-4.3	-16.0	-14.9	2.4	2.2	n/a
FTSE World ex Eurozone	5.8	-4.0	-7.2	-3.4	11.3	10.8	12.4
FTSE North America	6.9	-2.9	-6.2	-1.9	14.4	13.8	15.3
FTSE Emerging Markets	-4.9	-10.4	-15.5	-15.8	0.9	1.8	4.5
Bonds							
Euro Sovereign AAA (15+ yr)	-1.4	-19.1	-33.0	-33.1	-12.8	-4.1	1.0
Euro Broad Sovereign (10+ yr)	0.1	-15.4	-29.5	-29.8	-11.2	-3.1	2.5
Euro Inflation Linked	2.4	-8.7	-15.2	-15.1	-3.8	-1.6	0.9
Euro Corporate (5+ yr)	0.3	-10.9	-21.8	-21.7	-7.3	-3.0	1.1
Other							
Commodities	6.7	-4.3	30.0	24.7	14.2	8.3	-2.9
Fund of Hedge Funds	0.0	-0.2	0.1	-0.2	5.6	4.3	4.4
€/£	0.9	-3.3	-13.0	-14.5	-3.9	-3.2	-2.7
€/£	-1.8	2.7	2.5	2.1	0.0	-0.4	0.7

Bond Index Yields	30 Sep '22 %	31 Oct '22 %	Change (b.p.) %
iBoxx Euro Sovereign AAA (15+ yr)	2.22	2.31	0.10
iBoxx Euro Broad Sovereign (10+ yr)	3.14	3.16	0.02
iBoxx Euro Corporates (5+ yr)	4.45	4.44	0.00

Sample Pension Schemes	Oct '22 %	3 Months %	Year to Date %	1 Year %	3 Years % pa	5 Years % pa
DB Schemes						
Assets	2.3	-9.9	-18.5	-16.9	-0.5	3.2
Liabilities	0.0	-5.6	-10.0	-9.4	-0.8	2.8
Change in Funding Level	2.3	-4.5	-9.4	-8.3	0.3	0.4
DC Schemes						
High Risk Strategy	3.6	-3.1	-8.5	-6.2	5.5	5.6
Medium Risk Strategy	2.3	-8.0	-16.0	-14.4	0.4	3.2
Pension Purchase Strategy	-1.1	-14.5	-25.7	-25.7	-9.7	-3.1

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

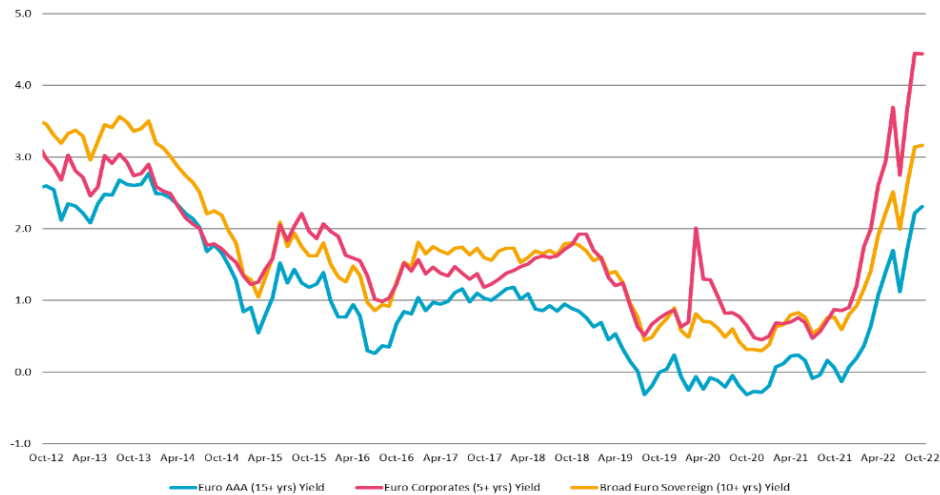
Equity Market Performance



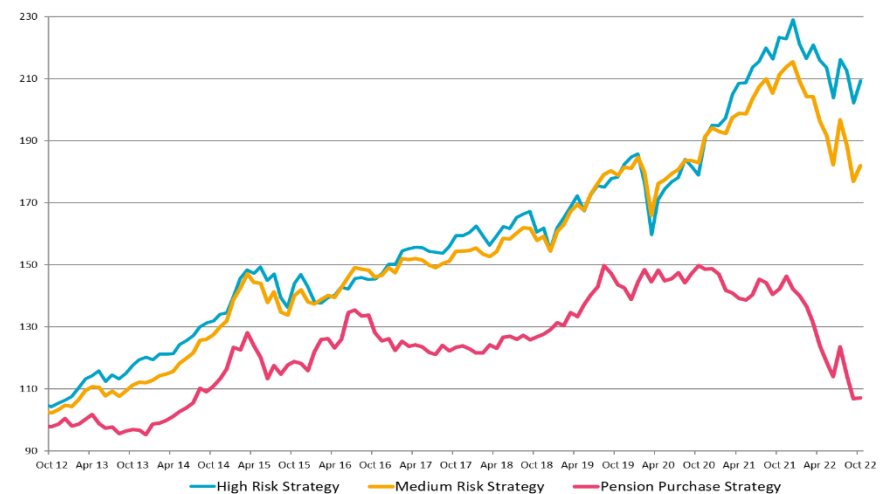
Sample DB Funding Level Progression



Historical Bond Yields



Sample DC Scheme Performance



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