



Market conditions & Brexit

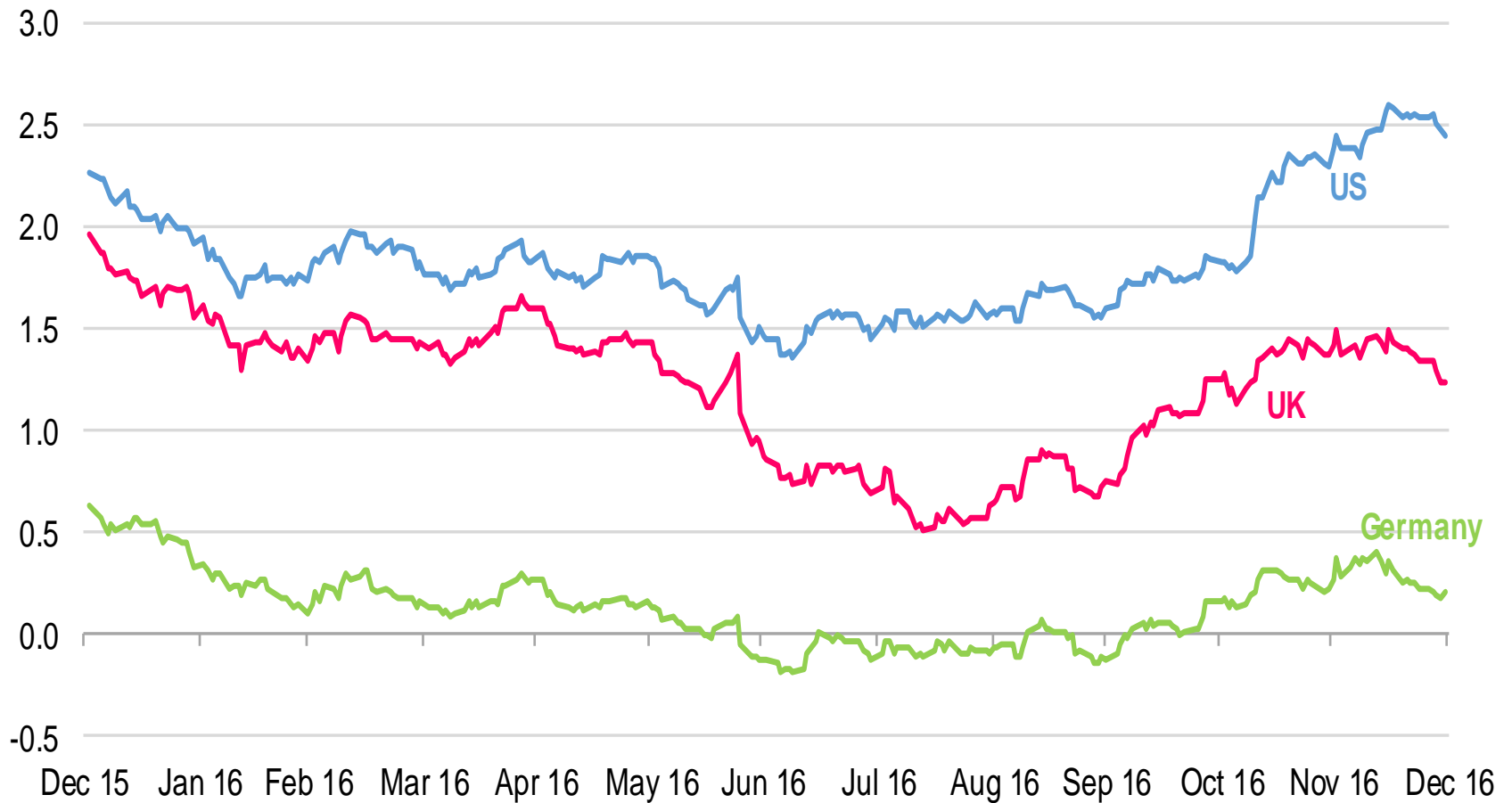
London Borough of Barnet Pension Fund

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Financial markets – 2019 update

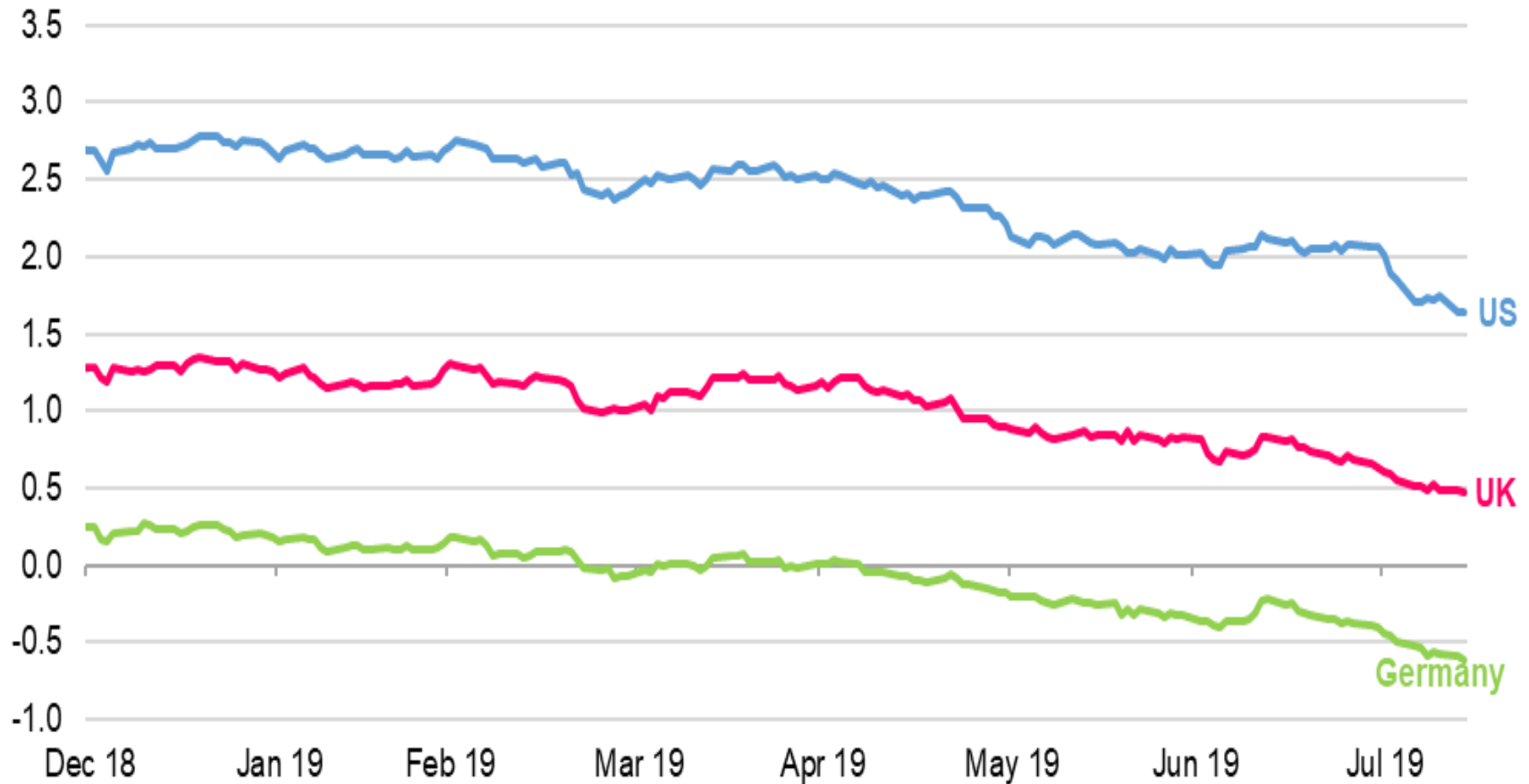
- Sterling is generally the most immediate responder in markets to Brexit headlines. Repeated rejections of Theresa May's negotiated Brexit deal, her subsequent resignation, and the election of Boris Johnson has increased the perceived likelihood of a no-deal Brexit. Trade-weighted sterling has fallen 2.4% year-to-date and is down 3.9% over the 12 months to end July 2019.
- Nominal gilt yields have fallen sharply in 2019 and are now below the record low levels touched in the wake of the Brexit referendum result in 2016. However, it is difficult to attribute the moves in gilt yields to UK-specific concerns. Global sovereign bond yields have fallen across the board amid concerns of slowing global growth and a more difficult international trading environment.
- UK inflation pricing shows a divergence from elsewhere, suggesting investors are concerned about a near-term spike in UK inflation off the back of Sterling depreciation in the event of a no-deal Brexit.
- Investment grade credit spreads have tightened (causing prices to rise), with little regional dispersion. Credit markets have been supported in 2019 by the accommodative monetary policy responses expected from central banks in the face of slowing global growth and muted inflationary pressures.
- Global equity markets have performed strongly in 2019 although there have been some significant periods of heightened volatility. Equity markets have been mainly driven by the expectations for more accommodative global monetary policy going forward, though escalations in US-China trade tensions saw markets give back some of the gains made in May and more recently in August. UK equities have underperformed global markets, and even more so when viewed in Sterling terms.
- There are signs Brexit-related uncertainty may be beginning to weigh on UK commercial property markets: In May, the MSCI IPD UK Monthly Property Index fell for the first time year-on-year since 2017, when the impact of the Brexit referendum was still being felt. Annual rental growth is as low as it has been for 5 years. Investment volumes have been low amid increased uncertainty.

10-year government bond yields: 2016



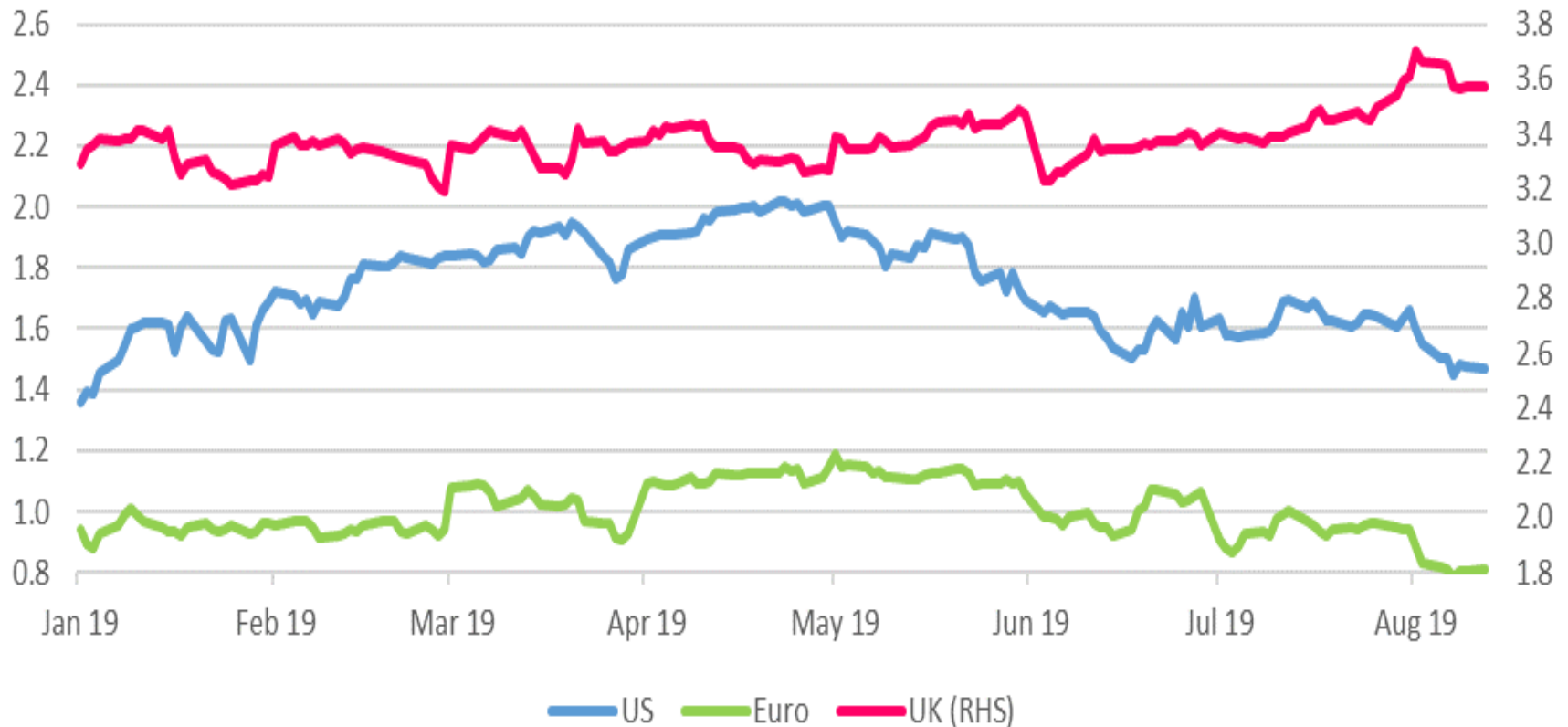
Source: Bloomberg January 2019

10 year government bond yields: 2019

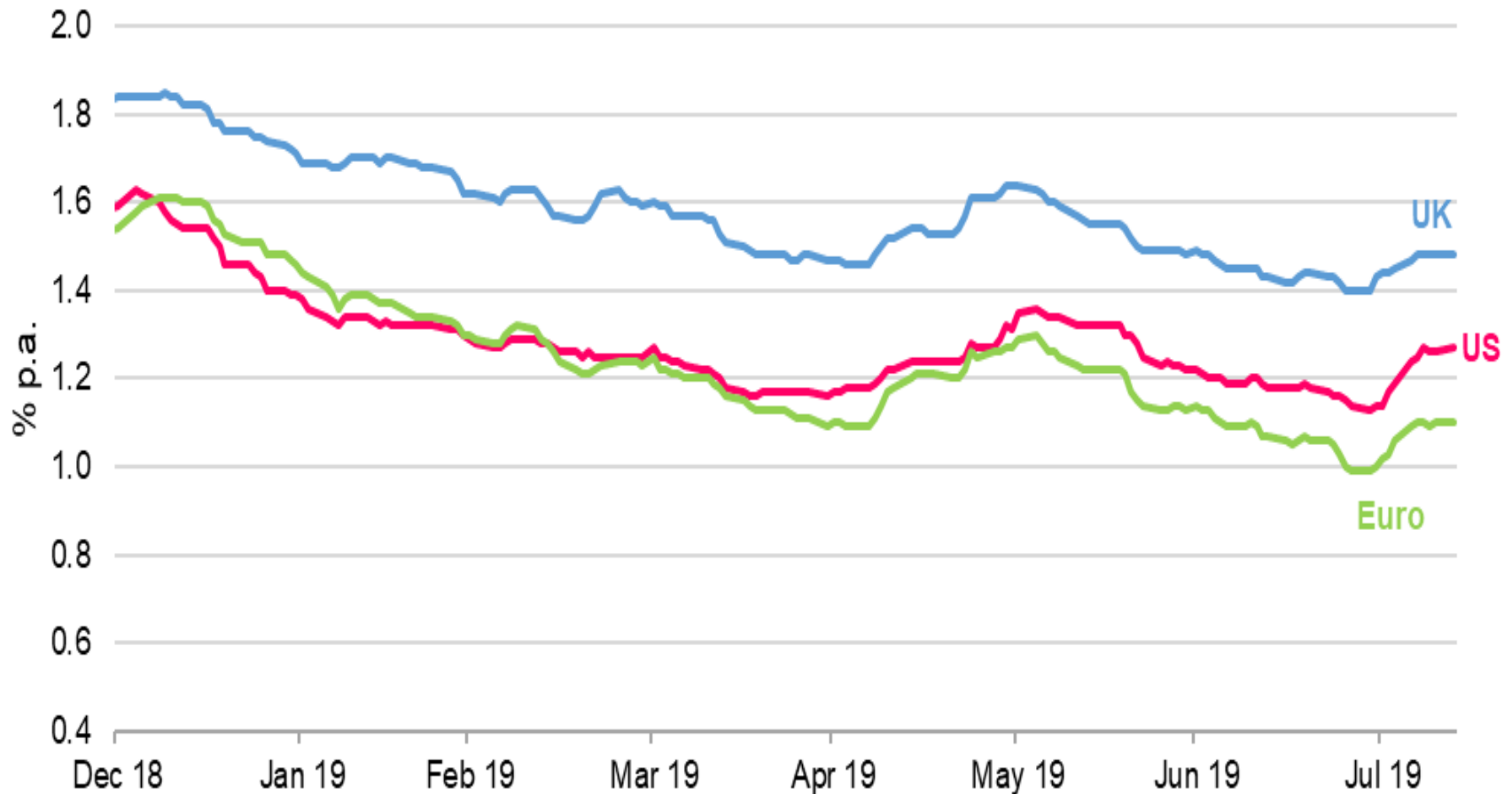


Source: Bloomberg August 2019

10 year inflation swaps: 2019

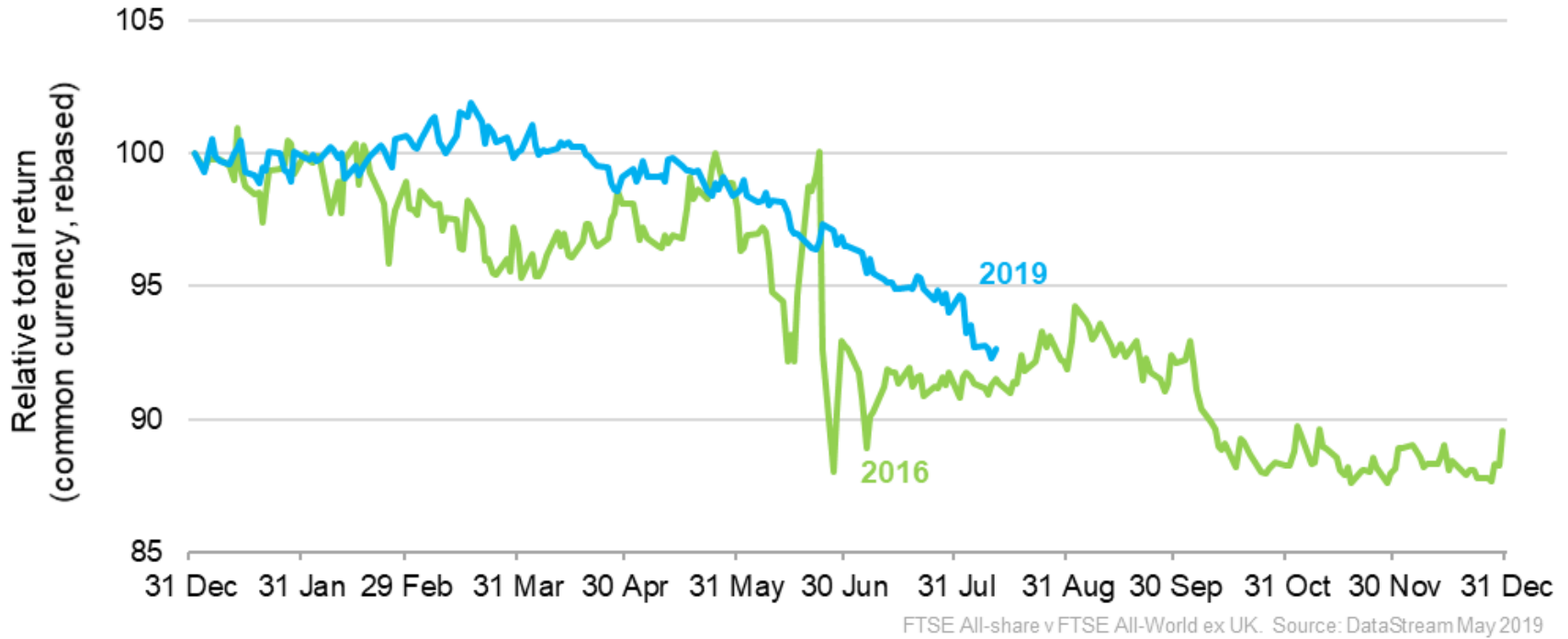


Corporate credit spreads: 2019



Source: Bloomberg August 2019

UK v overseas equities

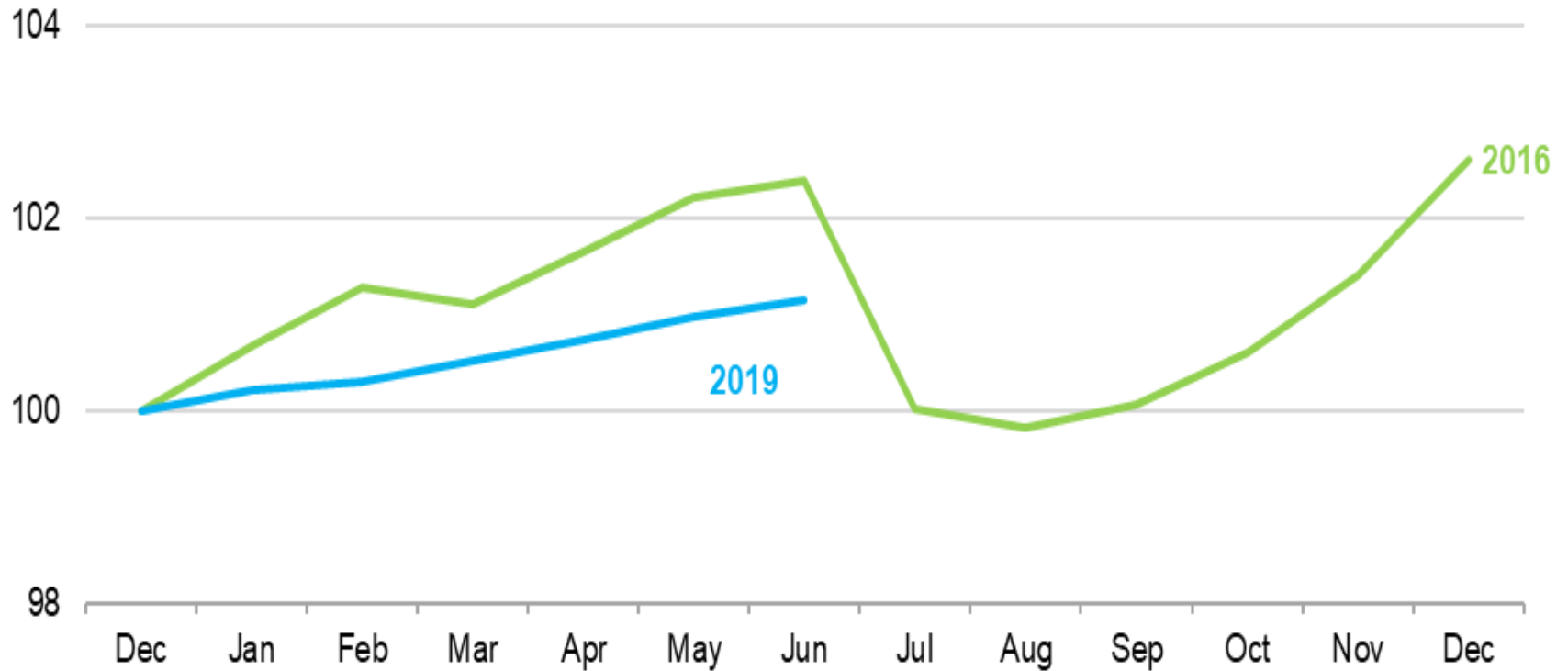


UK v overseas equities (Local Currency)



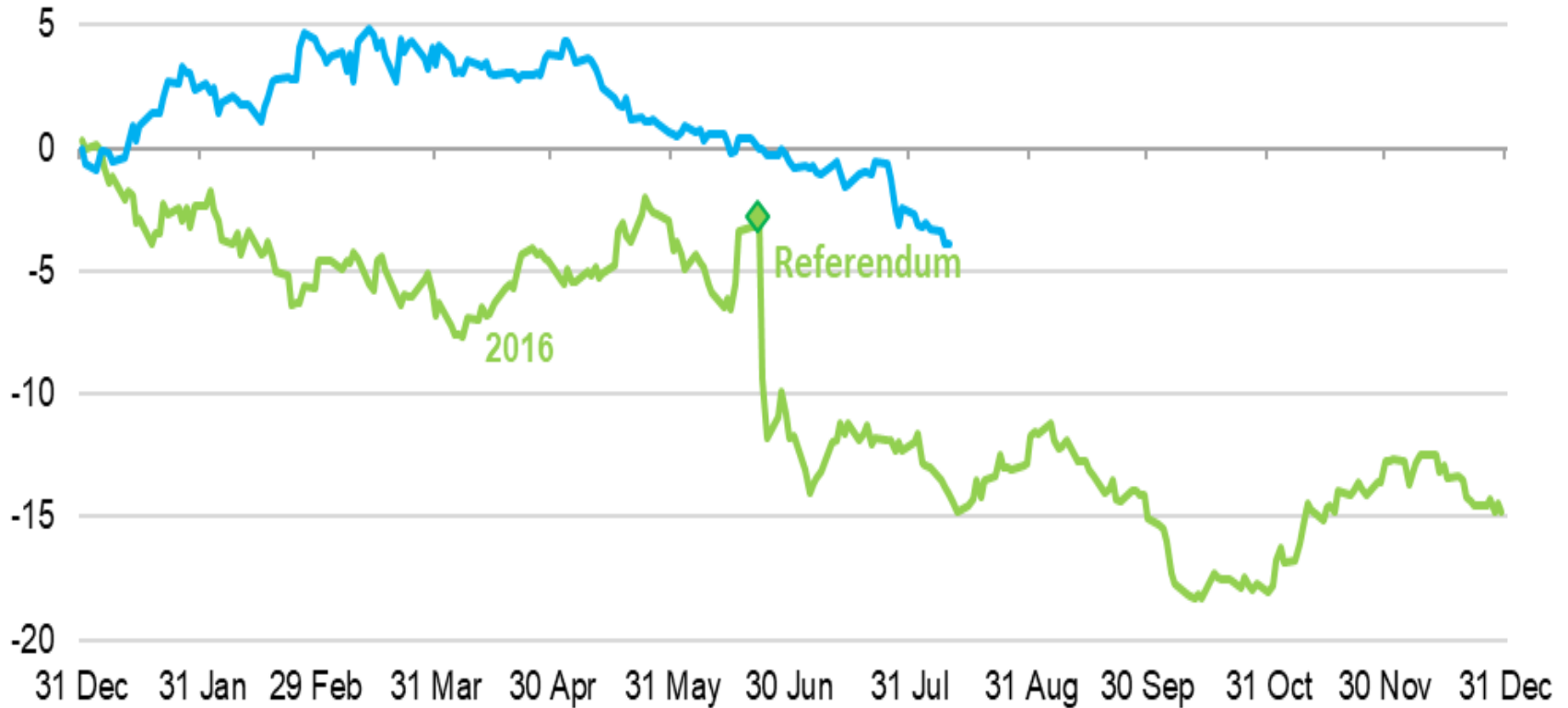
FTSE All-share v FTSE All-World ex UK (Local Currency). Source: DataStream May 2019

UK Property – IPD Monthly Index



Source: DataStream/MSCI August 2019

Sterling trade-weighted index



Source: DataStream August 2019



Thank you

