

# Pension Fund Investment Sub-Committee

11 September 2023

## Macroeconomic Update

### Recommendation

That the Pension Fund Investment Sub-Committee (PFISC) notes and comments on the report.

### 1. Executive Summary

- 1.1 The purpose of this report is to provide a six-monthly update on the wider factors having the greatest influence on the Pension Fund's performance, particularly from a macroeconomic perspective.
- 1.2 The key areas brought out by the *Camdor Global* report (Appendix 1) are:
  - UK interest rates, with inflation taken into consideration (real rates), continue to rise as the sell-off in the bond markets continues. This is a key consideration informing the Fund's decision on whether to implement the proposed protection portfolio restructure which relies on 20yr real rates being above 0.5%.
  - The market is finding it difficult to predict which way interest rates are going to move, especially in the short term. This is having an impact upon all markets.
  - There are continued signs of weakness in the UK economy, as both manufacturing and services suffer. This is particularly evident in the rise in company insolvencies. However, there are signs that inflation is starting to fall, which could mean the end of rising rates (in the UK at least).
  - Public debt continues to rise, resulting in higher interest bills for the government and therefore resulting in less money for tax cuts and other stimulus packages.
  - UK commercial property rent expectations have fallen, as have capital value expectations. This continues to be reflected in the Fund's property holdings, which are showing no signs of recovery. Housebuilders are also struggling as market demand falls due to higher borrowing rates.
  - Concerns over the cost of becoming carbon neutral continue to weigh on markets and governments.
  - Geopolitics continue to weigh heavy on global markets, as ongoing issues continue unresolved (e.g. the Ukrainian War and US Tech tariffs) whilst the risk of a further banking crisis is still real, especially in the US.

## 2. Financial Implications

2.1 None

## 3. Environmental Implications

3.1 None arising directly from this report. However, the comments covered by *Camdor* in their general overview may be useful when considering how environmental impacts may affect the overall portfolio.

## 4. Supporting Information

4.1 See Appendix 1.

## Appendices

Appendix 1 – The Bigger Picture (*Camdor Global Advisors*)

	<b>Name</b>	<b>Contact Information</b>
Report Author	Paul Higginbotham, Victoria Moffett	paulhigginbotham@warwickshire.gov.uk, victoriamoffett@warwickshire.gov.uk
Director	Andrew Felton, Director of Finance	andrewfelton@warwickshire.gov.uk
Executive Director	Rob Powell, Executive Director for Resources	robpowell@warwickshire.gov.uk
Portfolio Holder	Councillor Peter Butlin, Deputy Leader and Portfolio Holder for Finance and Property	peterbutlin@warwickshire.gov.uk

The report was circulated to the following members prior to publication:

Councillors Kettle & Gifford.