

# Investment News

## Monthly Bulletin from the Investment & Risk Team

January 2016

### Last Month in Brief

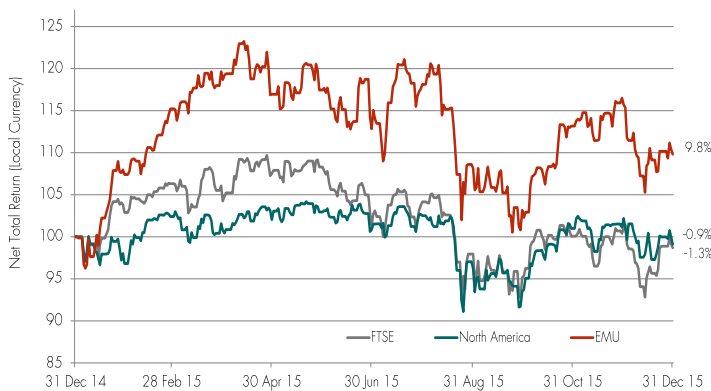
Oil prices continued to fall during December with Brent Crude dropping as low as \$36 barrel and the oil industry now in its deepest downturn since the 1990s. The cause of this is thought to be a combination of the increase in production, thereby increasing supply, and the demand from China and developing countries being lower due to their current weak economies. The combination of falling oil prices and current unstable political events is causing typical oil-producing states to suffer, in particular Russia and Venezuela.

Janet Yellen, the chair of the US Federal Reserve, suggests the US economy may be on the move to more normal economic conditions as underpinned by the US interest rate increase of 0.25%. It is expected this will have a knock on effect to the rest of the world with rising US interest rates meaning higher debt repayments for emerging market governments with the amount owed denominated in dollars. Mark Carney, the Governor of the Bank of England, has stated a similar small increase in the UK may be a possibility in 2016.

Inflation in the Eurozone remained at 0.2%, unchanged from November. This rate was lower than the 0.3% rise widely expected and will put pressure on the European Central Bank to act further to boost the struggling European economy.

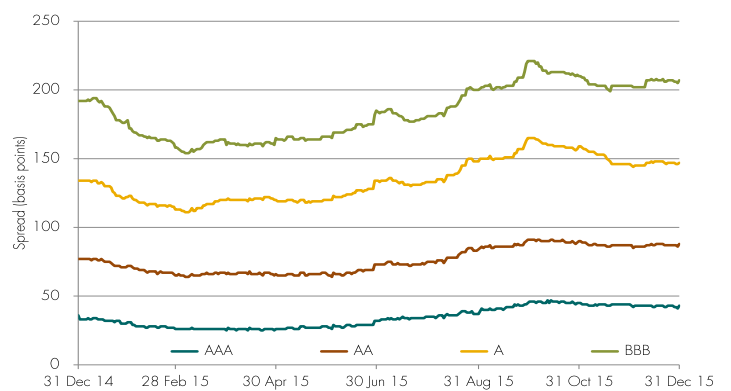
**Chart 1: Equity Indices**

*Volatile equity markets ended the year higher for the Eurozone*



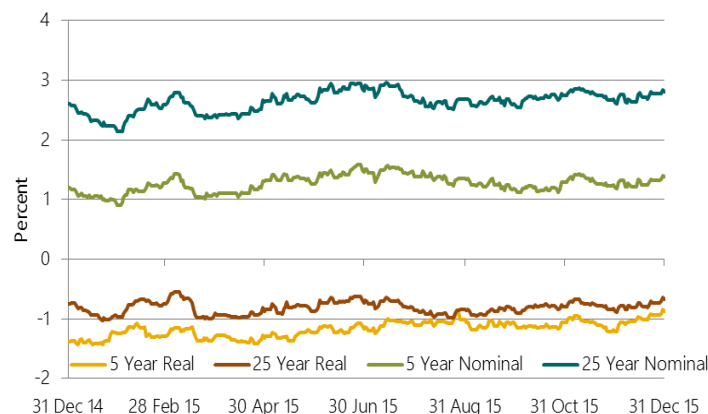
**Chart 2: Sterling Credit Spreads**

*Spreads ended December relatively unchanged*



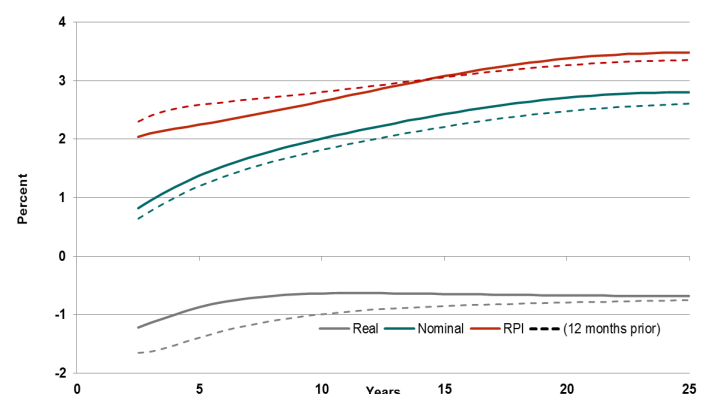
**Chart 3: Gilt Yields**

*Gilt yields remained relatively unchanged*



**Chart 4: Gilt Spot Curves**

*Gilt yields remain upward sloping*



Source: Financial Times, MSCI, Merrill Lynch Bank of America, & Bank of England

	Latest	Previous		Latest	Previous
CPI increase (annual change)	0.1%	-0.1%	Base rate	0.5%	0.5%
PPF 7800 funding ratio	83.4%	83.6%	\$/£ exchange rate	1.48	1.51
Halifax house prices (monthly change)	-0.2%	1.1%	VIX (volatility) index	18.2	16.1

For monthly published indices "Latest" and "Previous" refers to the two most recently published statistics, otherwise numbers are quoted as at the month end.

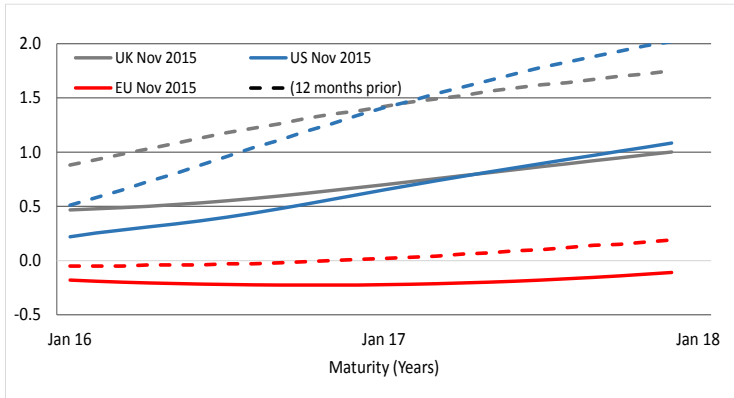
## A look back on 2015

The economic landscape of 2015 has been generally one of muted growth. In the UK and US, job production was strong and unemployment fell with GDP growing broadly in line with forecasts. However, elsewhere growth was not so smooth with Greece nearly exiting the Eurozone and China experiencing a fall in growth expectations. The fall in demand, particularly from China, has caused oil prices to continue to fall and has seen countries who are heavily dependent on commodities, such as Russia and Venezuela, to struggle.

The fall in commodity prices also impacted on financial markets. Commodity company securities performed poorly with both falling equity prices and a widening of credit spreads. Dragged down by its large commodity exposure, the FTSE 100 ended the year almost 5% lower, its worst performance since 2011 and behind other major indices.

### Monetary Policy

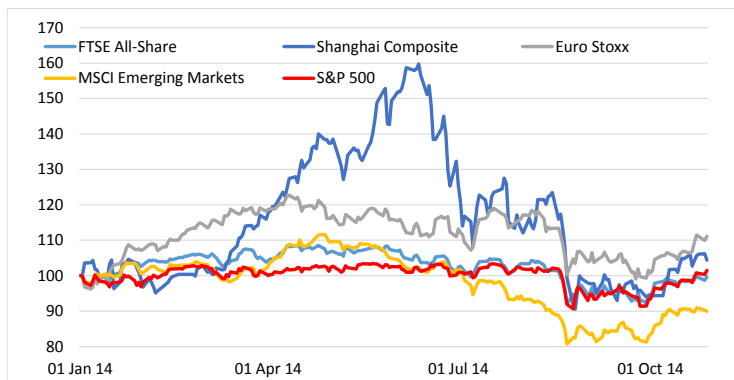
Market implied path of bank interest rates



Market prices imply lower future interest rates than they did last year with falls in oil prices and low inflation contributing to a postponement of interest rate rises. The US Federal Reserve finally raised its target rate in December; however, any large change in the UK rate is looking unlikely with very few forecasters expecting it to exceed 1% before the end of the 2016.

### Equity Prices

Change in equity indices over the year (01 Jan =100)

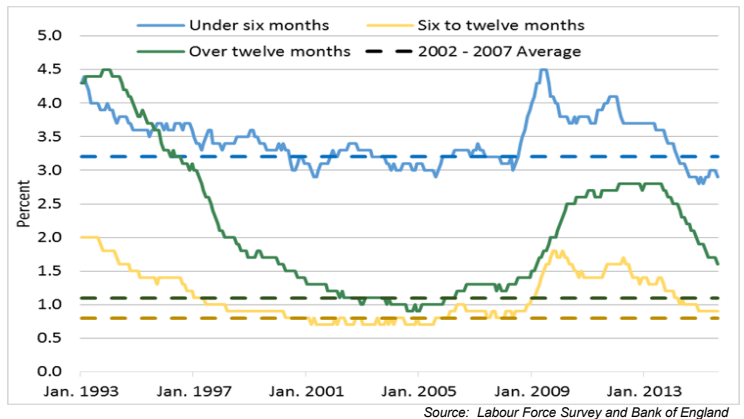


Most major share markets have seen limited, if any, growth this year. The Chinese stock market had a particularly volatile year with a significant increase in prices in the early part of the year before falling 30% over three weeks. Government intervention was then introduced with the aim of stopping further falls.

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### Unemployment

UK unemployment rates by duration



An increase in labour demand has led to decreased levels of unemployment in the UK. However, the level of long term unemployment remains elevated. Although unemployment has also been falling in the Eurozone, it still remains at over 20% in Spain and Greece.

### Forecasts

	2015	2016
GDP growth	2.4%	2.3%
CPI	0.1%	1.4%
RPI	0.9%	2.3%
Claimant unemployment	0.78 m	0.74 m
Current account	£-81.9 bn	£-75.3 bn
PSNB	£76.2 bn	£57.6 bn

Source: Forecasts for the UK economy: a comparison of independent forecasts, HM Treasury December 2015

GDP forecasts have been revised lower as downward pressure from adverse Eurozone and emerging markets looked to be more significant and lasting than had originally been thought. As the UK economy approaches full employment, wages are predicted to rise. This, together with a stabilising oil price, is likely to put upward pressure on inflation.

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