M&G

PRUDENTIAL
Staff Pension Scheme
Defined Contribution Section

Market commentary from the DC Section Investment Consultant

December 2023

Your journey

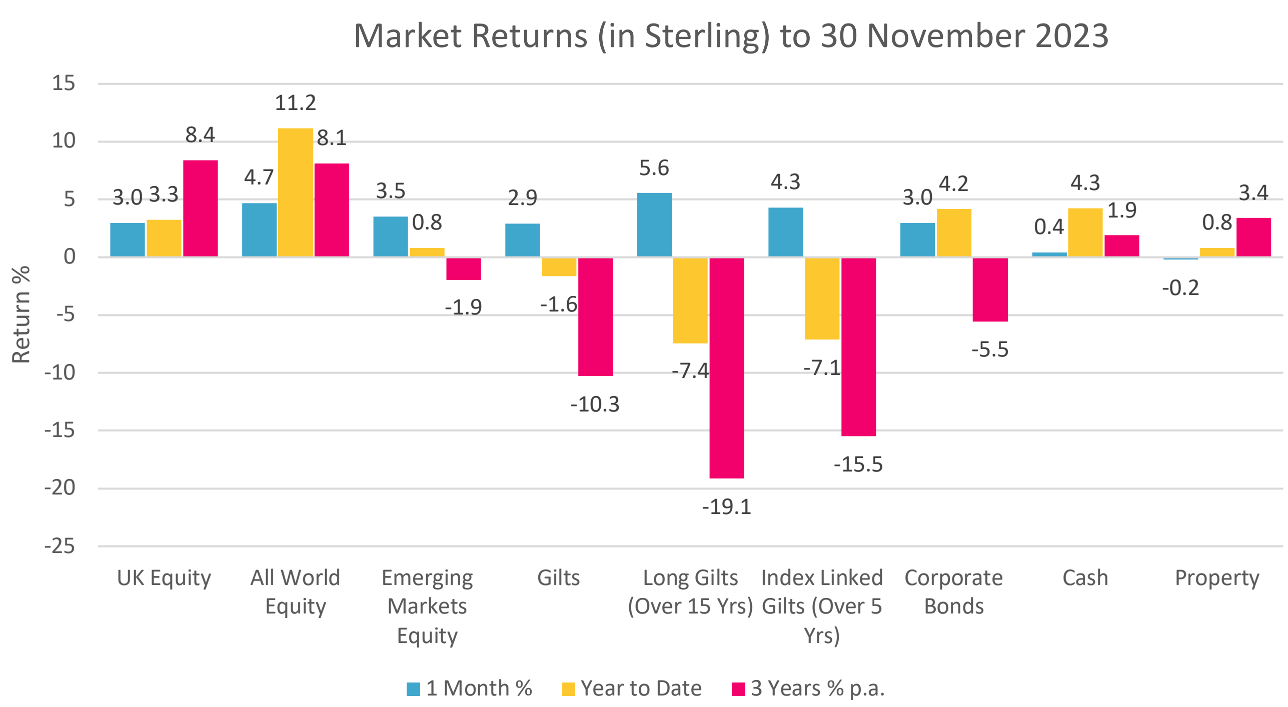
Investment Markets and PSPS Funds Update – December 2023

Introduction

This paper is addressed to the Trustee of the Prudential Staff Pension Scheme ("Scheme") DC Section and provides a regular update on the performance of PSPS funds and investment markets.

This paper should not be released or otherwise disclosed to a third party except as required by law or with our prior written consent, in which case it should be released in its entirety. This paper may be shared with DC Section members of the Scheme on a non-reliance basis. We accept no liability to any third party unless we have expressly accepted such liability in writing.

Performance of Investment markets



Note: Property one month in arears. Source: Datastream

Indices: FTSE All Share, FTSE All World £, FTSE All Emerging £, FTSE British Govt Over 15Y, FTSE British Govt Index Linked Over 5Y, iBoxx Sterling Non-Gilts, SONIA, MSCI UK Monthly property

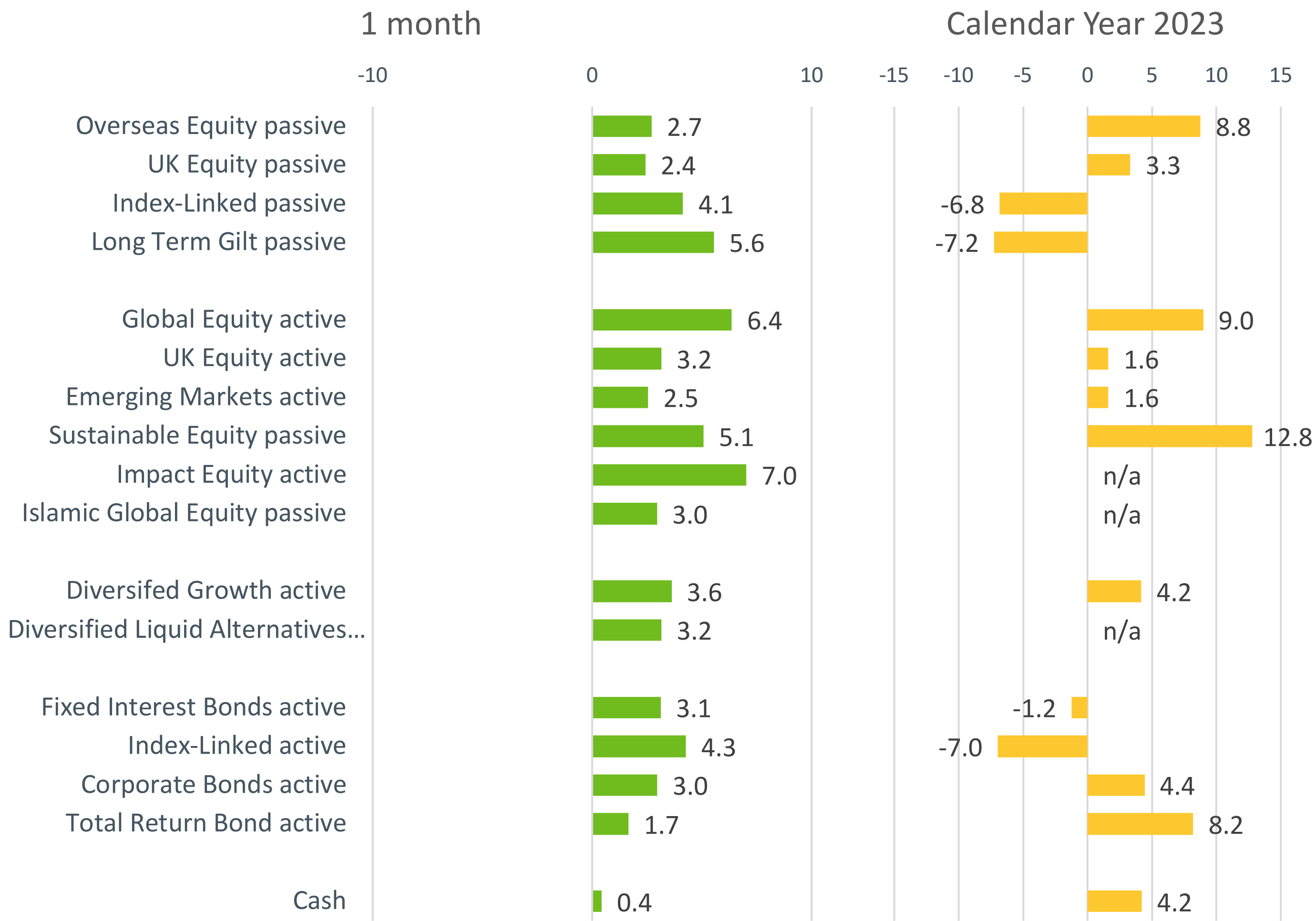
November highlights

- Despite further upwards revisions to US growth expectations, for this year and next, consensus forecasts still suggest global growth will slow markedly in 2024, with the UK and eurozone particularly weak spots.
- However, flash purchasing managers' index (PMI) data suggest that while growth has slowed in Q4, it has not collapsed: surveys suggest very modest expansion in the US and UK and point to tentative signs of the eurozone downturn easing.
- Year-on-year headline and core CPI inflation fell more than expected in October across the major advanced economies. Eurozone flash data also showed a larger-than-expected fall in inflation in November.

- Despite central banks' messaging that interest rates might have to stay high for an extended period, larger-than-expected falls in inflation reaffirmed investors' view that the major central banks have reached the end of their rate-hiking cycles, with increasing market expectations for interest-rate cuts in 2024.
- Expectations of easier monetary policy led sovereign bond prices to rise and yields to fall, sharply; credit spreads fell; and global equity markets enjoyed their best month in three years. Markets anticipated the positive impact on economic activity from lower interest rates, and lower bond yields eased corporate debt affordability concerns while lending valuation support to equity markets.
- Despite an OPEC+ agreement to make further production cuts, oil prices fell 7.8%. Partly due to the relatively weak economic outlook, but also due to signs of ongoing strains within the OPEC+ group.
- Expectations of interest-rate cuts, and lower real yields, saw the trade-weighted US dollar fall around 3%. All of these factors most likely contributed to a 2% rise in gold prices, which reached a 6-month high.

Estimated Performance of PSPS Funds

The chart below shows the **estimated** performance (net of annual fees) of the PSPS funds for **November** and for the calendar year 2023. Please note that these are estimates of fund performance and not official performance figures from the fund provider. Longer term historical performance can also be found in the appendix.



Please note – For some funds, which invest in underlying M&G PP Funds, performance calculation for calendar year 2023 uses starting price as at 30th December 2022 (last date in December with publicly available unit price). One day price lag on underlying funds of Overseas Equity Passive Fund. Unit prices of underlying component funds sourced from Bloomberg or Fund manager websites.

What is the impact on DC Section members?

- All PSPS funds produced positive returns in November.
- Calendar year 2023 returns for most funds have been positive with global equity equities (including the Sustainable equity fund) fund leading the way. Gilt funds lag the other funds over the calendar year. The Total Return Bond Fund has performed well over 2023.

Note on PSPS Cash Fund

The PSPS Cash Fund – active is a fund that is used in the lifestyle strategies (in the last few years prior to retirement age) and available as a self-select fund. It invests in cash and short dated instruments. Returns on cash funds are generally close to the Bank of England base rate. The base rate was cut to very low levels in the wake of the pandemic as one of the economic stimulus measures (it was 0.1% until 16 December 2021). However, it has risen since then with a series of increases and is now 5.25%. Therefore, the return from the Cash fund (net of fees) which had been close to zero has been increasing and is now 4.2% for calendar year 2023.

Note on Currency

For the PSPS funds which invest in non-UK assets, the funds bear currency risk (i.e. the effect of changes in the value of currencies and in particular the change in value of the currency in which the assets are invested relative to sterling). Therefore, the return from these funds is driven both by the change in valuation of the assets themselves and the translation of that value from the local currency to sterling.

Market commentary -Monthly Update to end November 2023

- US GDP growth forecasts, for this year and next, were revised higher once more as the final Q3 growth figure came in at 1.3% quarter on quarter, 0.1% higher than preliminary estimates. Despite this, global growth in 2024 is still expected to ease to its slowest pace since the global financial crisis (GFC), excluding 2020. The 2024 growth forecast for the US stands at a below-trend 1.1%, and in the eurozone and UK, where the outlook is weaker, growth is expected to advance a very modest 0.6% and 0.2%, respectively. However, while consensus forecasts suggest global growth will slow, it is not expected to collapse, and the base case now assumes that major advanced economies will avoid outright recessions.
- Indeed, while flash PMIs indicate global growth has slowed in Q4, they suggest it has held up at subdued levels. Surveys suggest very modest expansion in the US and UK and point to tentative signs of the eurozone downturn easing. While the service-sector recovery has lost momentum in recent months, activity is generally still stronger than in the manufacturing sector, which data suggest has been in recession for almost a year and a half. However, there are signs the manufacturing downturn has eased in recent months, with European surveys highlighting a less severe pace of contraction in the sector in November.
- Headline CPI inflation fell more than expected across the major economies in October. A decline in energy prices and moderation in food prices were the main drivers, but core inflation, which excludes both of these, also fell more than expected. Year-on-year CPI inflation in the UK, US and eurozone fell to 4.6%, 3.2% and 2.9%, respectively, in October. Perhaps highlighting a degree of stickiness in inflation, the respective core measures are higher, at 5.7%, 4.0% and 4.2% in the UK, US and eurozone. The eurozone's flash release showed headline and core inflation eased further in November, to 2.4% and 3.6% year-on-year, respectively.
- Despite central banks' messaging that interest rates may still have to stay high for an extended period, larger-than-expected falls in inflation reaffirmed investors' view that the major central banks have reached the end of

their rate-hiking cycles, with market expectations increasing for interest-rate cuts in 2024. By the end of the month, markets were expecting around 1.0% pa of rate cuts from the US Federal Reserve (Fed) in 2024, while expecting the Bank of England to reduce rates 0.7% pa over the same period.

- Expectations of looser monetary policy saw bond prices rise, and yields fall, sharply, with developed market sovereign bond yields now well below the post-GFC highs reached in October. US 10-year treasury yields declined 0.6% pa, to 4.3% pa, while UK 10-year gilt yields fell 0.4% pa, to 4.2% pa. Japanese government bond yields also fell 0.3% pa, to 0.7% pa, despite a prior loosening of the Bank of Japan's yield curve control policy. 10-year German government bond yields also fell 0.4% pa, to 2.5% pa.

- UK 10-year implied inflation, as measured by the difference between conventional and inflation-linked bonds of the same maturity, fell 0.1% pa, to 3.6% pa, as nominal yields fell marginally more than real yields. Equivalent US breakeven inflation fell 0.2% pa, to 2.3% pa.

- Lower sovereign bond yields eased debt affordability concerns, with global credit spreads falling as a result. Both contributed positively to credit market returns. Global investment-grade spreads declined 0.2% pa, to 1.2% pa.

- The FTSE All World Total Return Index rose 8.0%, in local currency terms – the best monthly return since news of a potential Covid vaccine in November 2020. Amid a plethora of lower-than-expected inflation releases, markets anticipated the positive impact on economic activity of a potential reduction in interest rates, while lower sovereign bond yields also lent support to equity valuations.

- The technology sector outperformed, rising 12.6%, on the back of healthy earnings releases and lower long-term sovereign bond yields: given they typically offer very long-term earnings growth, a lower discount rate tends to lend disproportionate valuation support to growth stocks. Consumer discretionary and industrials also outperformed, on the back of strong consumer spending and improving sentiment. Though all sectors recorded a positive return, the more defensive sectors generally underperformed: consumer staples, telecommunications, health care and utilities all underperformed, in that order. The energy sector was worst-performing sector globally, achieving only a marginally positive return, amid increasing uncertainty around OPEC+ agreeing oil supply levels for 2024 and a relatively weak economic outlook.

- Given above-average exposure to the technology sector, North American equity markets were the only regional outperformer. All regions experienced positive returns, though UK equity markets were the largest underperformer due to above-average exposure to the underperforming energy sector. Asian Pacific, emerging market, Japanese and European equities all underperformed, in that order.

- Despite an OPEC+ agreement to make further production cuts, oil prices fell 7.8%. This was partly due to the relatively weak economic outlook, but also due to signs of ongoing strains within the OPEC+ group. Natural gas prices also fell, reflecting lower demand due to the expected economic slowdown, mild weather and high storage levels in Europe. Expectations of interest-rate cuts, and lower real yields, saw the trade-weighted US dollar fall around 3%. This likely contributed to a 2% rise in gold prices, which reached a 6-month high. Trade-weighted sterling and euro rose 1.9% and 0.5%, respectively, while the equivalent yen measure fell 0.7%.

- The MSCI UK Monthly Property Total Return Index declined 0.2% in October as income was offset by capital-value declines in the office and retail sectors. On a 12-month basis, capital values are down around 20% in the office sector and around 10% in the retail and industrial sectors. The office and retail sectors continued to see the largest month-on-month declines in capital values, while the industrial sector was unchanged following six consecutive months of growth.

Prepared by: -

Mark Jaffray

Partner

David Millar

DC Investment Consultant

December 2023

For and on behalf of Hymans Robertson LLP

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Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investments in developing or emerging markets may be more volatile and less marketable than in mature markets.
Exchange rates may also affect the value of an overseas investment. As a result, an investor may not get back the amount originally invested. Past performance is not necessarily a guide to future performance.

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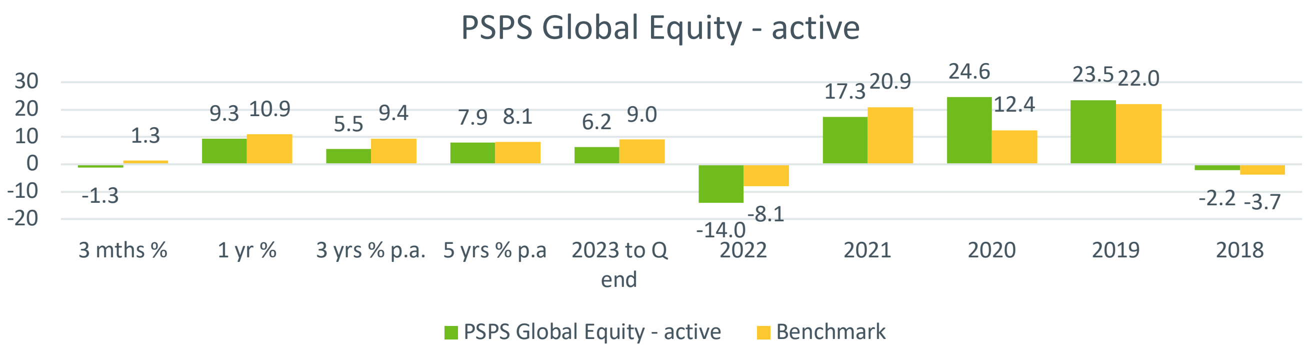
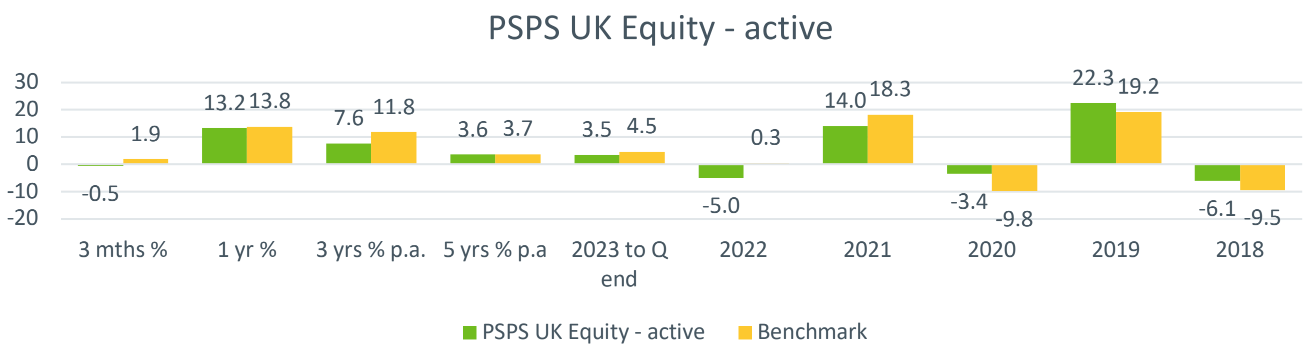
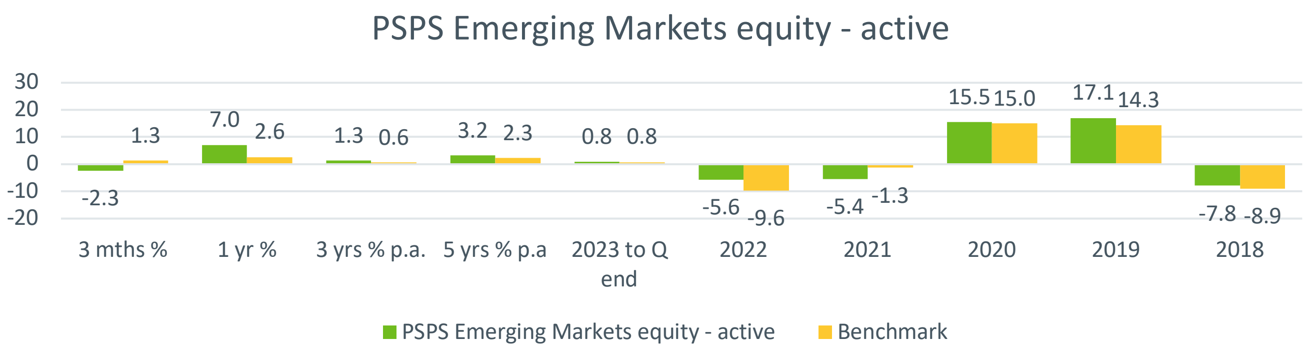
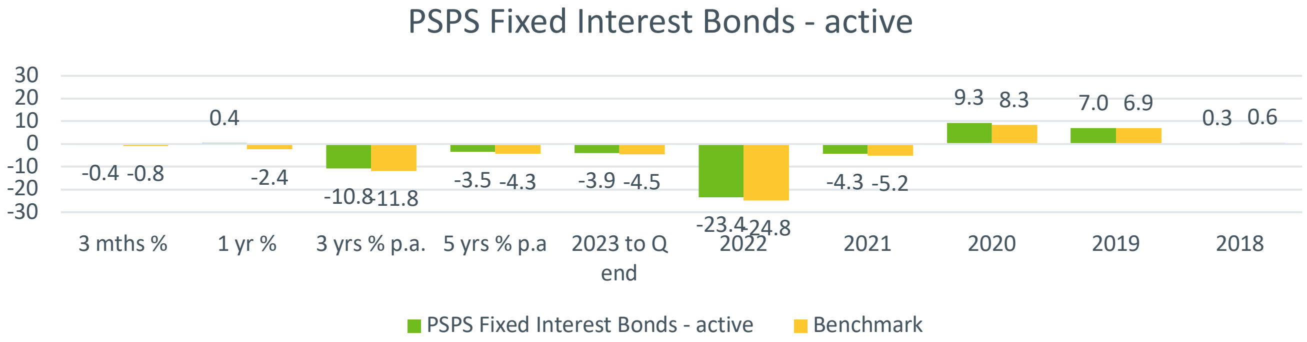
Appendix – Performance of PSPS Funds (to 30/9/23)

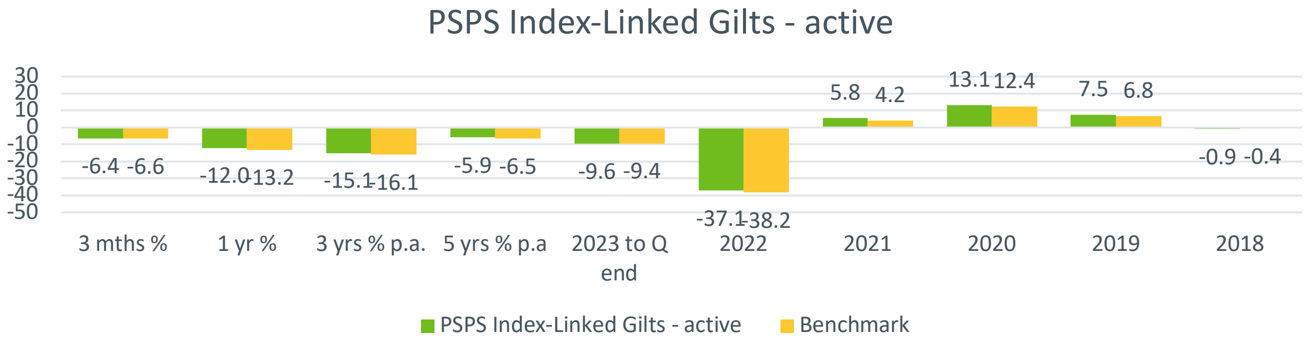
The charts below summarise the performance (gross) of the PSPS funds and their benchmarks showing historic calendar years and the current calendar year to latest available quarter end date (updated quarterly). **Official performance data from fund provider shown below is to end September 2023.** (Source Prudential Assurance Company Limited).

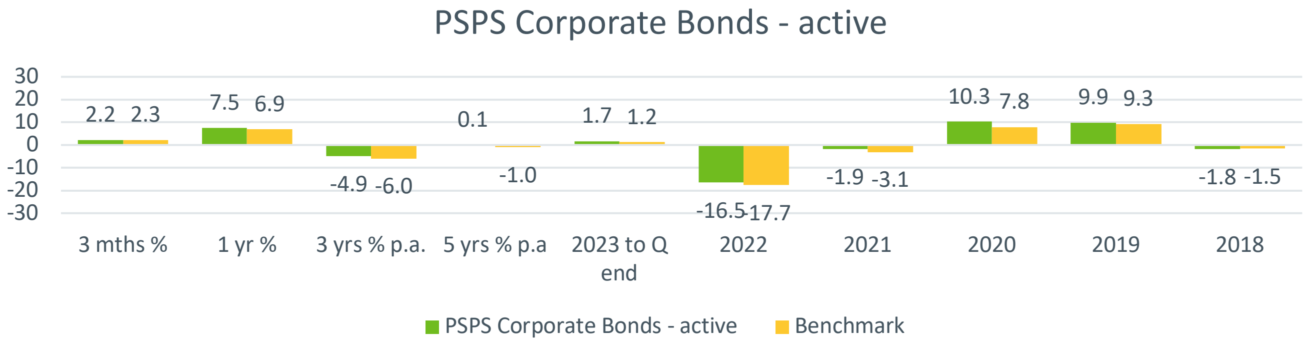


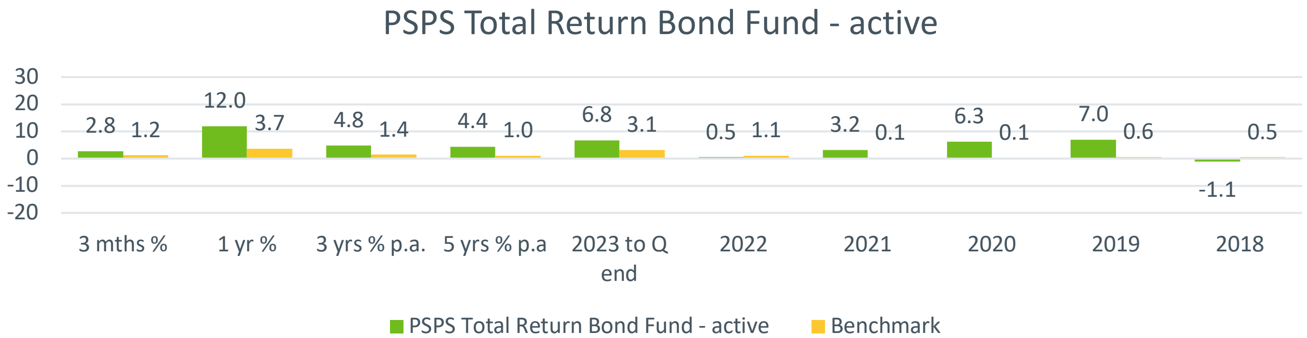


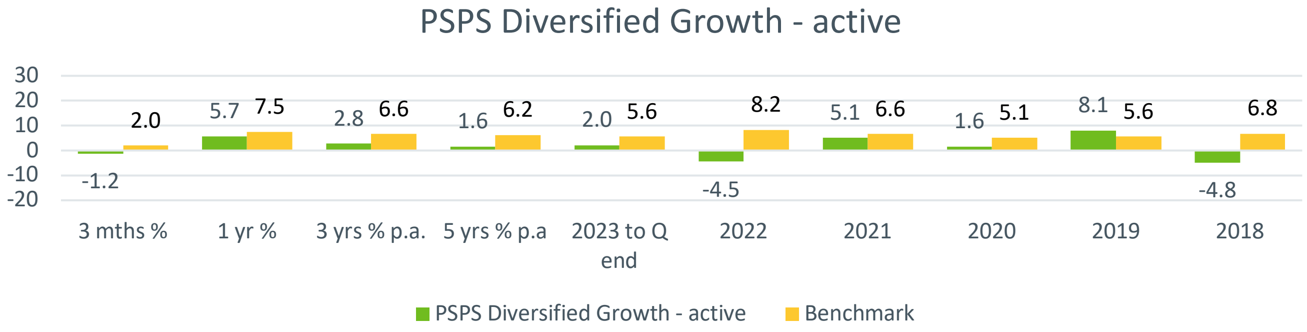


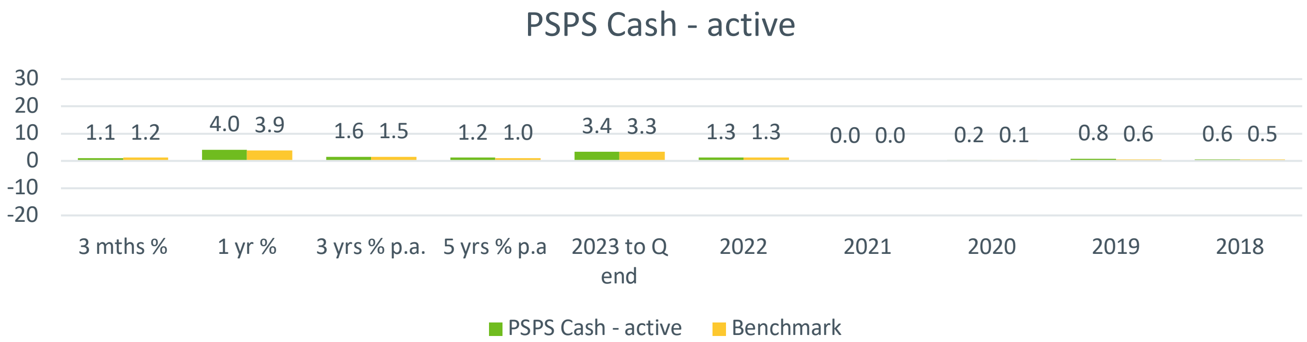

PSPS Fixed Interest Bonds - active
30
20
10
0
-10
-20
-30
-0.4 -0.8
0.4 -2.4
-10.8 -11.8
-3.5 -4.3
-3.9 -4.5
-23.4 -24.8
-4.3 -5.2
9.3 8.3
7.0 6.9
0.3 0.6
3 mths %
1 yr %
3 yrs % p.a.
5 yrs % p.a
2023 to Q end
2022
2021
2020
2019
2018
PSPS Fixed Interest Bonds - active
Benchmark

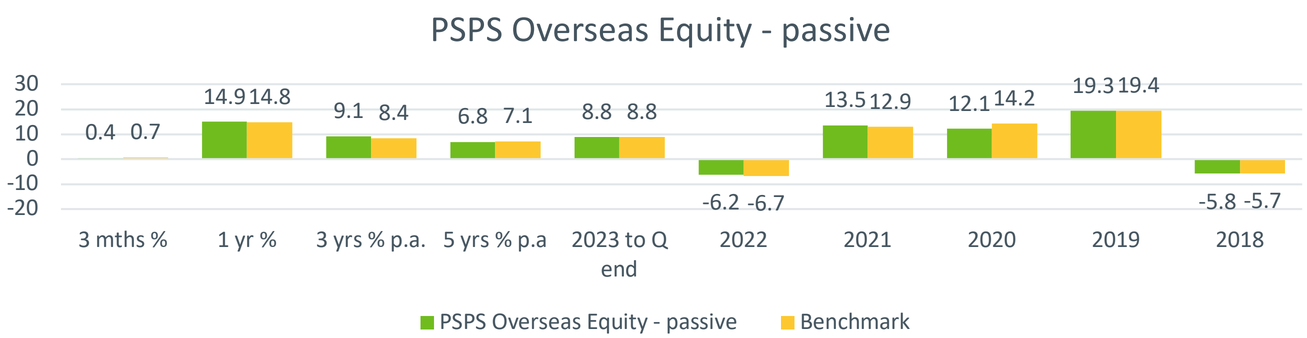

PSPS Index-Linked Gilts - active
30
20
10
0
-10
-20
-30
-40
-50
-6.4 -6.6
-12.0 -13.2
-15.1 -16.1
-5.9 -6.5
-9.6 -9.4
-37.1 -38.2
5.8 4.2
13.1 12.4
7.5 6.8
-0.9 -0.4
3 mths %
1 yr %
3 yrs % p.a.
5 yrs % p.a
2023 to Q end
2022
2021
2020
2019
2018
PSPS Index-Linked Gilts - active
Benchmark

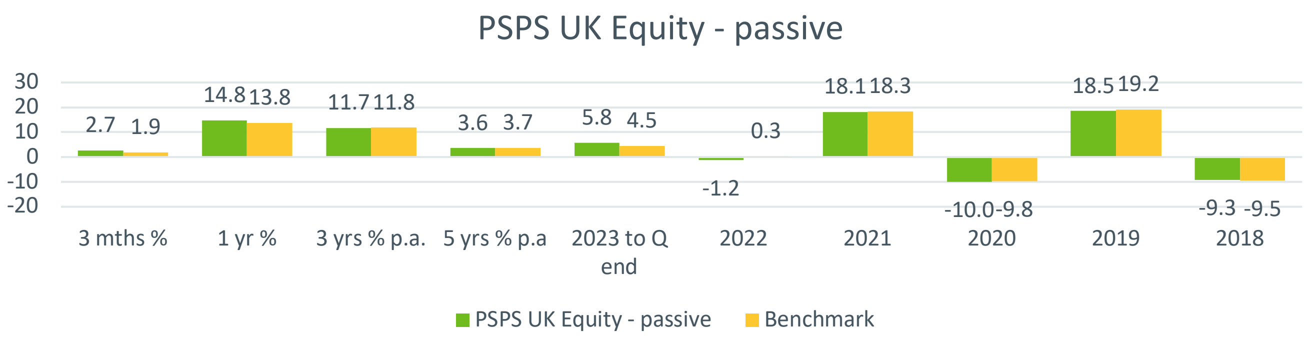

PSPS Corporate Bonds - active
30
20
10
0
-10
-20
-30
2.2 2.3
7.5 6.9
-4.9 -6.0
0.1 -1.0
1.7 1.2
-16.5 -17.7
-1.9 -3.1
10.3 7.8
9.9 9.3
-1.8 -1.5
3 mths %
1 yr %
3 yrs % p.a.
5 yrs % p.a
2023 to Q end
2022
2021
2020
2019
2018
PSPS Corporate Bonds - active
Benchmark

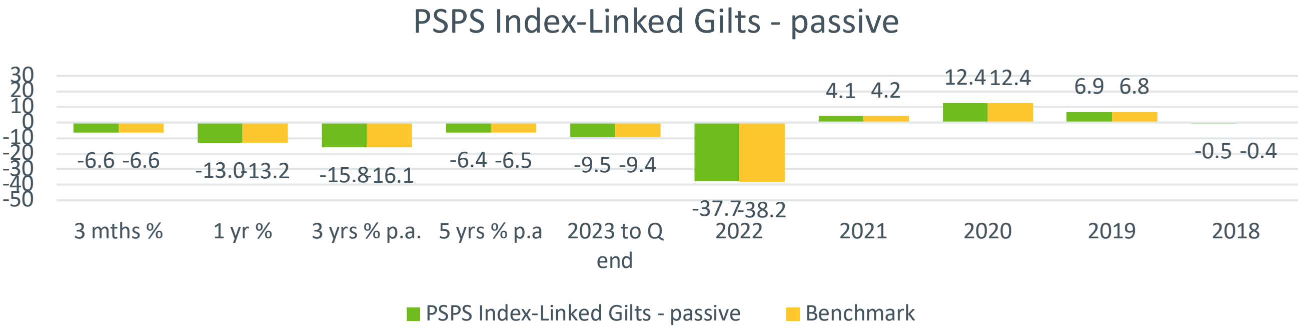

PSPS Total Return Bond Fund - active
30
20
10
0
-10
-20
2.8 1.2
12.0 3.7
4.8 1.4
4.4 1.0
6.8 3.1
0.5 1.1
3.2 0.1
6.3 0.1
7.0 0.6
-1.1 0.5
3 mths %
1 yr %
3 yrs % p.a.
5 yrs % p.a
2023 to Q end
2022
2021
2020
2019
2018
PSPS Total Return Bond Fund - active
Benchmark

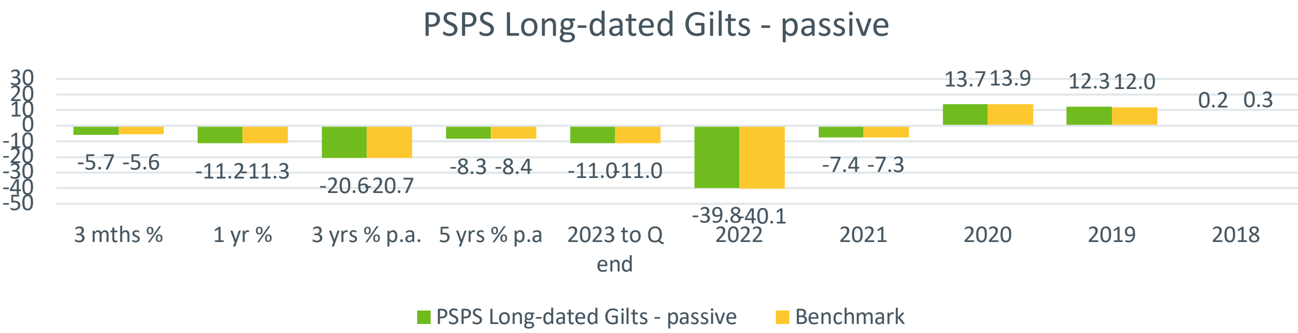

PSPS Diversified Growth - active
30
20
10
0
-10
-20
2.0
5.7 7.5
2.8 6.6
1.6 6.2
2.0 5.6
8.2
5.1 6.6
1.6 5.1
8.1 5.6
6.8
-1.2
-4.5
-4.8
3 mths %
1 yr %
3 yrs % p.a.
5 yrs % p.a
2023 to Q end
2022
2021
2020
2019
2018
PSPS Diversified Growth - active
Benchmark

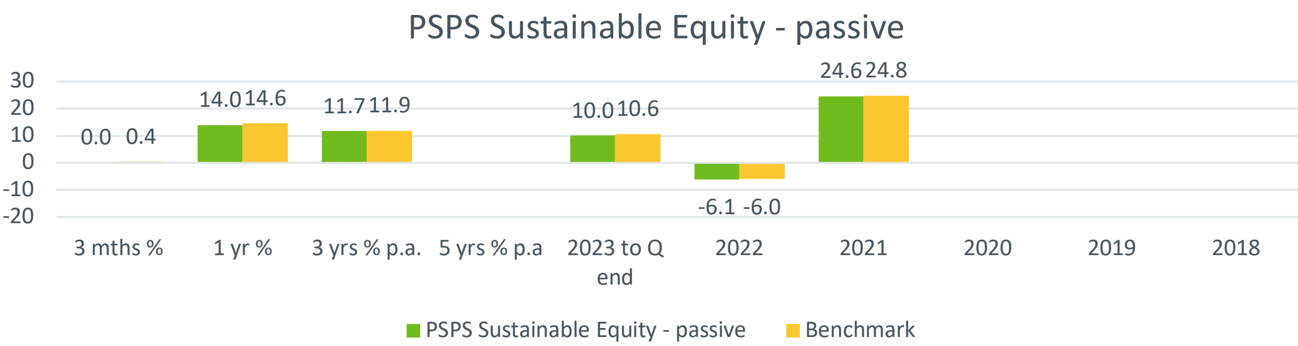

PSPS Cash - active
30
20
10
0
-10
-20
1.1 1.2
4.0 3.9
1.6 1.5
1.2 1.0
3.4 3.3
1.3 1.3
0.0 0.0
0.2 0.1
0.8 0.6
0.6 0.5
3 mths %
1 yr %
3 yrs % p.a.
5 yrs % p.a
2023 to Q end
2022
2021
2020
2019
2018
PSPS Cash - active
Benchmark


PSPS Overseas Equity - passive
30
20
10
0
-10
-20
0.4 0.7
14.9 14.8
9.1 8.4
6.8 7.1
8.8 8.8
13.5 12.9
12.1 14.2
19.3 19.4
-6.2 -6.7
-5.8 -5.7
3 mths %
1 yr %
3 yrs % p.a.
5 yrs % p.a
2023 to Q end
2022
2021
2020
2019
2018
PSPS Overseas Equity - passive
Benchmark


PSPS UK Equity - passive
30
20
10
0
-10
-20
2.7 1.9
14.8 13.8
11.7 11.8
3.6 3.7
5.8 4.5
0.3
18.1 18.3
18.5 19.2
-1.2
-10.0 -9.8
-9.3 -9.5
3 mths %
1 yr %
3 yrs % p.a.
5 yrs % p.a
2023 to Q end
2022
2021
2020
2019
2018
PSPS UK Equity - passive
Benchmark







PSPS Sustainable Equity - passive Fund launched 10th January 2020 (formerly called PSPS Responsible Investment Equity -passive Fund)