

Overview

- Prospects for world economic growth remain poor. The impact of rising inflation and interest rates continue to dominate our **market commentary**. Our **asset commentary** has more focus on bonds, and investors' immediate and brutal reaction to the so called 'mini-budget' ([pages 2-3](#)).
- Our central case in the **macroeconomic scenarios** is for elevated inflation and recession in many major economies. We have made a number changes to our **asset views** to reflect the recent market turmoil, including downgrading property and upgrading asset backed securities ([pages 4-6](#)).
- In our **strategic portfolio**, the rise in gilt yields has meant that LDI has fallen in value so we've topped it up from growth assets, which are significantly overweight. We have also focused on liquidity, putting a plan in place to sell some of the portfolio's less liquid assets ([pages 7-8](#)).
- Our **ESG issues** consider the investor split over Sainsbury's Living Wage resolution and greenwashing, with questions for you to ask your managers about these topics ([page 9](#)).



Markets, macro and strategic portfolios

LCP investment update
to 30 September 2022



Market commentary – background

Global outlook

Prospects for world economic growth remain poor, with both the OECD and IMF predicting growth of around only 3% over 2022 and 2% in 2023. The latter represents a significant worsening too, with the OECD's latest forecast 0.6% lower than its June 2022 estimate. More than 1/3 of the global economy will contract this year or next according to the IMF.

The slowdown in China is a key concern, fuelled by continuing zero-COVID lockdowns as well as its property market (about 25% of Chinese GDP) debt crisis. Meanwhile, the Russia / Ukraine conflict shows no sign of ending, exacerbating the ongoing squeeze in energy and food supplies and prices, especially in Europe. While oil and gas prices have dipped from recent highs, relief may be short lived. At its October meeting OPEC+ sought to bolster prices by reducing oil production by 2mn barrels a day (c2% of global consumption), a clear snub to the Biden administration's plea to open the spigots further.

"New" Prime Minister Liz Truss and "new" Chancellor Kwasi Kwarteng came into office determined to make an impression. They certainly managed that, just not the kind they intended. On 23 September, Kwarteng delivered his "mini" budget to Parliament, ostensibly designed to foster growth. Politically tin-eared, comprising the largest unfunded tax giveaway for 50 years and lacking any independent OBR oversight (the odd whispered "Do you think that's wise, (Prime) Minister" might have helped), it's fair to say that it was not well received. Investor reaction was immediate and brutal. Even the IMF chipped in with its pennyworth of criticism. In an attempt to

save her own skin, PM Truss ditched her Chancellor, appointing in his place Jeremy Hunt who did a fair impression of a fishmonger, expertly gutting and filleting Kwarteng's proposals. To no avail – for Truss at least (forever now the Lady Jane Grey of politics) – forced to resign having been in office but never really in power for all of 44 days. (Welcome to the party, Rishi). We comment more on the fallout in gilt markets on the next slide.

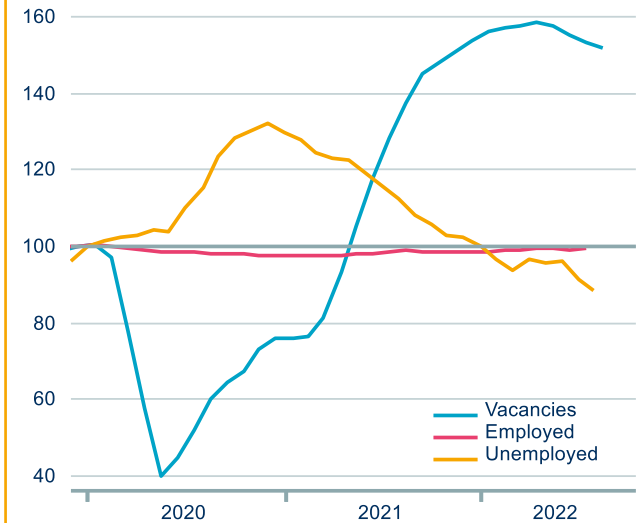
Interest rates and inflation

Headline inflation in the OECD rose to 10.3% YoY in August 2022, with food and energy prices still the main drivers, rising by 15.0% and 30.2% respectively. Concern is growing that the persistent nature of the inflation being experienced in these highly visible shopping basket items is feeding into the prices of other goods and services, in particular wages, reinforcing concerns of a wage-price spiral.

As the Fed pushes rates higher (now 3.00% - 3.25%), the US dollar continues to strengthen relative to most other currencies, aggravating imported inflation for many other countries, aggravating imported inflation for many other countries. "Our currency, your problem" as a former US Treasury Secretary rather heartlessly once put it. The BoJ's decision to maintain interest rates at -0.1% at its September meeting saw further rapid weakening of the yen against the dollar, forcing the BoJ to intervene in currency markets for the first time since 1998. If you don't raise rates, expect your currency to get hammered.

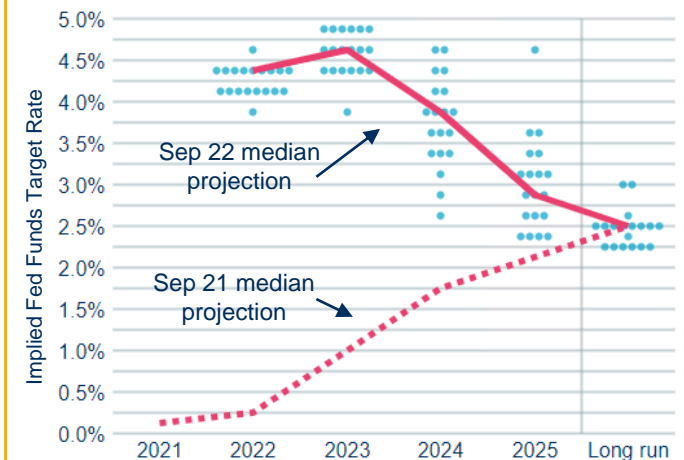
OECD = Organisation for Economic Co-operation and Development;
 GDP = Gross domestic product; OPEC+ = Organization of the Petroleum Exporting Countries, plus a number of non-OPEC members; BoJ = Bank of Japan; Fed = Federal Reserve System; YTD = year to date; YoY = Year on year; FOMC = Federal Open Market Committee

UK labour market is tight – wage inflation to follow?
 Index, December 2019 = 100



Source: Refinitiv Datastream, ONS

FOMC Dot plot – 20-21 September 2022 meeting
 What a difference a year makes



Source: Refinitiv Datastream

The new economic reality - what does it mean for pensions? 3 November 2022 3:00PM

Paul Johnson CBE, Director of the IFS will give an overview of the current economic outlook. LCP Partner and former Pensions Minister Steve Webb will then chair a discussion with Paul and LCP partners Michelle Wright (LCP Head of Pension Strategy) and Steve Hodder (investment specialist) to consider the implications for DB pension schemes (including the impact on the UK bulk annuity market). [Register for the webinar here](#)



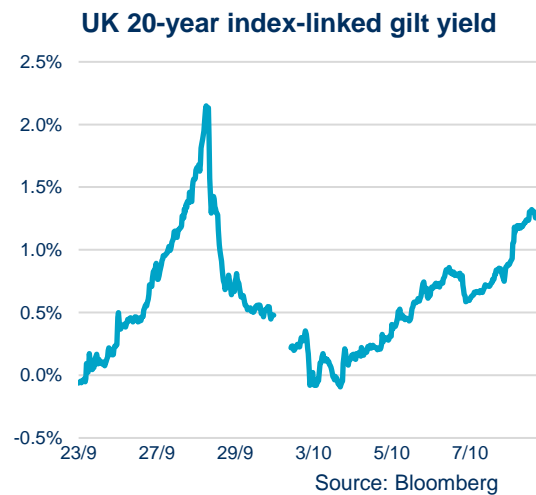
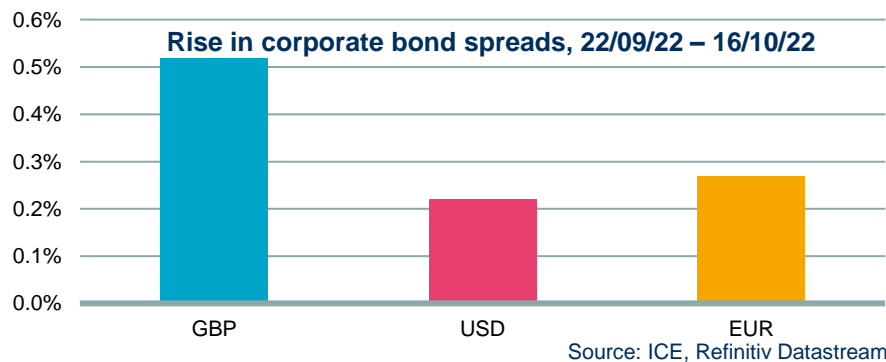
Market commentary – asset class performance

Bond performance

If persistently high inflation, rising interest rates and impending quantitative tightening “QT” had not already made for a difficult enough backdrop for bond investors, why not toss in looser fiscal policy to the mix. For a variety of reasons, from Joe Biden’s \$400bn student loan forgiveness plan (mid-term elections?) to Olaf Scholz’s €200bn “protective shield” (energy costs relief) developed countries have launched a range of large support packages. Such stimulus clearly carries inflationary dangers – working counter to central banks’ desire to dampen inflation and forcing them to raise rises higher and faster.

Few such plans were as poorly conceived, executed and subsequently received by investors as the (now largely abandoned) UK mini-budget. Severely shaking investor confidence in the UK’s reputation for fiscal responsibility, the immediate outturn was a very rapid and very sharp rise in gilt yields – the “moron risk premium” as some commentators have described it. 10-year gilt yields spiked by over 1% to over 4.6%, while real yields (yields on index-linked gilts) rose to levels not seen since 1998. The speed and size of the increases created huge challenges for many pension schemes investing in levered liability-driven investment (LDI) portfolios. To support their LDI positions, trustees had to meet margin (ie cash) calls quickly – sometimes within hours, not days – by selling anything liquid, including gilts. Fearing a disorderly gilt market, the BoE stepped in as temporary buyer of last resort, calming markets. Chancellor Hunt’s soothing words and action added further fiscal balm, with yields now below recent elevated levels.

Credit spreads also increased; central bank tightening raises the risk of recession, increasing default risk as well as driving up higher borrowing costs. Sterling bonds saw larger spread increases than for EUR or USD credit.



Alternative assets performance

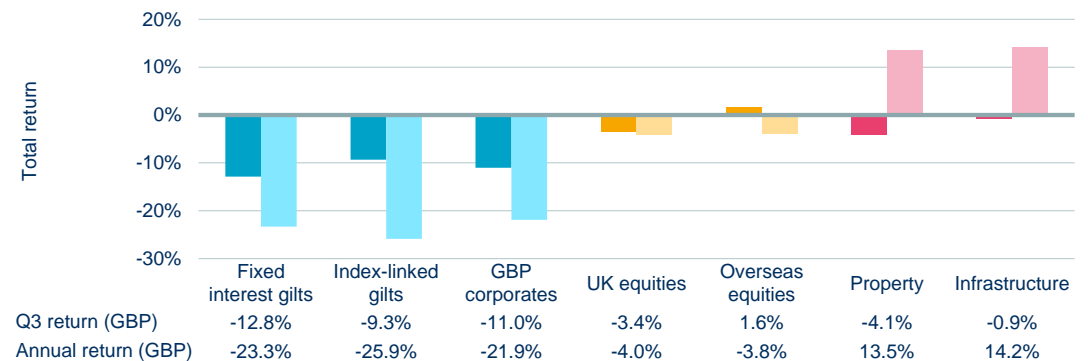
As recession looms, demand for many commodities is waning. Industrial metals and energy lead the way, down 8.4% and 20.2% respectively over Q3 (though the latter is still up 24.2% YTD). Given China’s outsized role in commodity consumption (c50% and c59% of global copper and nickel use over 2021 for example), its recent lack of appetite for basic materials has caused a degree of market indigestion. Chinese growth rates may be on a permanently lower trajectory, reflecting its size – elephants don’t gallop – as well the policy priorities recently outlined by President Xi.

The bond market rout is also beginning to spill over into commercial property, with soaring borrowing costs

and redemption demands from UK pension schemes rises presaging price corrections. Asset liquidation pressures have already triggered some asset managers of prominent UK property funds, such as Blackrock and Schroders, to begin limiting institutional investors’ withdrawals. Goldman Sachs predicts that commercial property prices could fall by as much as 20% by the end of 2024.

Equity performance

(Unhedged) overseas equities fared relatively well over the quarter, with the MSCI World (GBP) returning 2.2%, mainly due to the combination of USD strength versus Sterling and a c70% US weighting. In USD terms though, the picture looks quite different, with the index down 6.1%. MSCI Emerging Markets (GBP) finished the quarter down 3.6% as global growth prospects faded while UK equities struggled, reflecting record-low consumer confidence and faltering PMI survey data, – the FTSE All-Share fell -3.4%.





Economic scenarios

Central case: elevated inflation and recession in many major economies

- Inflation remains high and well above target levels in most countries. Central banks continue to raise rates at a generally rapid pace, and some make policy mistakes as they fail to balance adequately the need to control inflation without crimping growth too much. A sharp downturn in economic activity occurs in many regions following government or central bank intervention.
- Europe is hit particularly hard by high energy prices while the US is much less impacted. High levels of inflation within the energy and other essential sectors sees the cost of living to increase, and discretionary consumer spending reduce.
- The war in Ukraine continues and economic sanctions on Russia remain in place, with further escalation and economic retaliation from Russia such as the heightened threat of a total shutdown of gas supplies. An increasingly uncertain outlook sees falls in consumer and business confidence globally.
- In the UK, fiscal policy seeks to restore credibility and balance higher borrowing costs and the high levels of UK government debt with the need to provide some support for the higher cost of living.
- China's zero Covid strategy becomes less effective and weighs on growth. Weakness in China's property market, which is a large proportion of the overall economy, further weighs on the country's economy. Growth and inflation vary significantly across emerging market economies given their significantly different macroeconomic characteristics.

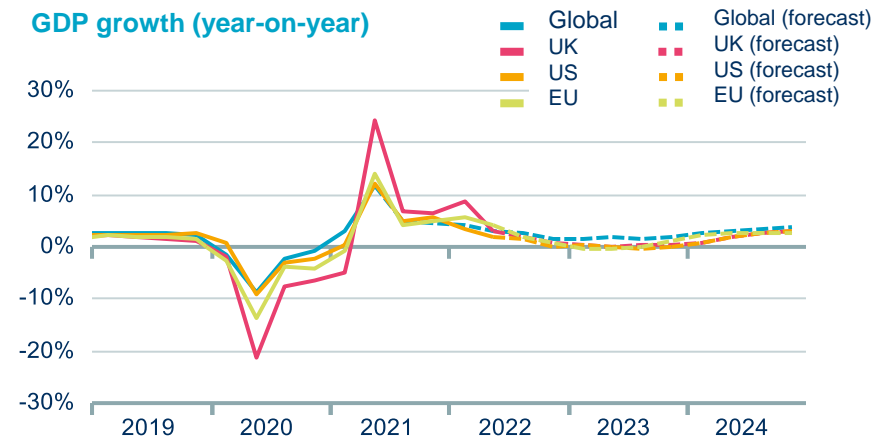
Downside: prolonged global recession

- Central banks' policy responses prove ineffective at dampening inflation, resulting in sustained inflation at a damaging level, accompanied by a prolonged recession in many large economies. Inflation expectations increase markedly, with a wage price spiral developing, each pushing the other upwards in turn.
- The crisis in Ukraine escalates further, leading to increasingly severe economic sanctions on Russia, with heightened fears that the conflict spreads beyond Ukraine's borders as well as putting further upwards pressure on energy prices with a total gas supply cut implemented by Russia.
- Severe and sustained drop in Chinese growth, caused by an ineffective zero-covid policy, increased lockdowns and a property market crisis, weighs on wider emerging markets and global growth.

Upside: inflation pressures ease and economic growth moderates

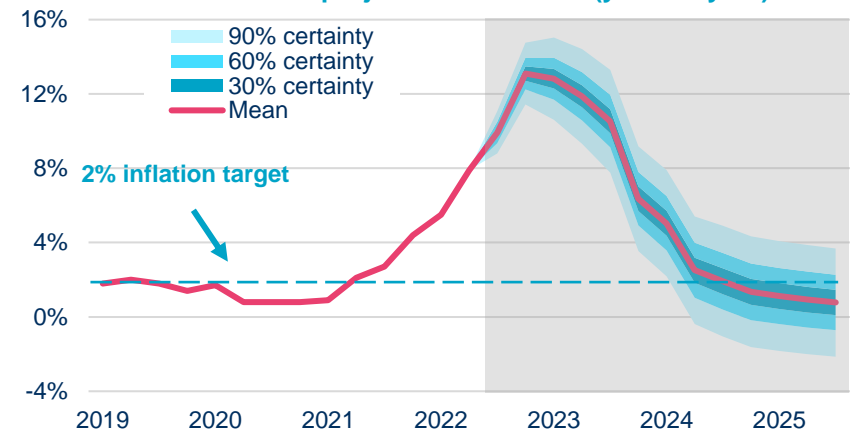
- Inflation remains elevated and above target during 2022, before falling towards central bank targets as monetary policy is effective in controlling inflation and inflation expectations subside.
- The crisis in Ukraine stabilises with some economic sanctions on Russia removed as geo-political tensions are alleviated, leading to a reduction in energy and other commodity prices.
- There is a boost in business and consumer confidence given the improving economic outlook.

GDP growth (year-on-year)



Source: Refinitiv Datastream

CPI Inflation projection for the UK (year-on-year)



Source: Bank of England, August 2022.

Ask your consultant

- What do you currently see to be the largest risk to the portfolio?
- How will my portfolio be impacted by changes in interest rates and inflation expectations?
- Can you model economic scenarios and their impact on my portfolio?



Asset class views

Our views of attractiveness over the medium-term (2 to 3 years) is informed by our central case economic scenario for the next 12-18 months.

Changes to our view

- ▲ Asset-backed securities ++ (from +)
- ▼ Emerging market bonds - (from +)
- ▼ Long-lease property - (from +)
- ▼ Property – global - (from +)
- ▼ Property – global listed - (from +)
- ▼ Property – UK commercial -- (from -)

Credit

- Asset-backed securities ++
- Corporate bonds +
- High yield debt +
- Multi-asset credit +
- Opportunistic credit +
- Secured loans +

Equity

- Equities – climate-tilted +
- Equities – emerging +
- Equities – global developed +
- Equities – small cap +
- Equities – UK +
- Private equity – –

- Short duration buy & maintain credit +
- Absolute return bonds –
- Emerging market bonds -
- Private credit -

Real assets

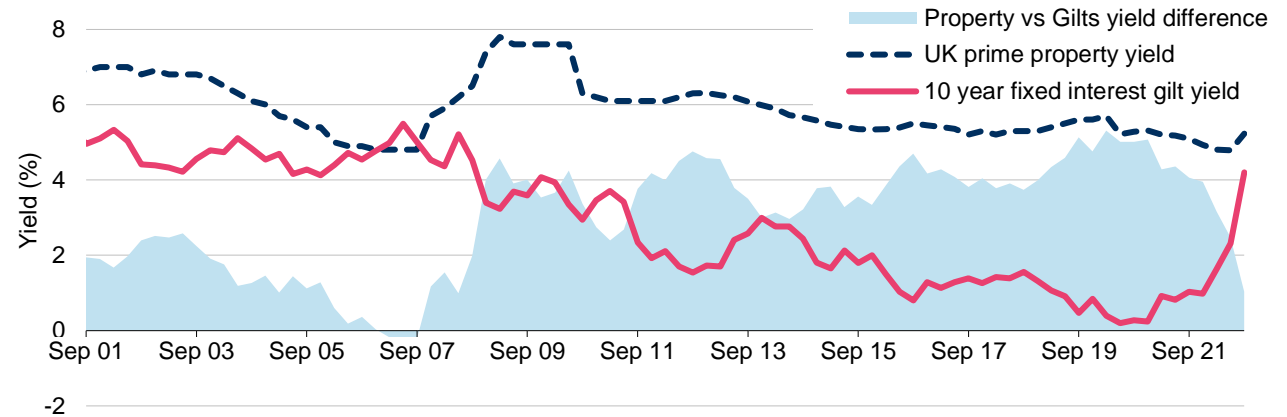
- Listed infrastructure +
- Unlisted Infrastructure +
- Long-lease property -
- Property – global -
- Property – global listed -
- Property – UK commercial - -

Absolute return

- Protection strategies +
- Diversified growth funds –
- (Fund of) hedge funds – –

The above present a broad range of investment opportunities. Please note that some of the asset classes shown may not be directly relevant for your scheme (ie for DC and private wealth investors). The views do not take account of the availability of assets or scheme-specific circumstances. Please contact your investment consultant to discuss the most appropriate approach.

The yield premium offered by UK Property has narrowed materially in recent months



We have downgraded UK property from a – to a – –

- In recent months the yield premium (the additional yield offered above government bonds) on UK property (– –) has reduced materially due to rising gilts yields. We expect UK property yields to rise in coming months and property values to fall as the market adjusts to a much changed macroeconomic environment. Recession risks may also be a drag on rental growth prospects, notably in parts of the office and retail property sectors.
- Property funds face increased redemption pressures as DB schemes attempt to source additional liquidity, for example to fund LDI (actual and precautionary) collateral requirements. Some funds are deferring redemptions, and there are risks that liquidity pressures may impact returns.

We have downgraded long-lease property from a + to a –

- A lower yield premium due to rising gilt yields and fears of recession are likely to impact long-lease property (-) returns negatively in the short to medium term.
- The impact on returns may be less severe than UK commercial property as funds should benefit from having a high percentage (>90%) of leases explicitly linked to inflation, let to tenants with stronger covenants on average. Funds also tend to have lower exposures to property sectors facing headwinds (eg retail or low quality offices).

We have downgraded unlisted and listed global property from a + to a –

- Central banks (notably in the US) are increasing interest rates aggressively to tackle inflation, which is likely to put downward pressure on property valuations globally. Real estate markets are often idiosyncratic and influenced by local occupier demand and supply constraints. As such, while there are headwinds for unlisted global property (-) impacts are mitigated by portfolios having broad diversification across geography and sector.
- Listed global property (-) market has repriced to an extent and may offer a good entry point in the future. We expect volatility to be heightened for the foreseeable future and advocate a cautious approach to new allocations.



Asset class views

We believe now is a suitable entry point for investment grade corporate bonds (+)

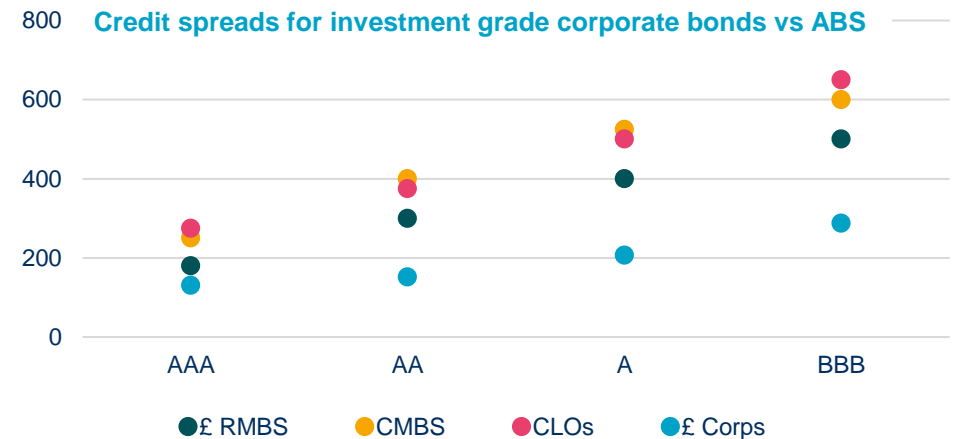
- Credit spreads (the additional yield on corporate bonds compared to their government counterparts) for investment grade corporate bonds (+) have widened over the quarter. Overall, we believe now is a suitable entry point for long term investors who are comfortable with the potential marked to market volatility that may be experienced over the short to medium-term.
- Whilst we have assigned investment grade corporate bonds the same view as equities (+) we note that over the short term we have a preference for high quality credit given recessionary risks (which are often felt hardest in higher risk assets such as equities).
- We would encourage sub investment grade allocations to be made via multi-asset credit, which has the benefit of cycling between asset classes when opportunities arise.

We have upgraded asset-backed securities from a + to a ++

- Asset-backed securities (ABS) products are popular with DB pension schemes as a low-risk asset forming a core part of many LDI liquidity waterfalls. As a result of the sharp rise in yields, many LDI portfolios called for collateral, leading many pension schemes to disinvest from ABS. The European high grade ABS market had a particularly torrid time toward the end of the quarter and into October as a result of extreme trading volumes.
- These outflows resulted in less efficient pricing of fundamentals and a material widening in spreads. This has resulted in elevated yields and a good entry point for those looking to buy quality assets at a discount.
- While this is a particularly attractive tactical opportunity (which may dissipate over the coming months), we also have high conviction on the asset class providing solid returns to investors over the medium term with structurally higher premiums compared to traditional bond assets (shown by the chart on the top right).

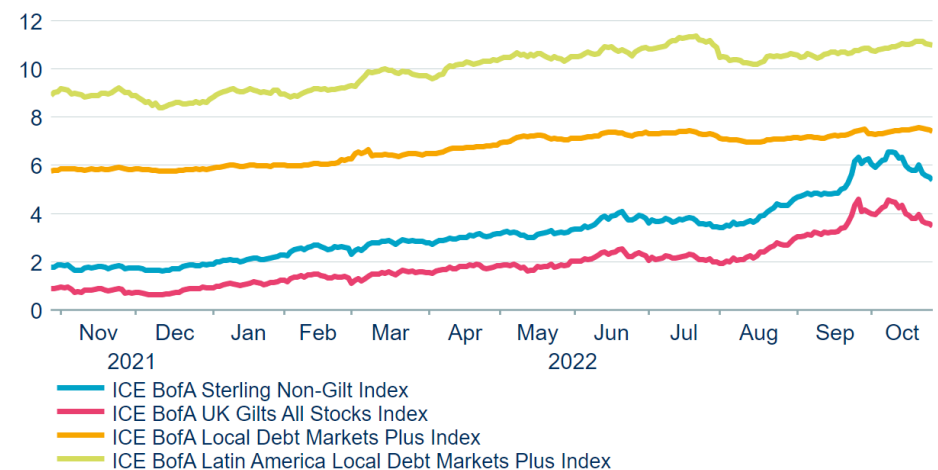
We have downgraded emerging market debt from a + to a –

- Our downgraded view of emerging market debt (EMD) is strongly influenced by the high yields now available in better quality assets, the increasing strength of the USD and continued geopolitical risks which are very difficult to price.
- Although EMD still offers higher yields than developed markets, we have less conviction that these will be sustained to maturity given expected volatility and an uncertain global macroeconomic backdrop (see the bottom right chart).
- Whilst we are still comfortable for EMD to be held in client portfolios we would believe there may be better entry points. We would highlight active management is our preferred approach for accessing EMD.



Source: TwentyFour, ICE BoA Indices, Citi Velocity, Morgan Stanley. Data as at 30 September 2022.

Comparing emerging market debt to UK gilt and corporate bond yields



Source: Refinitiv Datastream

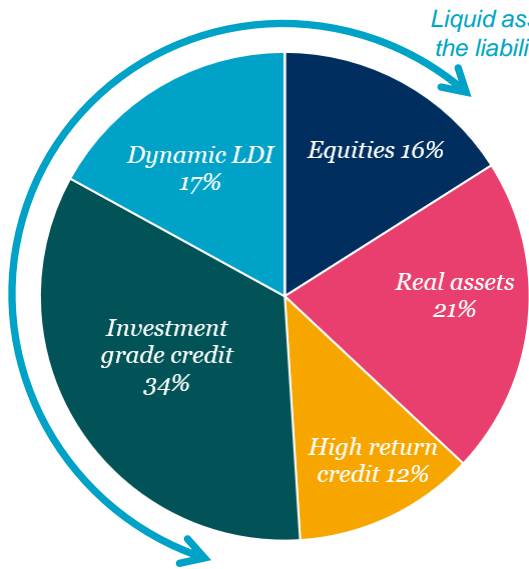
Ask your consultant

- For clients who sold liquid credit assets to meet collateral calls – should we look to replenish these holdings?
- Which credit assets are most suitable as part of a collateral waterfall?



Strategic portfolio

Our strategic portfolio highlights the latest ideas from LCP’s investment strategy and research teams, and how these ideas can be brought together to construct an efficient asset portfolio.



Expected return: Gilts + 2.4% pa
 Liability hedge ratio: 100% of assets including future deficit contributions
 Unhedged currency exposure: 25% of assets

Portfolio	%	Change
Investment grade credit	34	-5
Long dated buy & maintain credit	6	+1
Asset-backed securities ¹	7	-5
Short duration credit ^{1,2}	3	-7
Synthetic credit overlay ¹	18	+6

Portfolio	%	Change
Equities	16	+1
Synthetic equity protection ¹	12	+4
Low carbon global equities ²	4	-1
Emerging market equities	-	-2
Real assets	21	+4
Unlisted infrastructure	10	+3
Listed infrastructure	-	-1
Unlisted global property	5	+1
Listed global property	-	-1
Long lease property	6	+2
High return credit	12	-4
Opportunistic credit	6	+2
Private credit	3	+1
Infrastructure debt	3	+1
Emerging market debt	-	-2
Multi-asset credit	-	-6
Dynamic LDI¹	17	+4
The cash and gilts collateral within the bespoke fund (47% of assets) can withstand a c.3.5% rise in yields. Allowing for the other assets within the bespoke fund (57% in total), the strategy can withstand a c.4.5% rise in yields.		

¹Assets all held within a single bespoke fund and used to support the hedging exposures.

²These are investments in assets with a specific sustainability bias.

Expected return based on LCP’s latest asset class assumptions, and are available upon request.

Asset allocation changes we’ve made

- Gilt yields rose sharply towards the end of the quarter, and continued to do so post quarter end although they have fallen back more recently. The overall rise in yields meant that the LDI allocation had fallen significantly in value and needed replenishing. We were able to use the high allocations to liquid assets (such as short-dated credit, asset backed securities, listed assets and liquid higher-returning credit) to do this.
- However, as a result of these liquid asset sales, the allocations to illiquid assets have risen over the quarter since it is not possible to sell these holdings at short notice. We have a plan in place therefore to reduce the allocation to illiquid real assets over the next three to six months and replenish the liquid credit holdings (we expect to reallocate to a blend of higher-returning credit and investment grade credit that can support the LDI arrangements).

Rising gilt yields has led to a reassessment of LDI strategies

- Recent experience of just how quickly yields can rise, combined with uncertainty over the government’s fiscal intentions, has forced pension funds, consultants and LDI managers to reassess what is a sensible level of collateral to hold in LDI portfolios.
- In order to maintain a scheme’s liability hedge ratios and improve the collateral adequacy of the bespoke portfolio, we have increased the proportion of the assets invested in the bespoke LDI fund. The LDI fund’s allocation to cash and gilts held can now support a 3.5% pa rise in gilt yields, with a further rise in gilt yields of 1% pa being supported by the assets held in short duration credit and asset-backed securities.
- To compensate for the higher allocation to LDI, and to maintain the target investment return, we have increased the allocations to synthetic credit and synthetic (protected) equities.

Having unhedged currency exposure has benefitted the scheme

- Our portfolio has unhedged currency exposure of around 25% of assets. The fall in sterling this year has helped reduce the drawdown on our growth assets. In our view having some unhedged overseas currency exposure in the strategy (in particular to safe haven currencies like the US dollar) can act to provide protection in stressed markets.

Investment actions that you should urgently be considering

In this [webinar](#), LCP partners Paul Gibney, Ken Hardman and Steve Hodder explained what happened to UK gilt markets over late September, how LDI managers and insurers reacted and what investment actions all UK pension schemes need to now be considering.

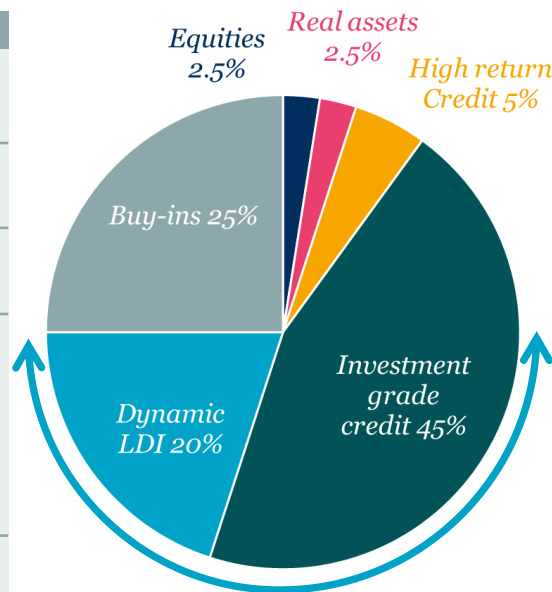




Low-dependency strategic portfolio

Our low-dependency portfolio is appropriate for well-funded schemes, and has also been designed to provide flexibility to take advantage of buy-out opportunities.

Portfolio	%	Change
Equities	2.5	-
Low carbon global equities ²	2.5	-
Real assets	2.5	-
Listed infrastructure	2.5	-
High return credit	5	-
Multi-asset credit	5	-
Investment grade credit	45	-
Long dated buy & maintain credit	15	-
Asset-backed securities ¹	15	+2
Short duration credit ^{1,2}	9	-2
Synthetic credit overlay ¹	6	-
Dynamic LDI	20	-
The cash and gilts collateral within the bespoke fund (26% of assets) can withstand a c.2.0% rise in yields. Allowing for the other assets within the bespoke fund, the strategy can withstand a c.5.0% rise in yields.		
Buy-ins	25	-
Schemes may wish to use a combination of pensioner buy-ins and other insurance solutions such as longevity swaps		



Assets that are used to support the liability hedging exposures (50%)

Expected return: Gilts + 1.2% pa
 Liability hedge ratio: 100% of assets
 Minimal unhedged currency exposure

¹Assets that are held within a single bespoke fund and used to support the hedging exposures.

²These are investments in assets with a specific sustainability bias.

Ask your consultant

- What yield rise can my LDI portfolio sustain and where can I source additional monies if yields rise significantly?
- How liquid is my investment strategy and should I reassess my liability hedging strategy in light of the ongoing changes in the LDI landscape?

Asset allocation changes we've made

- As with the higher-returning strategic portfolio set out on the previous page, the rise in gilt yields over the quarter has meant that the LDI portfolio has fallen in value and needed rebalancing from growth assets which are significantly overweight.
- However, when rebalancing assets to top up the LDI, we took the opportunity to bias the reallocation towards asset-backed securities, reflecting our favourable outlook for the asset class (see [slide 6](#)).

The benefits of maintaining liquidity are clear

- Pension schemes need liquidity in their investment strategies to pay members' benefits, meet collateral (ie cash) calls on their derivative holdings and have flexibility to change asset allocation if needed, especially in times of market stress.
- This is a topic we touched on in more depth in the [November 2021 edition of our strategic portfolio](#) and something TPR has written about previously.

"...structural weaknesses, including the potential for inter-dependencies to amplify liquidity demands and give rise to systemic risks in the wider financial system, were identified." TPR's blog [Now is the time to manage liquidity risk](#)

- Our low dependency strategic portfolio is highly liquid and has a sizeable allocation within the bespoke LDI fund to cash and gilts collateral which are used to support the liability hedging exposures. As a result, we have been able to maintain the scheme's liability hedge ratios without needing to make a substantial change to our asset allocation or overhaul the investment strategy.

New developments in ESG for short dated credit

- It's increasingly easy to find an ESG-focused equity fund, with multiple options for investors, including: screened funds, ethical funds, funds with a net zero target, combinations of these and more.
- Historically, there have been fewer options for corresponding funds in the credit space. Of course, responsible investment is a key consideration when rating funds, so any products we recommend will be rated on its integration of responsible investment. However, some investors want to go further than this.
- As a result, we've been working with fixed income managers to set up both long dated buy and maintain and short dated credit funds with explicit net zero targets. We believe this allows investors to access credit in a more sustainable way, and in line with any net zero targets that our clients may have. Please contact your usual consultant or Peter Abrahams, if you would like more information.



Investor split over Sainsbury's Living Wage resolution

Around 17% of shareholders voted for a resolution to introduce a real Living Wage policy at Sainsbury's.

The real Living Wage is a calculated hourly rate set at a level considered necessary to ensure households earn enough to reach a minimum acceptable living standard. There are currently more than 11,000 Living Wage accredited employers across the UK, with over 400,000 workers benefiting as a result.

Sainsbury's had previously implemented a pay uplift for London staff so that all directly employed staff earn the Living Wage. The shareholder resolution, coordinated by ShareAction, called on Sainsbury's to go further and become the first Living Wage accredited supermarket in the UK, by expanding its policy to include contract workers as well as committing to increase pay in line with the Living Wage. Comments by ShareAction reveal that part of the motivation for the resolution was to influence the sector as a whole, given that there are no UK supermarkets that are Living Wage accredited.

In the end, the majority of shareholders voted against the resolution and with the board, in line with the guidance from some key shareholder advisory groups. However, views across institutional investors diverged – some were involved in co-filing the resolution while others voted against. The “against” camp argued that Sainsbury's is already a sector leader for wages, and becoming Living Wage accredited could make it uncompetitive. The “for” camp cited long-term benefits to the company (increased service quality, improved productivity and reduced employee turnover costs), as well as wider social and economic benefits of growing the wages of those that are low paid – and who are more likely to spend any additional income they receive, to the benefit of the economy as a whole. There have been many studies indicating a link between higher inequality and lower economic and social wellbeing, and as a result inequality can be considered to be a systemic risk.

This vote highlights the importance for investors of understanding the stories behind the headlines and having a clear stewardship approach. Did your manager vote on the issue; if so, how and is it in line with your expectations?

Ask your managers

- Do you invest in Sainsbury's, if so, did you support the Living Wage resolution, and why?
- How are you addressing inequality risks in your stewardship activities?

Time to clean up greenwashing?

Watchdogs and regulators have been increasingly scrutinising the sustainability claims being made for both consumer and financial products.

By way of a recent example, we'd point to the Competition and Markets Authority (CMA) review of the fashion industry's environmental claims. This identified multiple concerns, including instances of some garments in sustainable clothing ranges not meeting sustainability criteria. The first such industry review, this forms part of a wider CMA project, and follows the publication of its “Green Claims Code” guidance in September 2021. For offenders, there's the possibility of court action and subsequent fines, as well as the probably more serious consequences of brand value impairment and loss of customer trust.

Asset owners might expect their managers to consider the risks of greenwashing when investing. However, there has also been heightened focus on potential greenwashing at asset managers themselves, with several managers being subject to recent investigations and penalties for making claims about their funds that might be misleading.

Environmentally friendly investment approaches can play an important role in tackling sustainability issues such as climate change and plastic waste. Investors though should be comfortable that their managers (and hence investee companies) are doing ‘what they say on (or is implied by) the tin’. They should therefore engage with managers in two areas then – first, how the manager's investment approach addresses potential investee company greenwashing and second, whether claims about the manager's own approach to sustainability stack up.



Ask your managers

- Have any investee companies been the subject of greenwashing investigations?
- How do you assess the environmental or sustainability claims of investee companies?



Economic and market data

Equities

	QTD (to 24/10/22)	3M (to 30/09/22)	1Y (to 30/09/22)
Global equities (local)	4.1%	-4.8%	-15.7%
Global equities (unhedged, GBP)	2.5%	1.4%	-3.6%
UK equities	1.6%	-3.4%	-4.0%
US equities (local)	5.8%	-4.8%	-17.1%
Emerging market equities (local)	-3.6%	-7.7%	-19.6%

Bond performance

	QTD (to 24/10/22)	3M (to 30/09/22)	1Y (to 30/09/22)
Over 15yr fixed gilts	-0.2%	-18.8%	-35.5%
Over 15yr index-linked gilts	-3.3%	-11.1%	-35.4%
GBP corporate bonds (all stocks)	2.9%	-11.6%	-22.2%

Gilt yields

	30/09/2022	30/06/2022	30/09/2021
5 year gilt yield	4.3%	1.9%	0.6%
10 year gilt yield	4.2%	2.3%	1.0%
15 year gilt yield	4.2%	2.7%	1.3%

Credit spreads

	30/09/2022	30/06/2022	30/09/2021
GBP non-gilts	2.0%	1.6%	0.9%
Global investment grade	1.8%	1.8%	0.9%
Global high yield	6.1%	6.4%	3.7%

Alternatives

	1M (to 30/09/22)	3M (to 30/09/22)	1Y (to 30/09/22)
Property (data to 31/08/22)	-1.3%	-1.1%	18.3%
Infrastructure (listed)	-8.0%	-0.9%	14.2%

Currencies

	30/09/2022	30/06/2022	30/09/2021
\$ per £	1.12	1.22	1.35
€ per £	1.14	1.16	1.16

Real GDP growth

	2023	2022	2021
World	2.8%	3.0%	5.8%
UK	0.0%	3.6%	7.4%
US	1.2%	2.5%	5.7%
Eurozone	1.6%	2.6%	5.3%
Japan	1.8%	1.7%	1.7%
China	4.9%	4.4%	8.1%

Inflation

	2023	2022	2021
UK (CPI)	7.4%	8.8%	2.6%
US (PCE)	3.5%	5.9%	3.9%
Eurozone (CPI)	4.6%	7.0%	2.6%
Japan (CPI)	1.9%	1.9%	-0.2%
China (CPI)	3.0%	2.0%	0.8%

Policy interest rates

	30/09/2022	30/06/2022	30/09/2021
UK	2.25%	1.25%	0.10%
US	3.25%	1.75%	0.25%
Eurozone	0.75%	-0.50%	-0.50%

Source: Bloomberg, Refinitiv Datastream, FTSE, ICE BofA, IPD, OECD, Bank of England, Federal Reserve, ECB



Paul Gibney
Investment Partner

paul.gibney@lcp.uk.com
+44 (0)20 7432 6653



Anais Caldwell-Jones
Senior Consultant

anais.caldwell-jones@lcp.uk.com
+44 (0)20 3824 7268



Andrew Linz
Senior Consultant

andrew.linz@lcp.uk.com
+44 (0)20 7432 6633



Ken Willis
Investment Partner

ken.willis@lcp.uk.com
+44 (0)20 7432 6701

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