

 **Capita**

**August
Investment
Bulletin**

August 2020

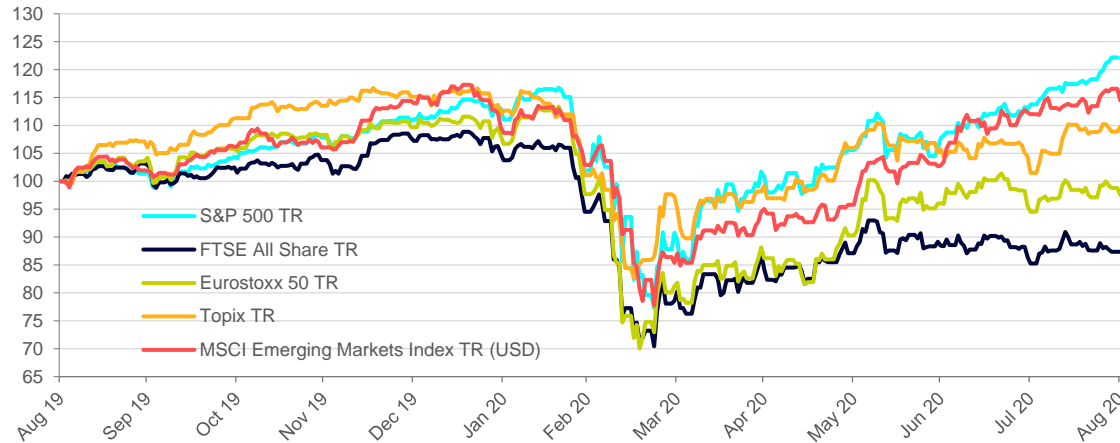


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Global equities continued bounce back with another positive month

Figure 1: Equity Market Returns (rebased at 100) ¹



Source: Bloomberg, Capita

Equity markets	Percentage change				
	Index	31/08/2020	1 Week	1 Month	YTD
S&P 500 (TR)	7192	2.0%	7.2%	9.7%	21.9%
FTSE ALL-Share (TR)	6385	-1.7%	2.4%	-18.5%	-12.6%
EuroStoxx 50 (TR)	7072	-1.7%	3.2%	-11.0%	-2.5%
Topix (TR)	2504	0.7%	8.2%	-4.7%	9.8%
MSCI Emerging Markets Index TR (USD)	530	-0.6%	2.2%	0.4%	14.5%

Source: Bloomberg, Capita | ¹ Total returns in local currency

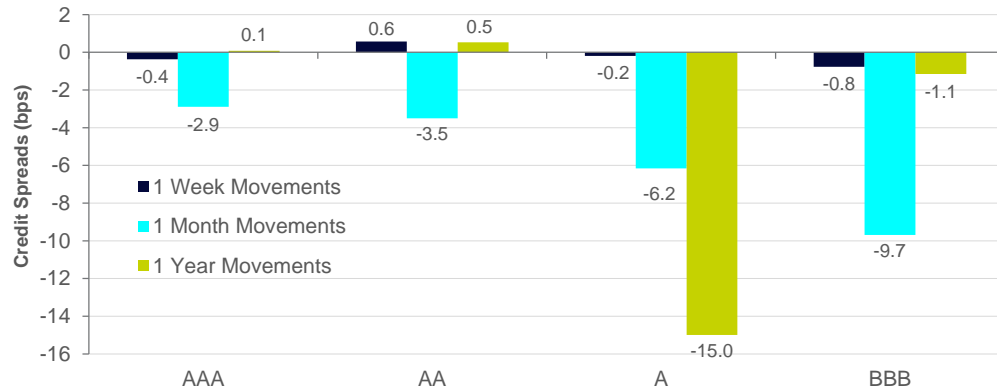
- Global equities made gains in August. All major indices made positive returns over the month, with the Japanese market rising the most, by 8.2%.
- US equities posted a month of positive performance, rising by 7.2%. This means that US equities are now up by 9.7% since the beginning of the year. This is a much-welcomed result following the coronavirus pandemic, which saw the S&P 500 index fall by nearly 20% over Q1.
- Despite continued domestic political and economic uncertainty in the UK, the FTSE All-Share index returned 2.4% over August. However, the UK Equity market is still at -18.5% since the start of the year due to the impact of the pandemic.
- In the eurozone, the EuroStoxx 50 index returned 3.2% over August, showing that the eurozone's economic recovery is continuing. However, much like the UK, European equities are still at negative levels since the start of the year. Down by around -11%.
- In Japan, the Topix made very strong gains over August, returning around +8.2%. As noted earlier, this was the highest amongst all major indices. The Japanese equity market is down at around -4.7% since the beginning of the year, however given the current climate, this is significantly better than some of their peers around the world.
- In emerging markets, the MSCI Emerging Markets Index returned 2.2% over August. This brings year-to-date levels back positive at around +0.5%.

Corporate bond spreads contract in August

Corporate credit

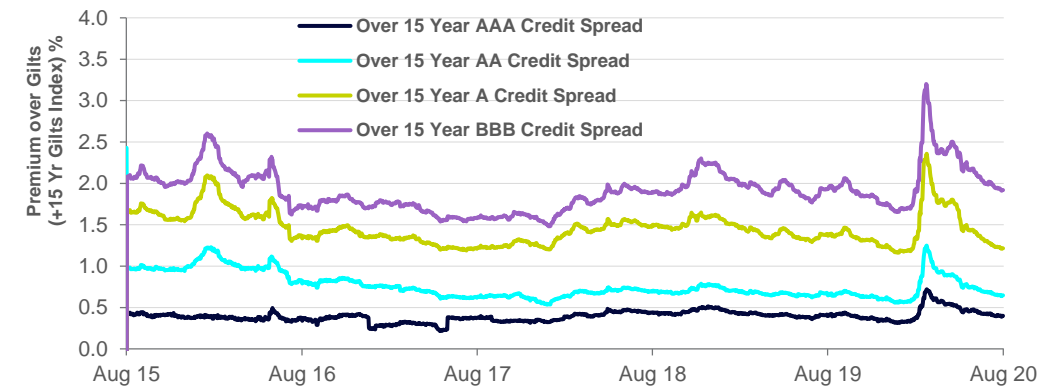
- UK corporate bond spreads narrowed significantly over August for investment grade credit universe. This was particularly seen at the lower ratings.
- UK high yield continues to provide a more attractive rate of return compared to UK gilt yields. The drawback of using corporate debt for pension schemes, however, is that they tend to offer a lower duration than gilts, which means they are less effective when it comes to liability matching.
- Decreased credit spreads on lower rated bonds over the past year may reflect investors' moving from safer instruments into corporate bonds as global markets start to pick up following the coronavirus pandemic.

Figure 2: GBP corporate bond Spreads over gilts by rating (change over week/month/year)



Source: Bloomberg, Bank of America Merrill Lynch, Capita

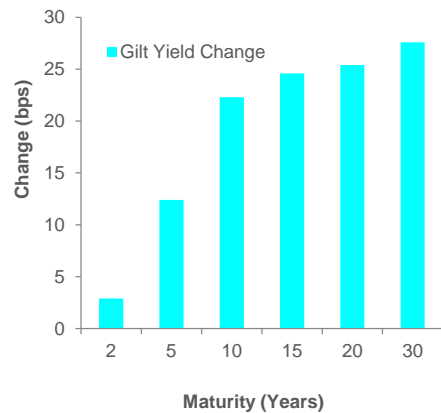
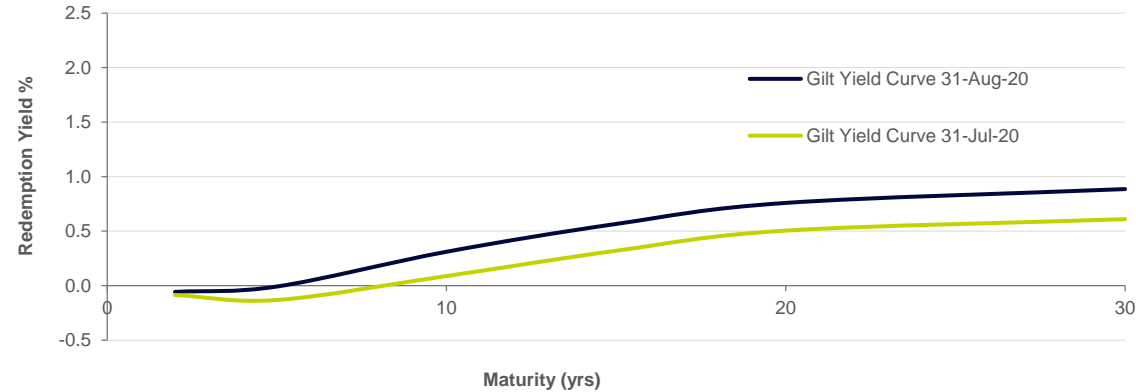
Figure 3: GBP corporate bond Spreads over gilts by rating (historic)



Source: Bloomberg, Bank of America Merrill Lynch, Capita

Nominal gilt yields increase across the curve

Figure 4: Nominal term structure of gilts



Source: Bloomberg, Capita

Nominal Gilt Rates	Maturity Points (yrs)					
	2	5	10	15	20	30
Current % as at 31/08/2020	-0.06	-0.01	0.31	0.57	0.76	0.89
1 Week Change (bps)	-1	4	11	10	11	10
1 Month Change (bps)	3	12	22	25	25	28
1 Year Change (bps)	-46	-34	-17	-15	-15	-13

Source: Bloomberg, Capita

² Gilt breakeven inflation has been calculated as the difference between nominal Gilt yields and real Gilt yields.

Figure 5: 10-year and 30-year nominal yields



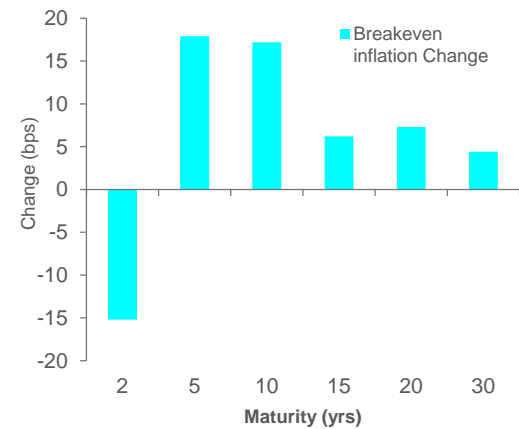
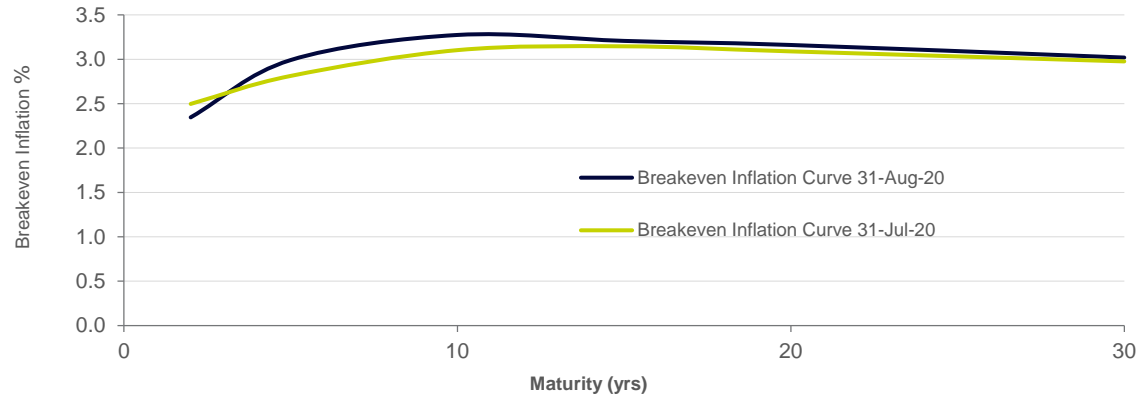
Source: Bloomberg, Capita

Nominal yields

- Nominal gilt yields increased across all maturities over the month of August.
- Yields remain below 1% despite recovering after the drastic decline. This is welcome news for pension schemes with funding levels being positively impacted by a fall in liabilities.
- The current Bank of England base rate remains at 0.1% after being cut in March this year

CPI inflation rises to end month at highest level since 2018

Figure 6: Gilt breakeven inflation ²



Source: Bloomberg, Capita

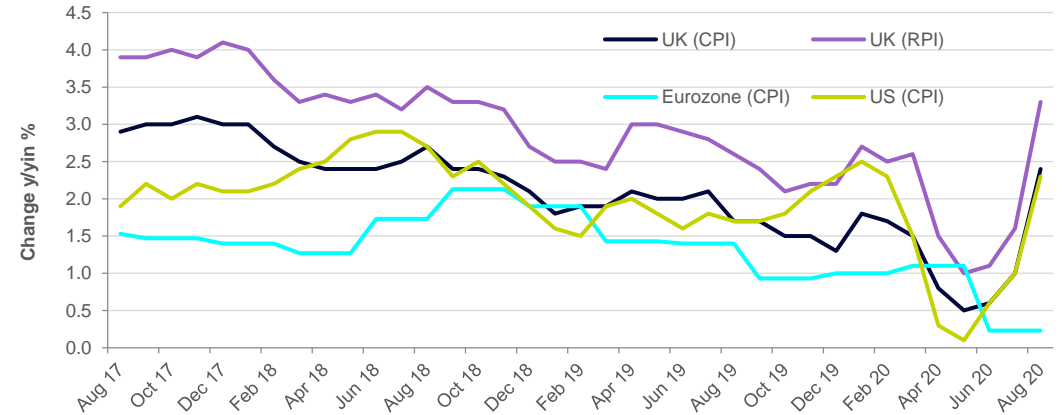
Gilt break-even inflation	Maturity Points (yrs)					
	2	5	10	15	20	30
Current % as at 31/08/2020	2.35	2.99	3.28	3.21	3.16	3.02
1 Week Change (bps)	0	13	14	11	11	9
1 Month Change (bps)	-15	18	17	6	7	4
1 Year Change (bps)	-46	-33	-17	-12	-15	-17

Source: Bloomberg, Capita

² Gilt breakeven inflation has been calculated as the difference between nominal Gilt yields and real Gilt yields.

Figure 7: CPI in the UK, US and Eurozone

Source: Bloomberg, Capita

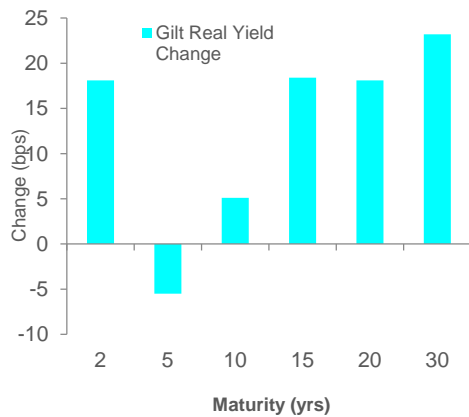
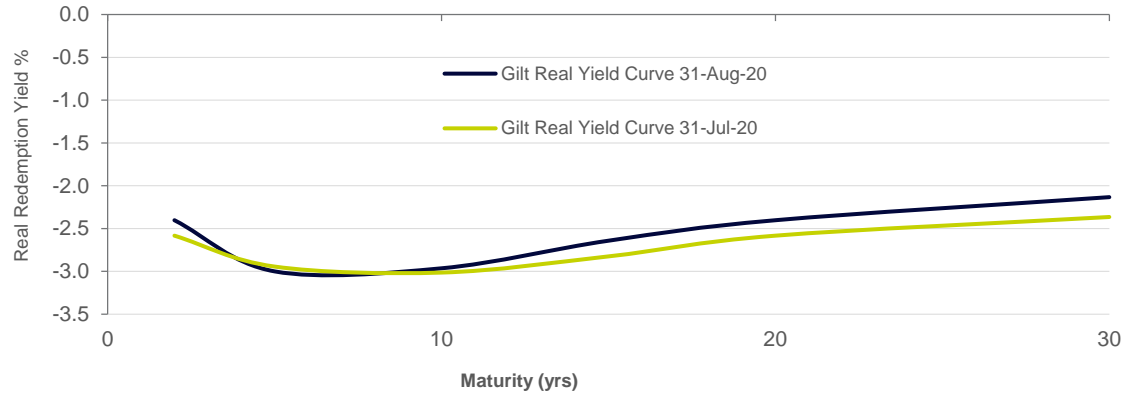


Inflation

- CPI inflation rose significantly over the month of August from 1% as at end of July to 2.4% at end of August. RPI was up to 3.3% compared to 1.6% for the previous month.
- This is the highest-level inflation rate we have seen since October 2018.
- Inflation expectations adjusted upwards across all maturity points 5 years and above, with the largest effect for the middle term but are still lower than one year ago.

Real yields continue to fall

Figure 8: Gilt real yield³ term structure



Source: Bloomberg, Capita

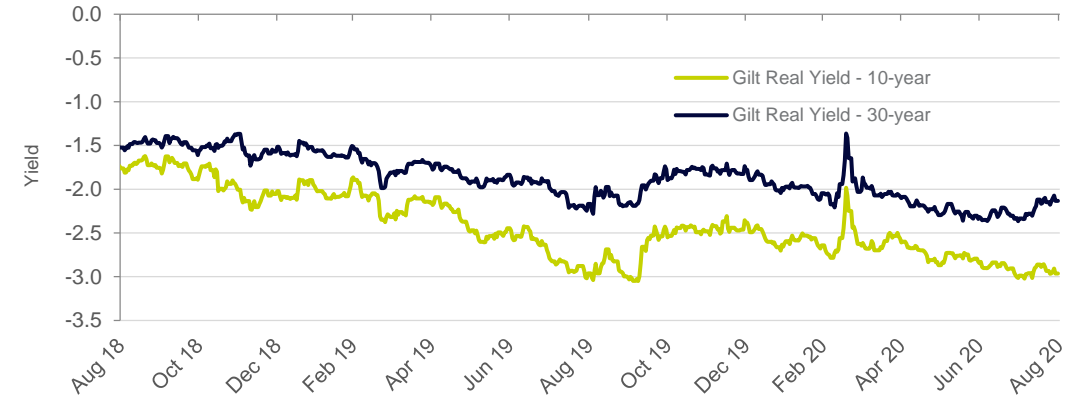
Gilt break-even inflation	Maturity points (yrs)					
	2	5	10	15	20	30
Current % as at 31/08/2020	-2.40	-3.00	-2.96	-2.64	-2.40	-2.13
1 Week Change (bps)	0	-9	-3	-1	0	1
1 Month Change (bps)	18	-6	5	18	18	23
1 Year Change (bps)	0	-2	0	-3	0	3

Source: Bloomberg, Capita

³ Gilt real yield has been calculated as the yield on index-linked Gilts

Figure 9: 10-year and 30-year real yields

Source: Bloomberg, Capita



Real yields

- Real gilt yields remain negative for all maturities.
- Real yields and nominal yields increased for the majority of maturities as inflation expectations also increased.

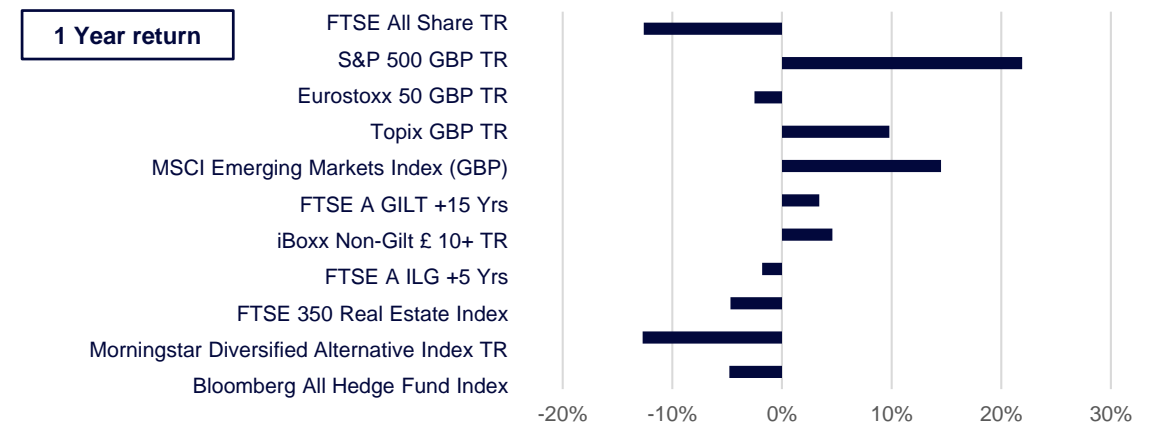
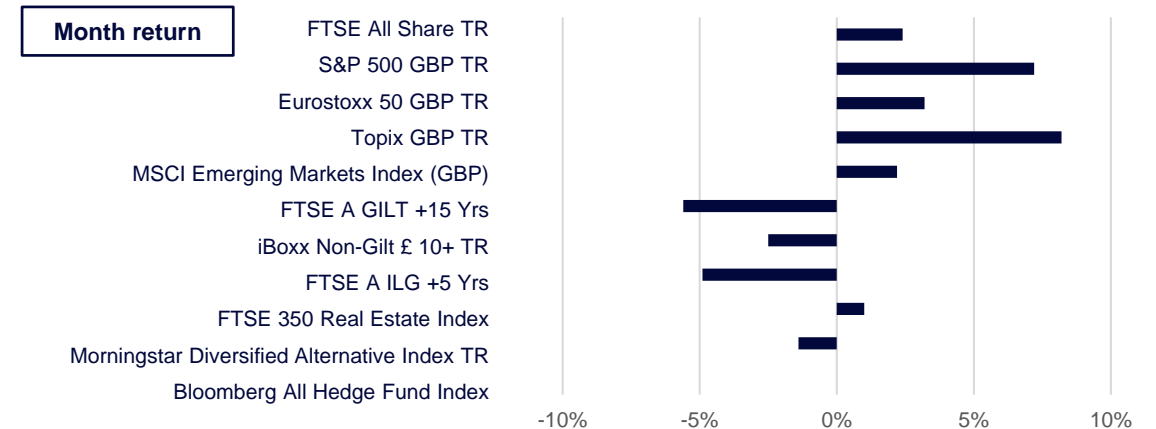
Asset class performance summary in local currency

Asset class performance summary

- The charts below and the table to the right show the one-month and one-year performance in local currency of investments in major asset classes to the end of August 2020.
- Over the month, Japanese equities was the best performing asset class.

Asset Class	Month Return	1 Year Return
FTSE All Share TR	2.4%	-12.6%
S&P 500 TR	7.2%	21.9%
Eurostoxx 50 TR	3.2%	-2.5%
Topix TR	8.2%	9.8%
MSCI Emerging Markets Index TR (USD)	2.2%	14.5%
FTSE A GILT +15 Yrs	-5.6%	3.4%
iBoxx Non-Gilt £ 10+ TR	-2.5%	4.6%
FTSE A ILG +5 Yrs	-4.9%	-1.8%
FTSE 350 Real Estate Index	1.0%	-4.7%
Morningstar Diversified Alternative Index TR	-1.4%	-12.7%
Bloomberg All Hedge Fund Index	0.0%	-4.8%

Total returns in local currency | Source: Bloomberg, Capita



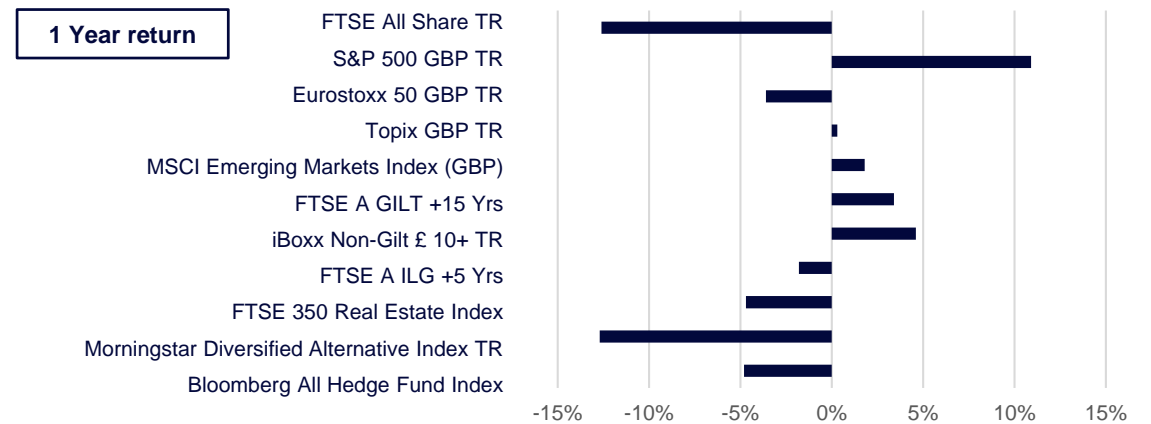
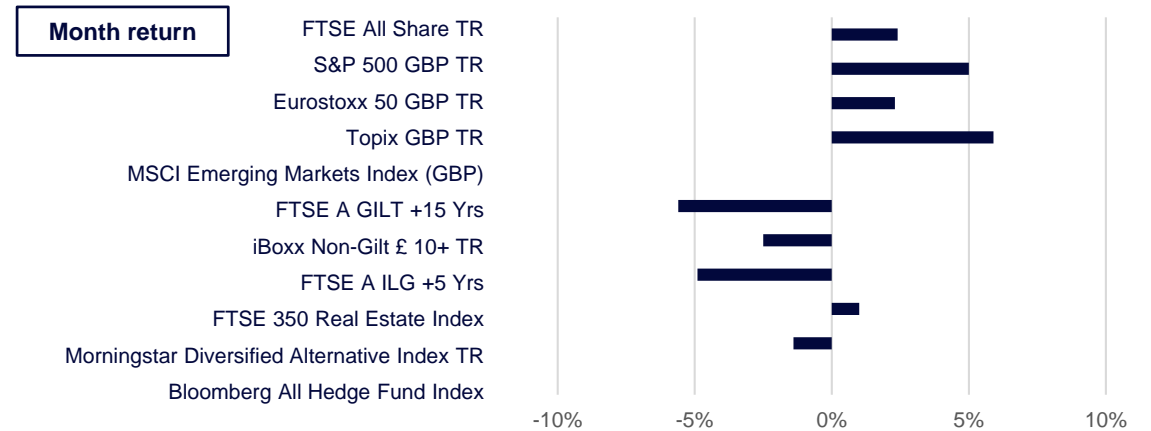
Asset class performance summary in GBP

Asset class performance summary

- The charts below and the table to the right show the one-month and one-year performance of sterling-denominated investments in major asset classes to the end of August 2020.

Asset Class	Month Return	1 Year Return
FTSE All Share TR	2.4%	-12.6%
S&P 500 GBP TR	5.0%	10.9%
Eurostoxx 50 GBP TR	2.3%	-3.6%
Topix GBP TR	5.9%	0.3%
MSCI Emerging Markets Index (GBP)	0.0%	1.8%
FTSE A GILT +15 Yrs	-5.6%	3.4%
iBoxx Non-Gilt £ 10+ TR	-2.5%	4.6%
FTSE A ILG +5 Yrs	-4.9%	-1.8%
FTSE 350 Real Estate Index	1.0%	-4.7%
Morningstar Diversified Alternative Index TR	-1.4%	-12.7%
Bloomberg All Hedge Fund Index	0.0%	-4.8%

Total returns in GBP | Source: Bloomberg, Capita



Regulatory statement

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The information provided is based on our understanding of current law and taxation.

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