

Equities

Global equity markets rose by a further 4.0% (in local currency terms) in December, to close out a very strong 2023 for equity markets, more than making up for the falls experienced in 2022.

Boosted by a more optimistic view on inflation expectations and the potential for earlier interest rate cuts, global equity markets continued to push higher, with positive returns observed across all regions in December.

Bonds

There's a growing consensus that interest rates have now reached their peak at 4.0% in Europe. The ECB again repeated in December that they are considering maintaining current rates for a "sufficiently long duration", which they believe will substantially contribute to the timely return to their 2% medium term inflation target.

Contrary to the ECB's statement, bond markets have adjusted with the anticipation that interest rate cuts will begin earlier in 2024 than previous estimated. Long-dated core Eurozone bond prices rose by 8.5% over the month, with the yield on the AAA Eurozone 15+ Year Index falling sharply to 2.3% p.a. by month-end. Prices increased by 7.4% on the Euro Broad Sovereign 10+ Year Index, with its yield falling to 3.0% p.a. by the end of December.

Annuity Prices

Annuity prices increased over the month of December as a result of falling bond yields. All annuity rates are 5 year guarantee and single life.

Sample DB Scheme

The funding level of our sample DB scheme increased to 102% as its assets increased more than its liabilities (calculated using an MFS proxy) over December.

Sample DC Schemes

Our three sample DC strategies were positive for the month with positive returns across the main asset classes.

All returns are in € terms	Dec' 23	3 Months	YTD	1 Year	3 Years	5 Years	10 Years
	%	%	%	%	% pa	% pa	% pa
Equities							
FTSE World	3.7	7.0	20.0	20.0	11.1	13.8	11.3
FTSE World (€ Hedged)	4.0	9.3	22.1	22.1	7.9	12.8	9.6
FTSE Eurozone	3.1	7.9	19.8	19.8	9.1	10.3	9.5
FTSE World ex Eurozone	3.7	6.9	20.0	20.0	11.3	14.1	11.8
FTSE North America	3.4	7.3	22.3	22.3	13.0	16.3	14.1
FTSE Emerging Markets	2.3	2.2	5.4	5.4	0.2	5.5	5.9
Bonds							
Euro Sovereign AAA (15+ yr)	8.5	15.0	8.0	8.0	-13.4	-4.7	1.6
Euro Broad Sovereign (10+ yr)	7.4	13.7	10.5	10.5	-11.4	-2.2	2.5
Euro Inflation Linked	2.7	4.9	3.5	3.5	-4.9	-1.0	0.6
Euro Corporate (5+ yr)	4.2	8.4	10.9	10.9	-4.8	-0.1	1.8
Other							
Commodities	-3.3	-10.7	-4.3	-4.3	19.2	8.7	-3.6
Fund of Hedge Funds	0.0	1.3	5.1	5.1	4.8	6.0	3.8
€/\$	1.4	4.4	3.1	3.1	-3.3	-0.7	-2.2
€/£	0.5	0.0	-2.1	-2.1	-1.1	-0.7	0.4

Bond Index Yields	Nov'23	Dec' 23	Change
	%	%	%
iBoxx Euro Sovereign AAA (15+ yr)	2.75	2.30	-0.45
iBoxx Euro Broad Sovereign (10+ yr)	3.50	3.02	-0.47
iBoxx Euro Corporates (5+ yr)	4.03	3.49	-0.54

	Cost of a €10k Pension	Change in annuity prices						
		Dec-23	3 months	YTD	1 year	3 year	5 year	10 Year
		%	%	%	%	% pa	% pa	% pa
Annuity cost - 65 year old; no increases	€188k	5.7%	9.5%	2.6%	2.6%	-11.4%	-3.8%	-0.1%
Annuity cost - 65 year old; 2% increases	€239k	6.5%	10.9%	2.9%	2.9%	-12.8%	-4.3%	-0.1%
Annuity cost - 65 year old; CPI max 4%	€266k	6.8%	11.3%	3.0%	3.0%	-12.4%	-4.5%	-0.1%

Sample Pension Schemes	Dec-23	3 Months	Year to Date	1 Year	3 Years	5 Years
	%	%	%	%	% pa	% pa
DB Schemes						
Assets	5.3	9.6	12.7	12.7	-0.6	4.7
Liabilities	2.8	5.3	7.3	7.3	-0.9	2.7
Change in Funding Level	2.5	4.2	5.1	5.1	0.3	1.9
DC Schemes						
High Risk Strategy	3.2	5.9	12.0	12.0	5.7	8.3
Medium Risk Strategy	4.7	8.5	11.5	11.5	0.3	4.9
Pension Purchase Strategy	6.4	11.3	6.4	6.4	-9.9	-3.4

Background

The global equity markets performed strongly in the final quarter of 2023, increasing by 9.3% (in local currency terms) over Q4 2023. A favourable inflation forecast for the quarter boosted markets and this trend is expected to continue in the New Year.

Global stock markets recorded their strongest year since 2019 following a remarkable two-month long rally at the end of Q4. This was largely due to investors anticipating that central banks have reached the peak of the current interest rate cycle and have started to anticipate rate cuts in the first half of 2024.

Similarly, the bond market enjoyed a rally in prices in the final months of 2023. The same anticipation of rate cuts from central banks drove yields lower, increasing bond prices. The final quarter rally avoided a third consecutive year of losses.

Equity Performance

October: Global equity markets declined by 2.7% (in local currency terms) in October reflecting the market adjusting its view to the likelihood that interest rates will remain higher for longer.

Negative equity returns were observed across all regions in October, driven largely by rising global bond yields. There was a sharp decline in Eurozone inflation with a fall to 2.9% in October, suggesting higher interest rates are having an effect.

November: Global equity markets rose by 8.0% (in local currency terms) with stocks returning their best month in three years. This was largely due to promising inflation data and a consensus that central banks have ended their run of interest rate hikes, with the narrative now shifting to the timing of cuts. A resilient US economy seeking to pull off a soft landing, has also contributed significantly.

The Euro strengthened against the dollar over the month, which has a negative effect for non-hedged investors. This resulted in a 6.1% gain in Euro terms for investors.

December: Global equity markets rose by a further 4.0% (in local currency terms) in December, to close out a very strong 2023 for equity markets.

Boosted by a more optimistic view on inflation expectations and the potential for earlier interest rate cuts, global markets equity markets continued to push higher, with positive equity returns observed across all regions in December.

Bond Performance

October: The ECB paused their interest rate hiking campaign for the first time in 15 months in October leaving Eurozone interest rate unchanged at 4.0%. ECB president Christine Lagarde commented that discussions of rate cuts were premature, supporting the consensus that higher rates will be maintained for longer than previously expected in the region.

Meanwhile, long-dated core Eurozone bond prices fell by 1.0% over the month, with the yield on the AAA Eurozone 15+ Year Index remaining similar at 3.1% by month-end. Prices declined by 0.4% on the Euro Broad Sovereign 10+ Year Index, with its yield broadly unchanged at 3.9% by month-end.

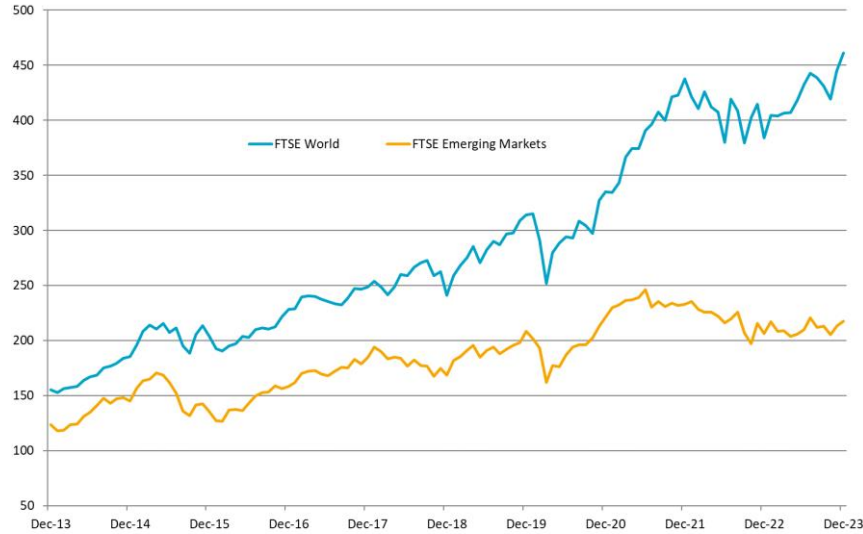
November: The ECB have signalled they will keep interest rates elevated for “long enough” to bring inflation down to their 2% target, according to President Christine Lagarde. Financial markets are pricing in a high probability that rates in the European region will begin to fall in the first half of 2024. This reflects the general view that inflation is lower than previously expected, and cuts will be required to stimulate the Eurozone economy which remains relatively weak.

Long-dated core Eurozone bond prices rose by 7.0% over the month, with the yield on the AAA Eurozone 15+ Year Index falling to 2.8% by month-end. Prices increased by 6.4% on the Euro Broad Sovereign 10+ Year Index, with its yield falling to 3.5% by month-end.

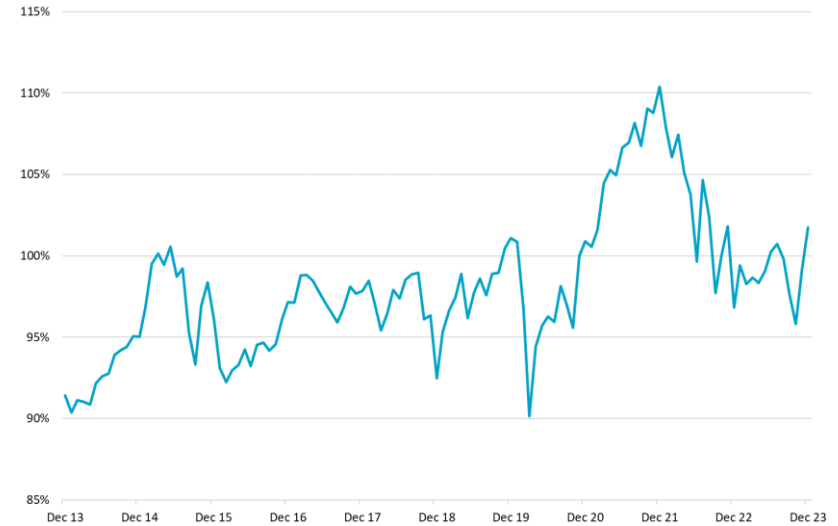
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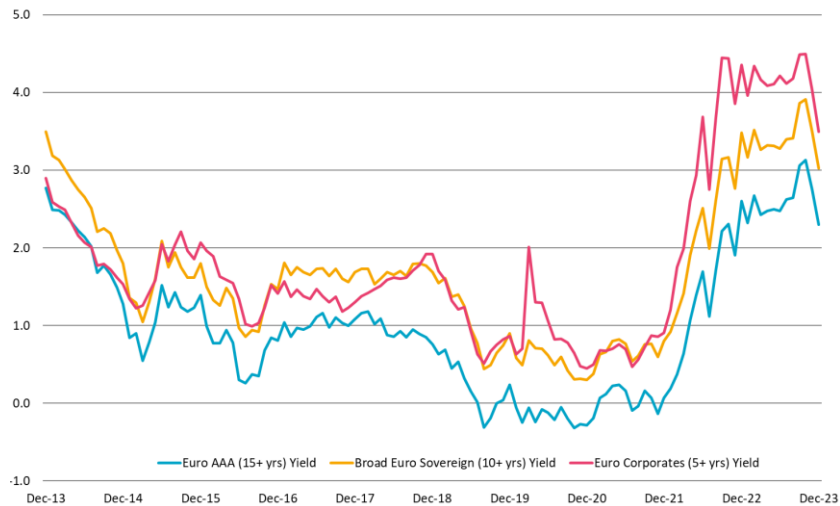
Equity Market Performance



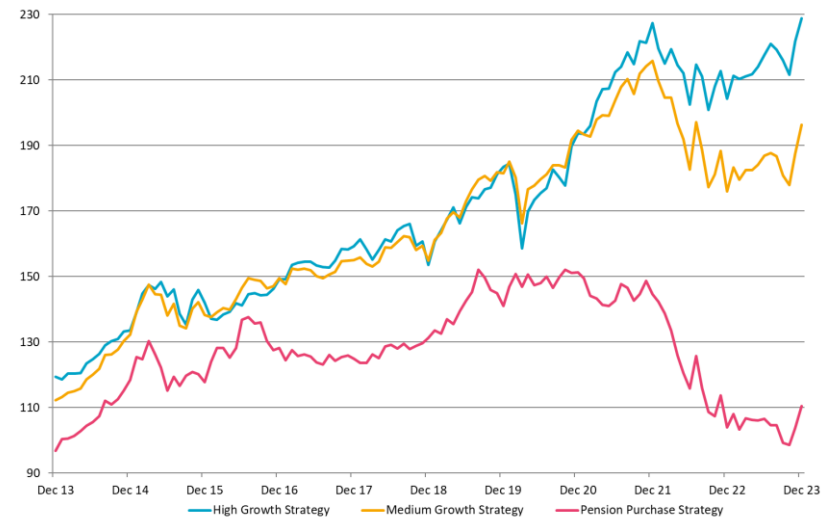
Sample DB Funding Level Progression (MFS Proxy Basis)



Historical Bond Yields



Sample DC Scheme Performance






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