

# Market update

## London Borough of Brent Pension Fund

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June 2025

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# Introduction

## **Purpose and scope**

This paper is addressed to the Pensions Committee and Officers of the London Borough of Brent Pension Fund. Its purpose is to show how the Fund's assets changed in value during April 2025 following the US Administration's "Liberation Day" tariff announcements. We also provide our current views on the outlook for the main asset classes and considerations for the Fund.

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We have provided this advice in our capacity as investment advisers to the Fund. Where the subject of this note refers to legal or tax matters, please note that Hymans Robertson LLP is not qualified to give such advice therefore we recommend that you seek independent advice on these matters.

# End-April valuations

	Valuation (£m)		Actual Proportion	Benchmark	+ / -
	31-Mar-25	30-Apr-25			
LGIM Global Equity	536.9	524.1	40.6%	40.0%	0.6%
LGIM UK Equity	83.7	83.4	6.5%	5.0%	1.5%
Capital Dynamics Private Equity	1.5	1.4	0.1%	5.0%	-4.9%
LCIV JP Morgan Emerging Markets	61.4	60.4	4.7%	5.0%	-0.3%
Blackrock Acs World Low Crbn	36.5	36.0	2.8%	3.0%	-0.2%
<b>Total Growth</b>	<b>720.0</b>	<b>705.3</b>	<b>54.6%</b>	<b>58.0%</b>	<b>-3.4%</b>
LCIV Baillie Gifford Multi Asset	101.8	100.4	7.8%	6.0%	1.8%
LCIV Ruffer Multi Asset	96.0	96.8	7.5%	6.0%	1.5%
Alinda Infrastructure	15.9	15.5	1.2%	0.0%	1.2%
Capital Dynamics Infrastructure	2.1	2.1	0.2%	0.0%	0.2%
LCIV Infrastructure	54.2	56.0	4.3%	5.0%	-0.7%

**Source:** Northern Trust.

# End-April valuations

	Valuation (£m)		Actual Proportion	Benchmark	+ / -
	31-Mar-25	30-Apr-25			
Fidelity UK Real Estate	14.9	14.9	1.2%	1.5%	-0.3%
UBS Triton Property	11.3	11.3	0.9%	1.5%	-0.6%
LCIV UK Housing Fund	15.2	15.2	1.2%	0.0%	1.2%
LCIV Private Debt	40.2	40.2	3.1%	5.0%	-1.9%
<b>Total Income</b>	<b>351.6</b>	<b>352.4</b>	<b>27.3%</b>	<b>25.0%</b>	<b>2.3%</b>
LCIV CQS MAC	66.6	66.8	5.2%	5.0%	0.2%
BlackRock UK Gilts Over 15 yrs	108.3	110.3	8.5%	10.0%	-1.5%
<b>Total Protection</b>	<b>175.0</b>	<b>177.1</b>	<b>13.7%</b>	<b>15.0%</b>	<b>-1.3%</b>
Cash	63.6	56.9	4.4%	2.0%	2.4%
<b>Total Scheme</b>	<b>1,310.1</b>	<b>1291.7</b>	<b>100.0%</b>	<b>100.0%</b>	

Source: Northern Trust.

# Summary of growth and inflation outlook

## Growth

Consensus forecasts for global growth have slipped since the start of the year due to the significant rise in the US average effective tariff rate. The US and those economies with a large share of exports to the US will be the most affected, but the impact will extend beyond US imports as global supply chains are disrupted. Uncertainty will also weigh on consumer spending and business investment. This presents downside risks to corporate earnings forecasts, which have also been slipping in recent weeks.

## Inflation

The US is being hit with both supply and demand shocks. For other economies, US tariffs mainly represent an external demand shock, though the impact on inflation is uncertain. Falls in commodity prices and currency appreciation against the dollar will lower headline inflation, while some imported goods could become cheaper as exports previously destined for the US enter non-US markets. On the other hand, the scale of US tariffs could damage global supply chains, raising inflation.

# Summary asset-class outlook

## Sovereign bonds

We see attractive value in UK gilts, given high forward yields relative to economic fundamentals. Index-linked gilts are becoming more attractive, given the downgrades to real UK growth forecasts and upgrades to inflation forecasts. What's more, the proportion of issuance of long-dated bonds and linkers is set to fall, potentially improving the technical backdrop at the margin for index-linked gilts. But we expect short-term yield volatility.

## Credit

Credit spreads have risen since the start of the year as trade uncertainty and growth concerns intensified. That said, credit spreads began their ascent from historically low levels and, given recent spread tightening, once again look low relative to longer-term averages. However, high all-in yields might still be seen as attractive to absolute-return focussed investors, even if we would be underweight credit versus gilts within an income portfolio.

## Equity

Global equities are less expensive than at the start of the year, but they're still not cheap. Meanwhile, earnings look elevated relative to trend, and the likelihood of earnings reversion has increased. Valuations don't feel like they've fallen enough to offset this risk to medium-term returns, which would see us retain a degree of caution. Despite US underperformance year to date, US equity market concentration is high, and the US continues to trade at a premium to both its own history and global benchmarks.

## Currency

The US' net international investment position, alongside more isolationist US policy, might mean it is sensible to review strategic dollar-hedge levels. However, given the dollar's year-to-date weakness, it is now much less obviously expensive relative to sterling, based on the real effective \$/£ exchange rate relative to its long-term trend.

# Considerations for the Fund

## Equity assets

- **Current position:** Portfolio held an overweight allocation to the LGIM equity mandates, but at an aggregate level, the Fund held an underweight allocation to Growth assets relative to target (54.6% vs 58.0% as at 30 April 2025).
- **Area for exploration:** Assess concentration risk within portfolio and whether action is needed. Consider whether a target allocation to private equity should be reconsidered as part of the strategy review.

## Income assets

- **Current position:** the Fund held an overweight allocation to Income assets relative to target (27.3% vs 25.0% at 30 April 2025), driven in particular by the Fund's allocation to LCIV multi-asset mandates.
- **Areas of exploration:** Continue to monitor spread levels and meet the Fund's commitment to its private market mandates.

## Protection assets

- **Current position:** As at 30 April, the Fund currently holds an underweight allocation to Protection assets relative to target (13.7% vs 15.0%), in part due to increased gilt yields meaning the price of gilts has been driven down over the past 5 years and particularly over the past 3 years.
- **Areas of exploration:** Yields continue to provide attractive entry point. The Fund could consider increasing its current allocation to gilts.

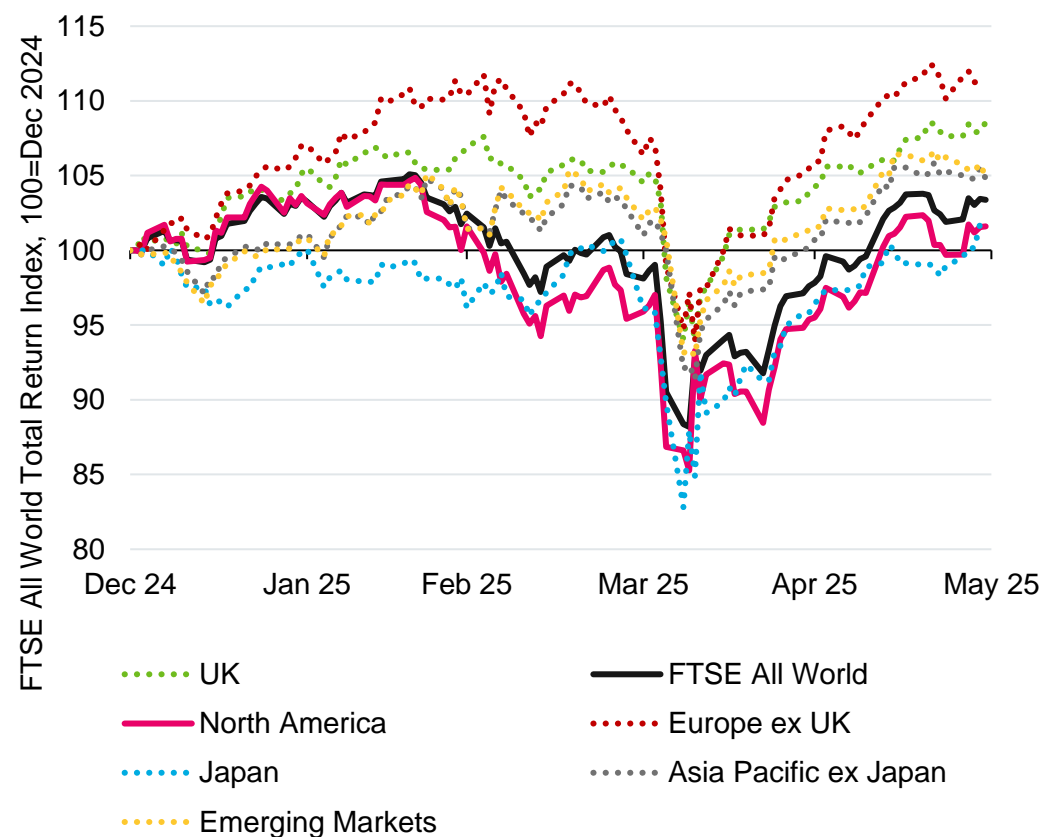
# Appendix 1: Economic background & market update



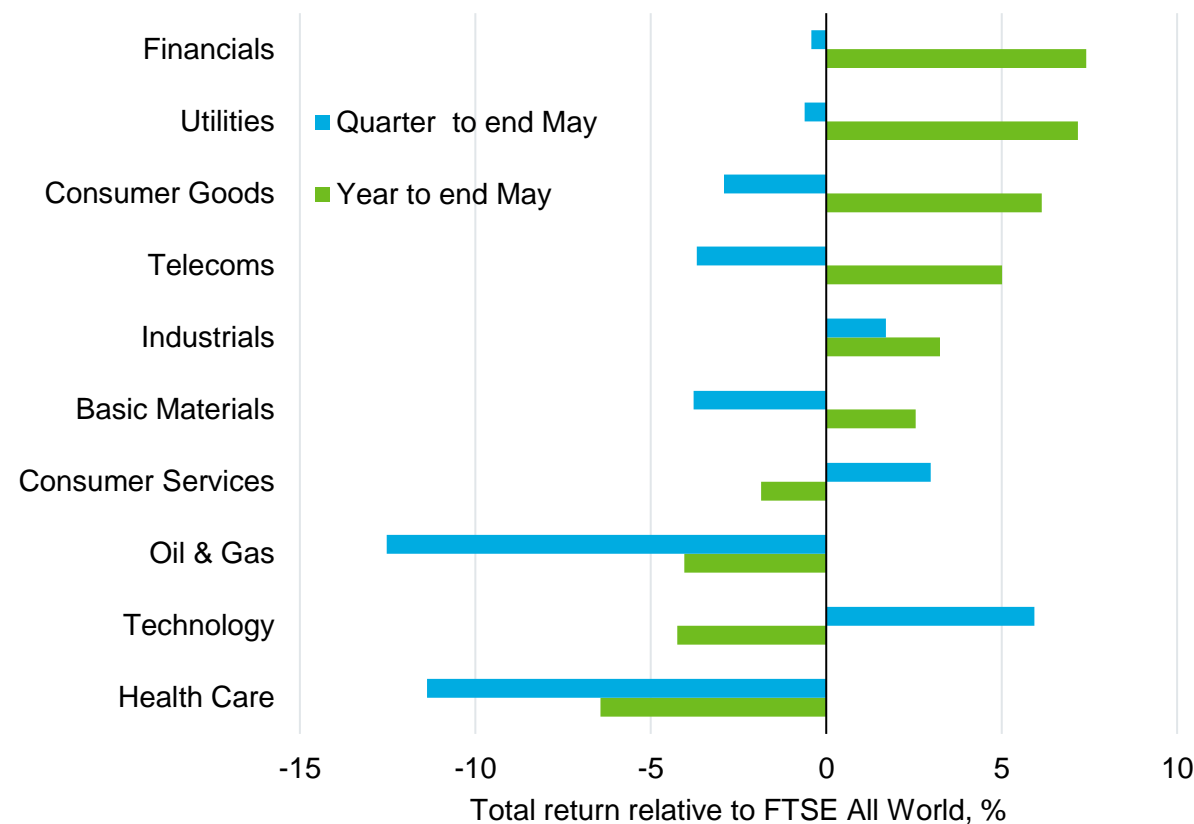


# Equity market performance

Equity markets sold off sharply following the “Liberation Day” tariff announcements but have regained all their lost ground.



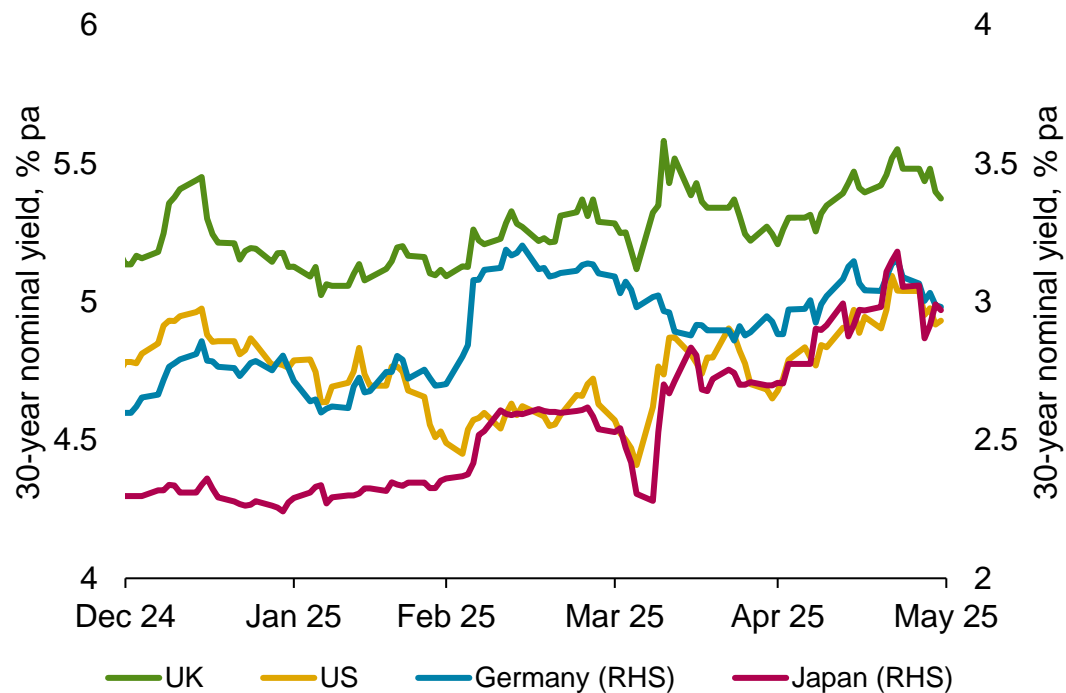
Source: LSEG Datastream



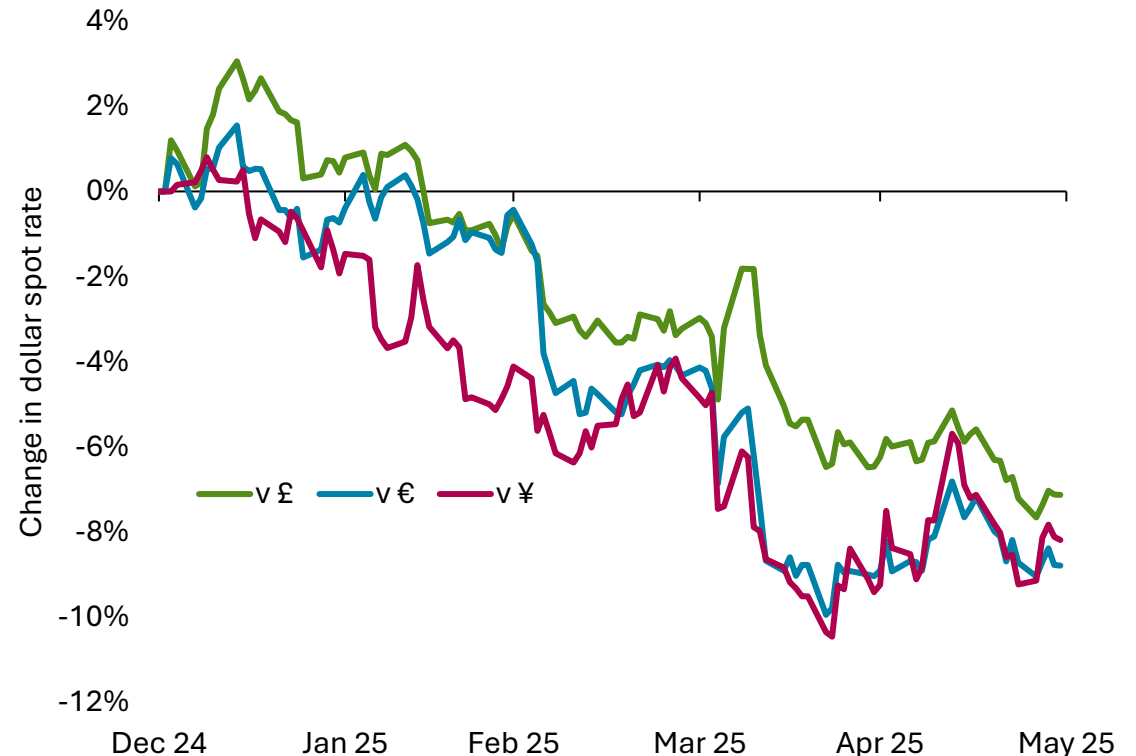
Source: LSEG Datastream

# Sovereign bonds

More recently, longer-term bond yields have been rising as markets digest President Trump's expansionary budget and anticipate heavier treasury issuance ahead. The US dollar has weakened against major peers given concerns over the US' fiscal position and broader caution towards US assets amid heightened policy uncertainty.



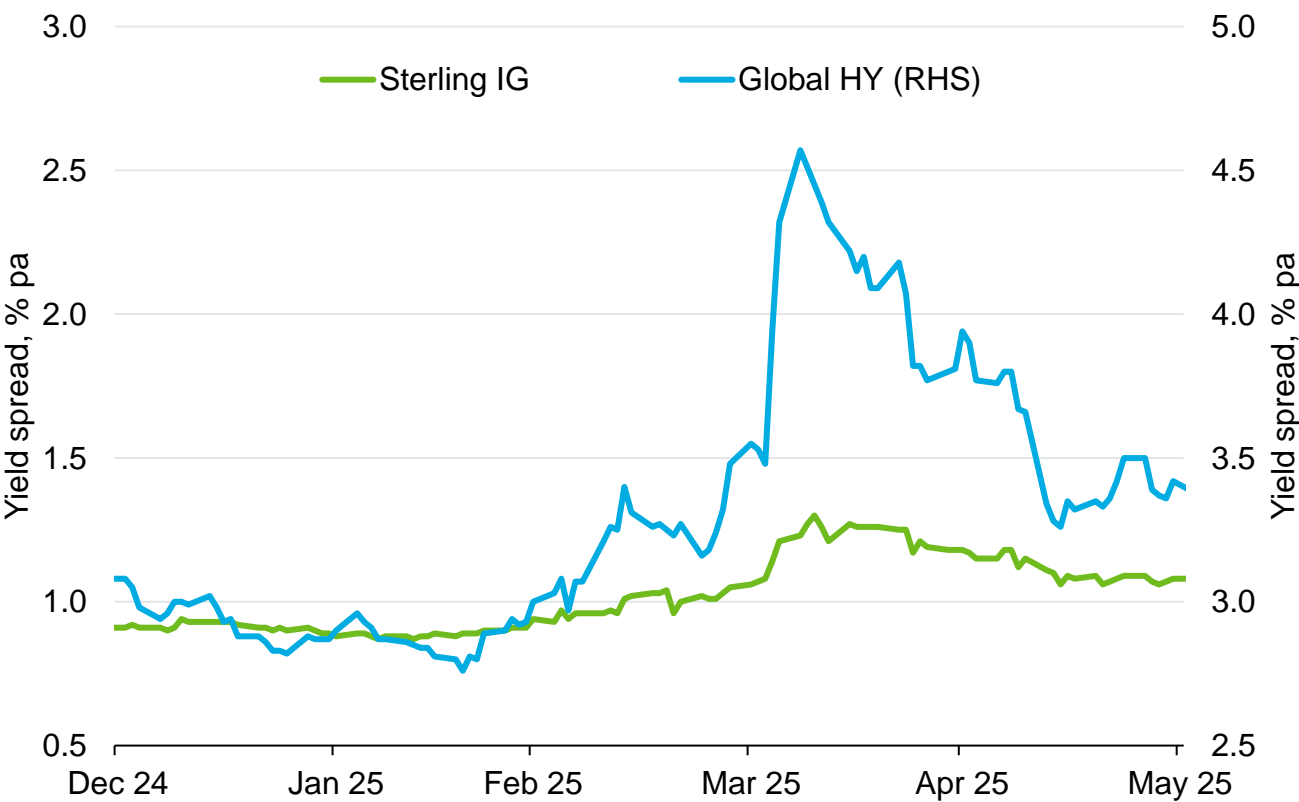
Source: Bloomberg



Source: LSEG Datastream

# Credit spreads

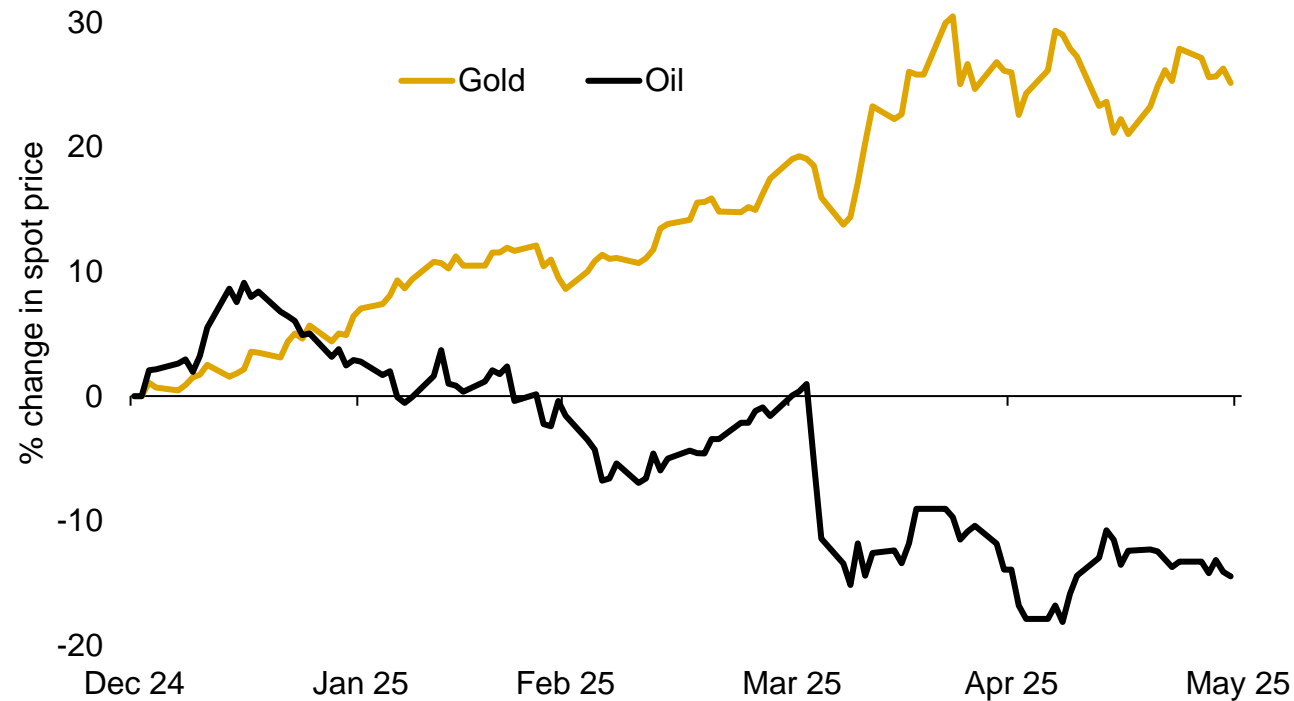
Credit spreads rose in line with equity markets weakness but have since retraced most of their move wider.



Source: ICE Index Platform

# Commodities

Gold prices continue to hit new highs amid heightened uncertainty and concerns about traditional havens, while oil prices have weakened in anticipation of a less favourable supply-demand balance.

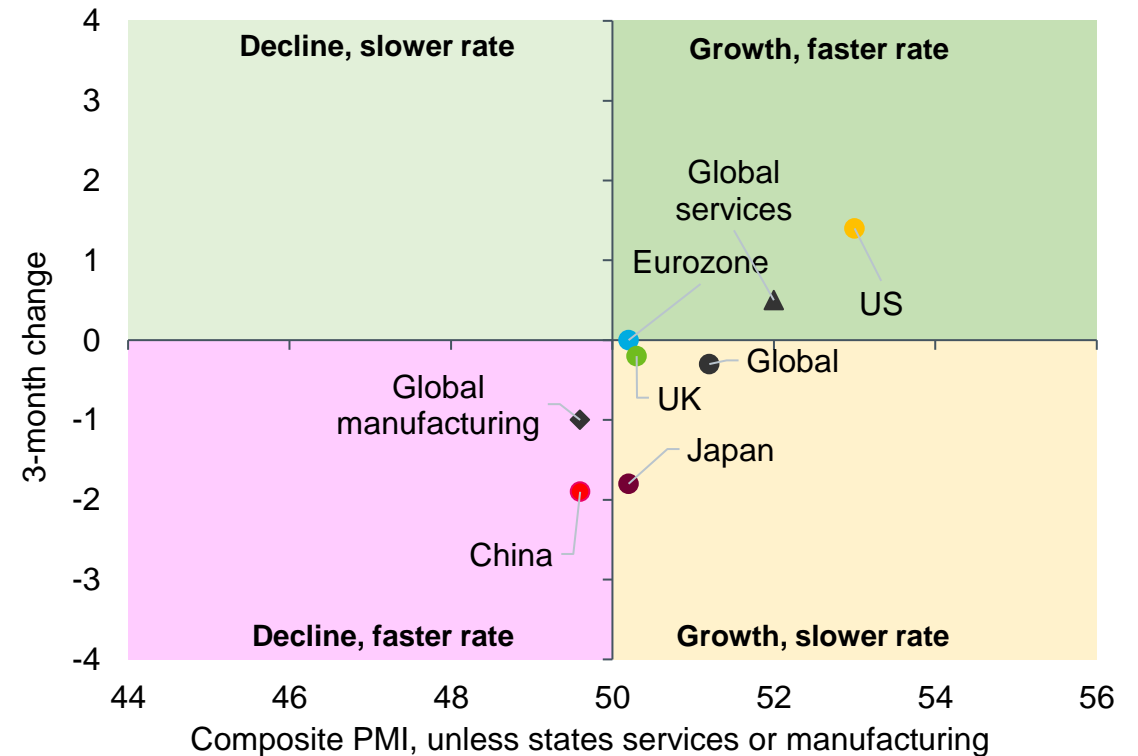
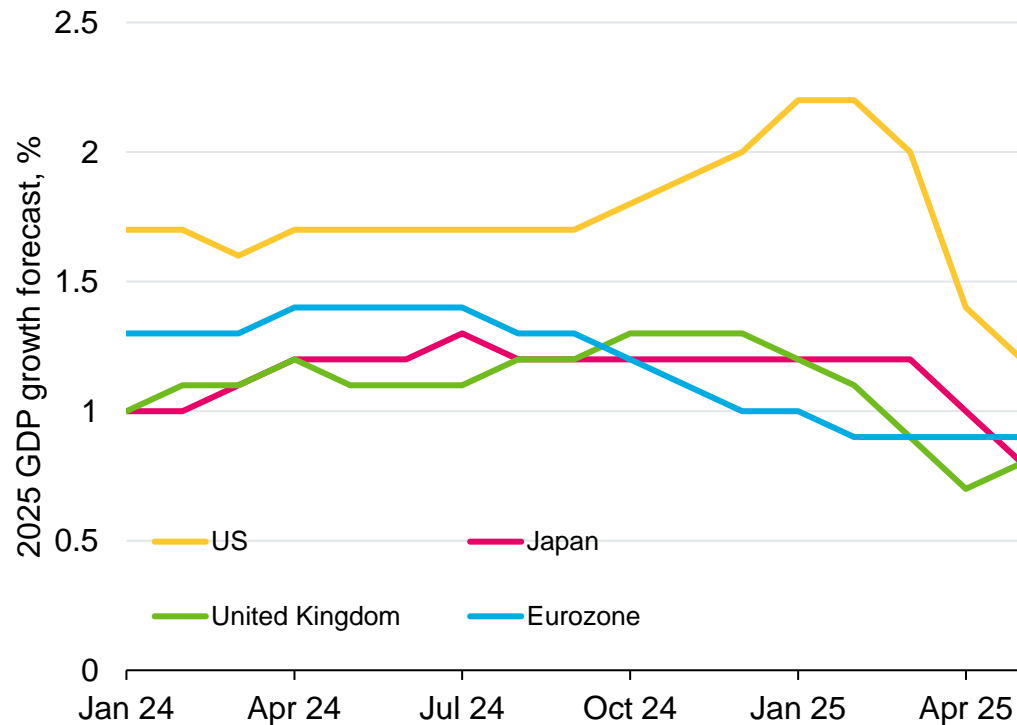


Source: LSEG Datastream

# Appendix 2: Market outlook

# Growth

Global growth forecasts have been slashed due to substantial US tariff increases, despite postponements to potentially very damaging reciprocal tariffs and striking of various trade deals. Survey data suggest business activity has bounced back from the tariff-induced slowdown in April but still indicate month-on-month expansion has slowed since the start of the year.

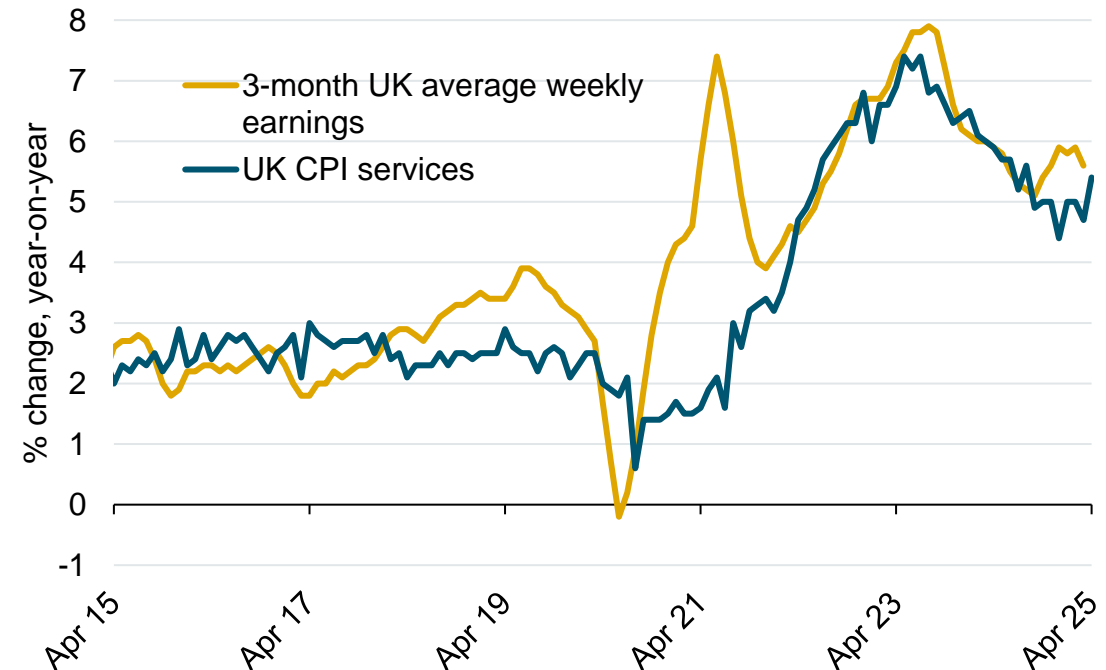
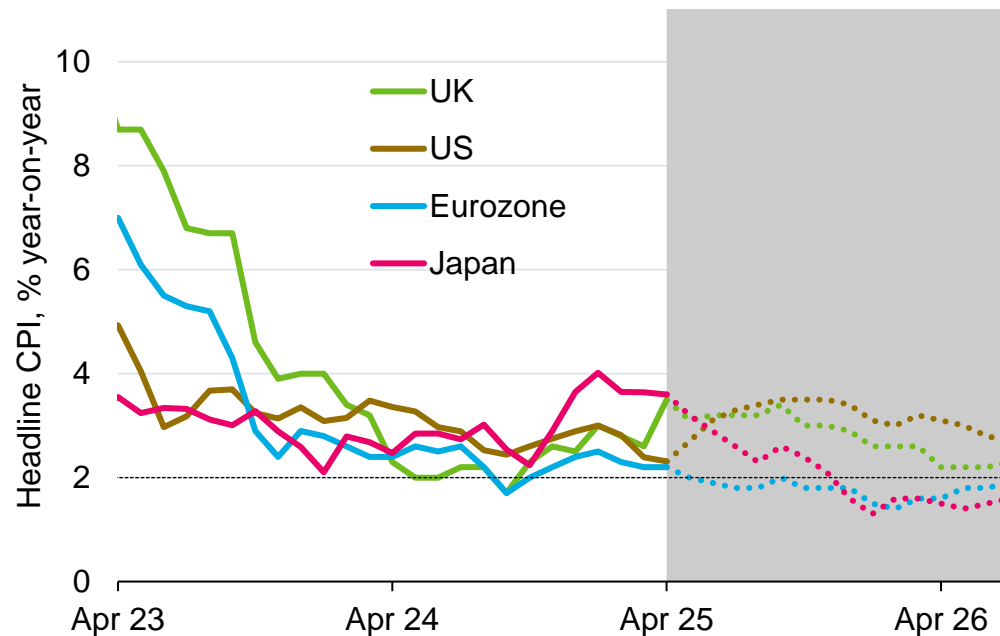


Source: Bloomberg

Source: Consensus Economics

# Inflation

Tariffs will raise near-term inflation in the US, but the impact on inflation elsewhere is more ambiguous. But there are other reasons the Bank of England might still be cautious with regards rate cuts. UK inflation is forecast to rise close to 4% this year. While much of this is due to energy prices, and so expected to be temporary, strong wage and service-sector inflation point to some persistence in underlying domestic inflation pressures.

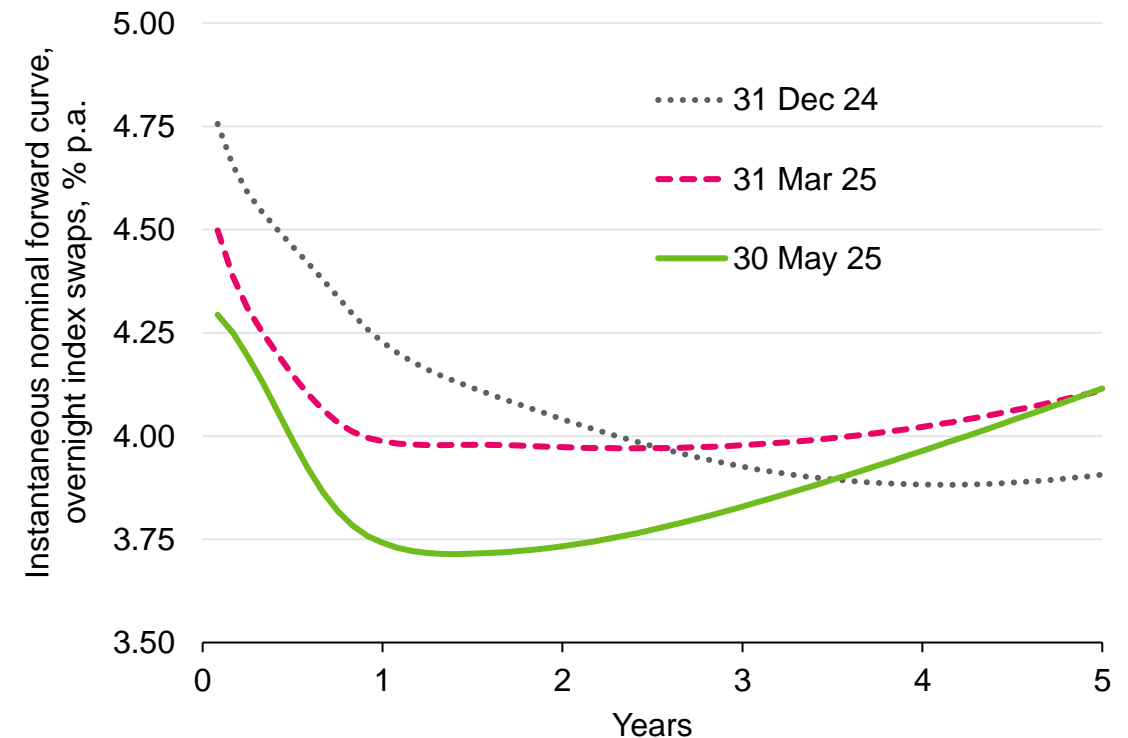


Source: LSEG Datastream, Consensus Economics

Source: LSEG Datastream, Bloomberg

# Interest rates

That said, tariffs increase the downside risks to growth and, ultimately, inflation. Therefore, it is not unreasonable markets have moved to price in more rate cuts than before. However, central banks may be more cautious than markets expect in the near term amid signs of underlying domestic inflationary pressures.



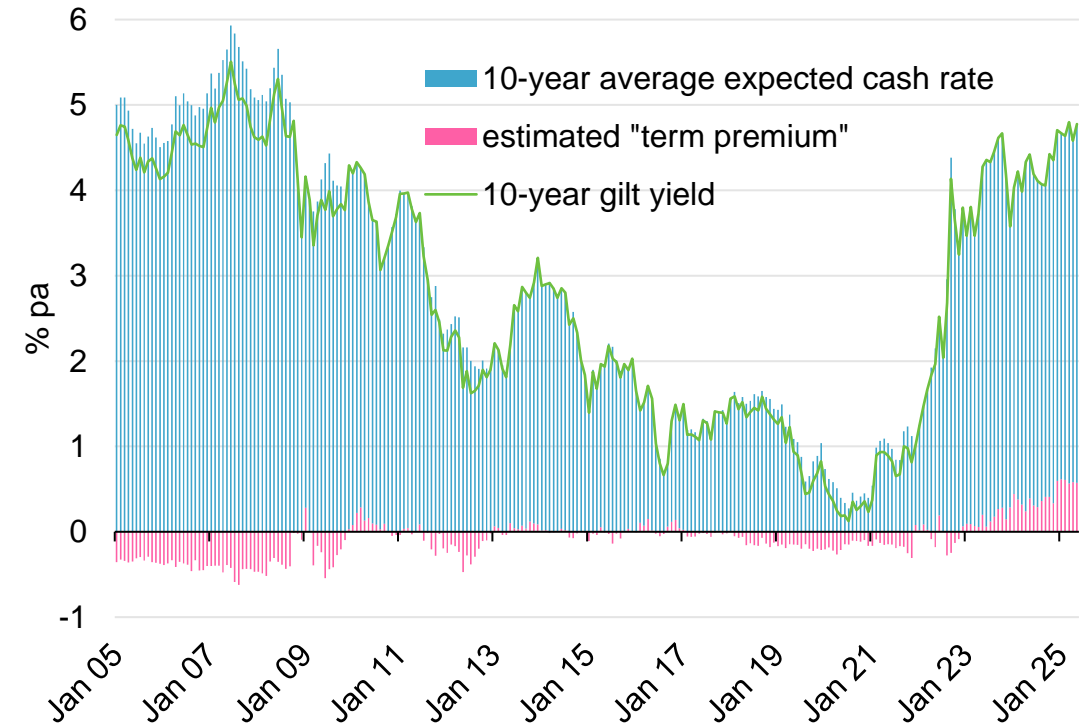
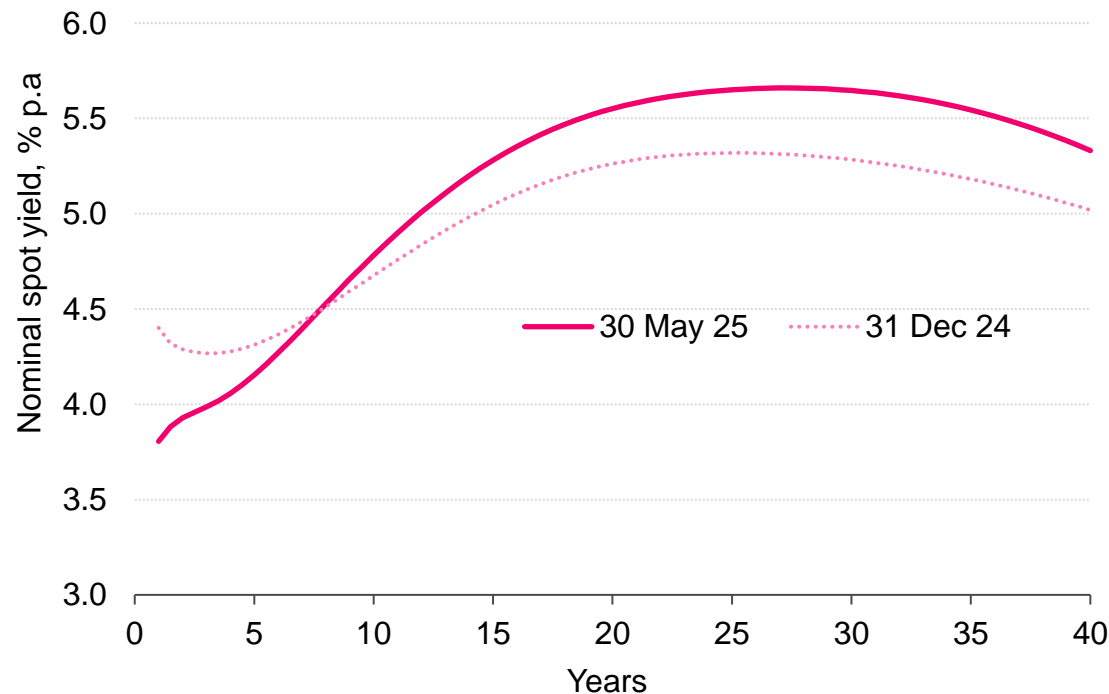
Source: Bloomberg

Source: Bank of England



# Government bonds

While the market might be overestimating the extent of rate cuts in the near-term, longer term swap rates imply the Bank of England base rate will average 4.2% pa over the next 10 years. Furthermore, gilts offer a substantial premium relative to swaps and are arguably reflective of the weak technical backdrop. As a result, we see attractive value in UK gilts, given high yields relative to economic fundamentals.

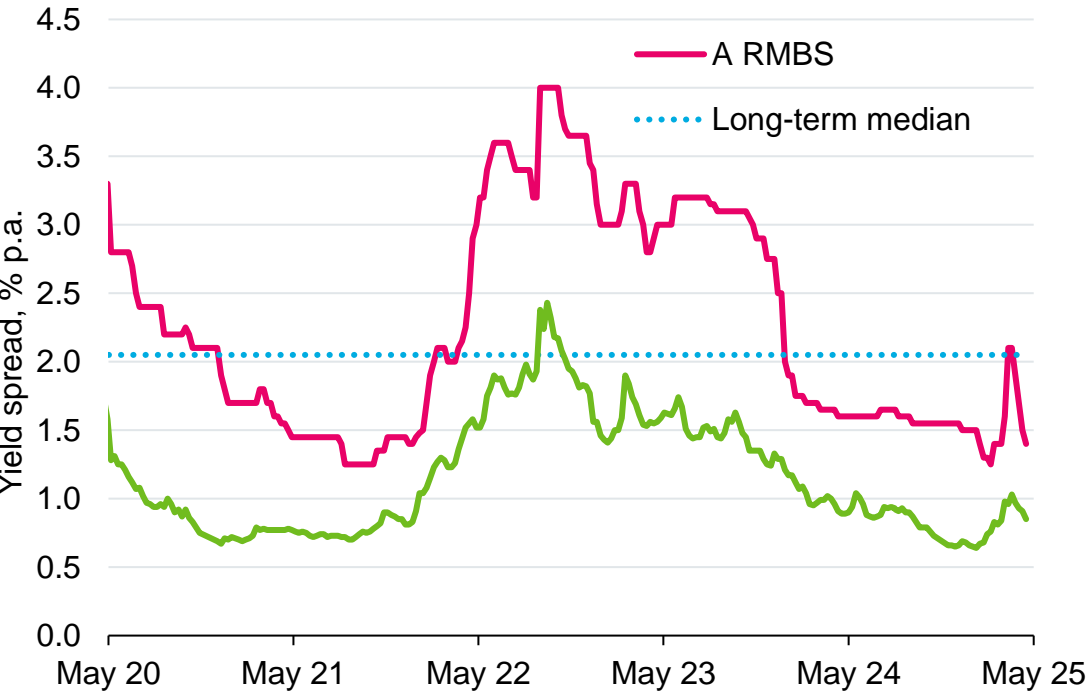
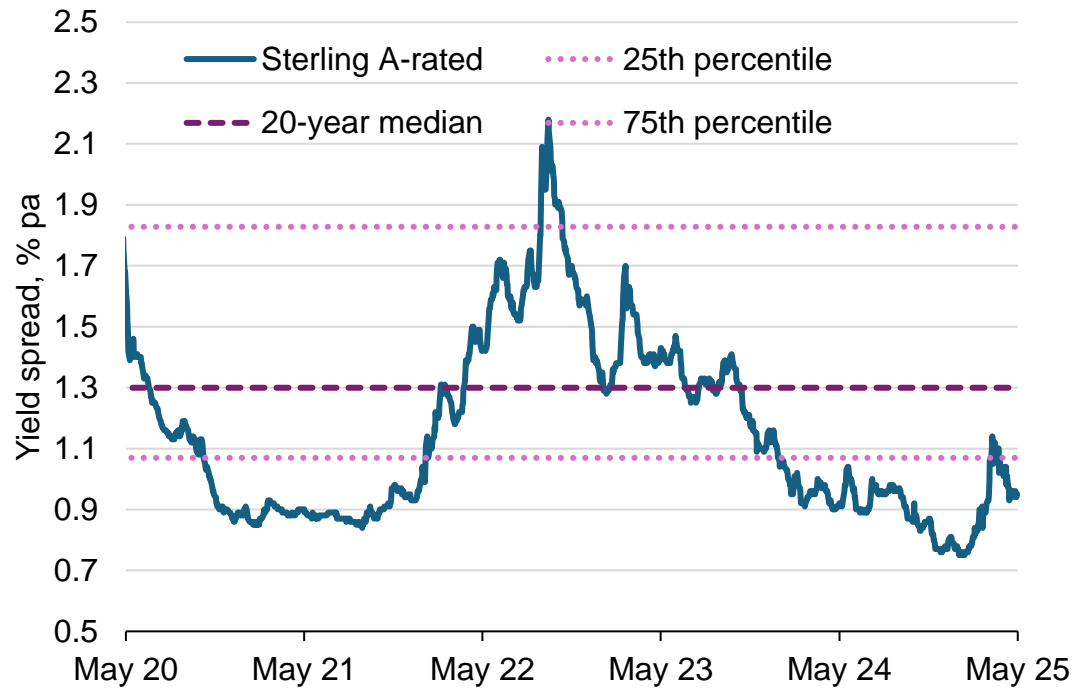


Source: Bank of England

Source: Bank of England

# Investment-grade credit

Credit spreads have risen since the start of the year, amid trade uncertainty and growth concerns. But credit spreads began their ascent from historically low levels and, given the tightening seen since, remain low relative to history. ABS spreads have also rose in the wake of “Liberation Day” trade announcements, and widened relative to similarly rated corporate credit, but have since almost entirely retraced these moves.

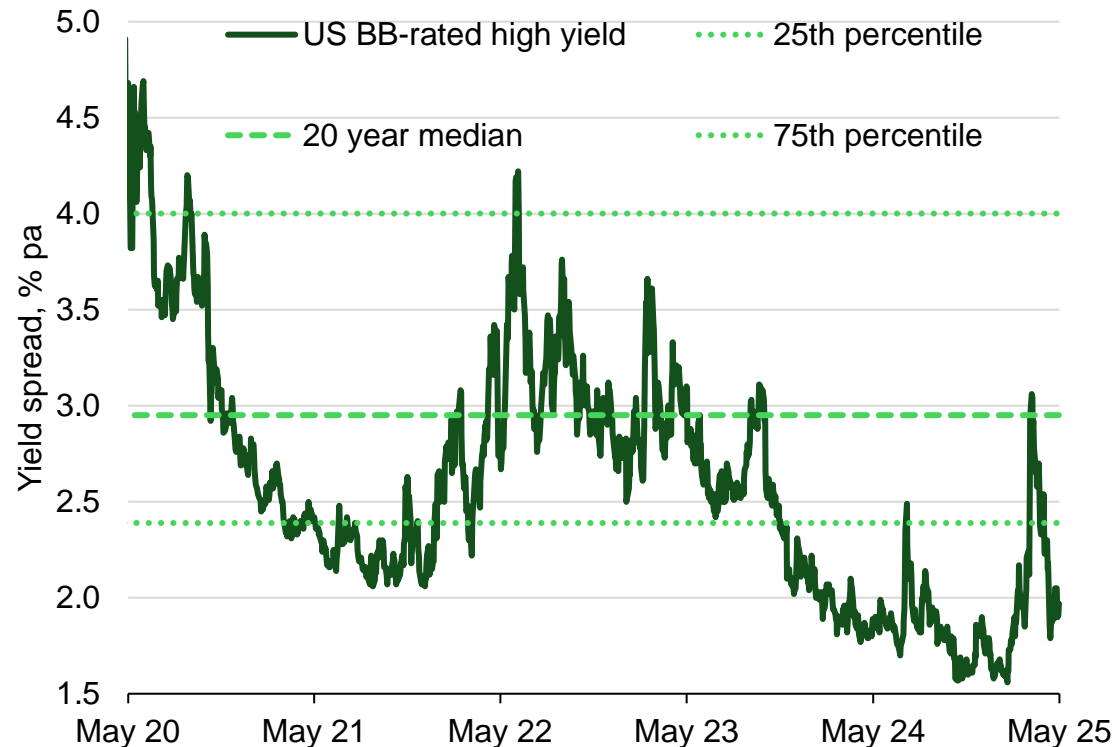


Source: ICE Index Platform

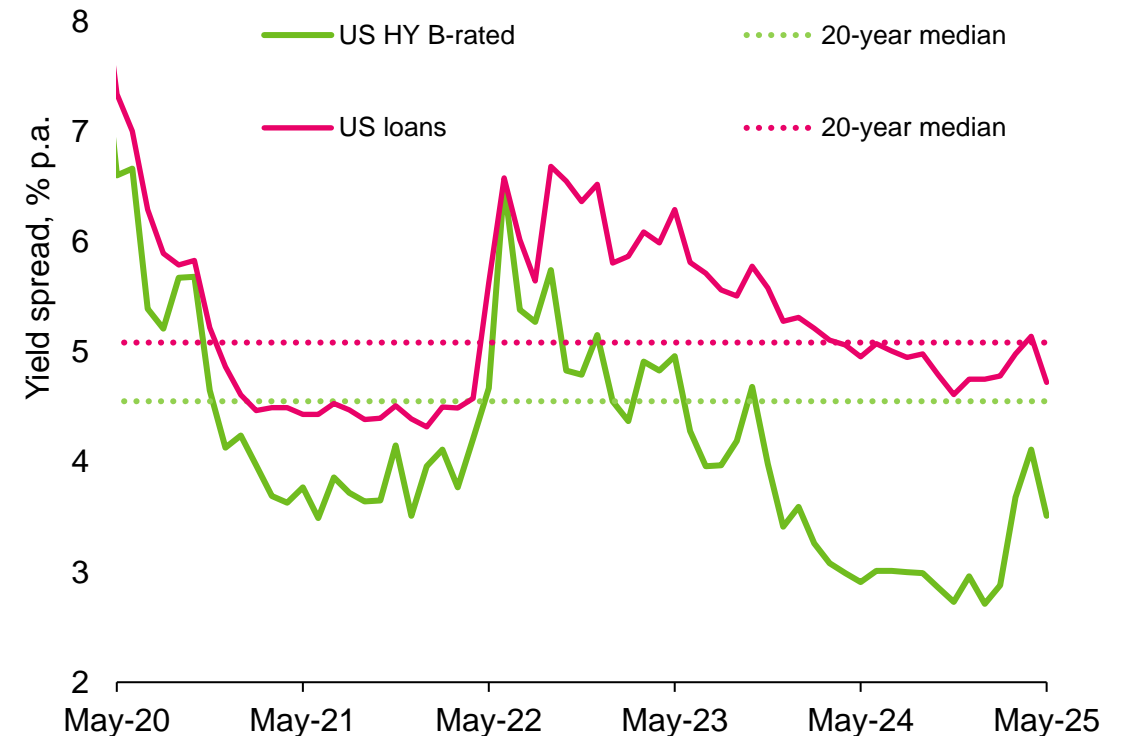
Source: Citivelocity, ICE Index Platform, Data currently available to 16 May 2025

# Speculative-grade credit

Speculative-grade credit spreads have followed a similar pattern, and we would still retain a degree of caution: spreads are above the historically low levels seen at the start of the year but are still low relative to long-term averages. Speculative-grade loan spreads have also risen, but less dramatically and from a higher initial level.



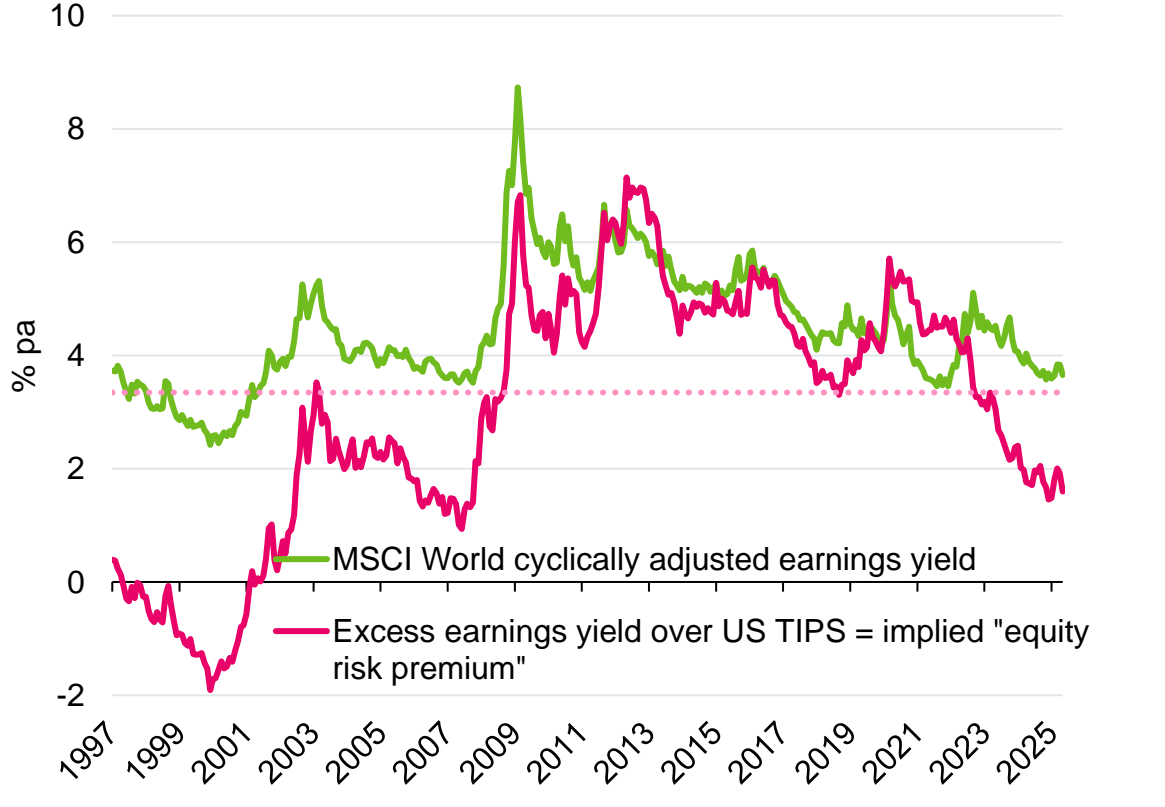
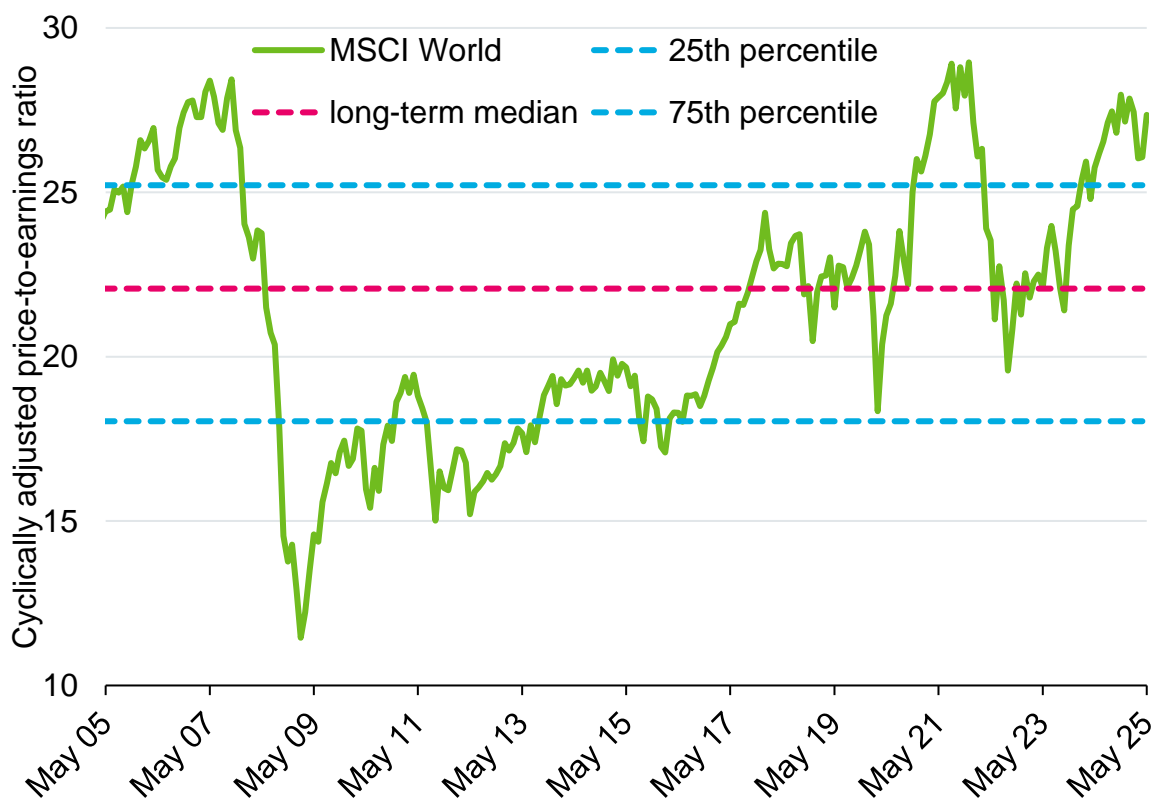
Source: ICE Index Platform



Source: ICE Index Platform, Barings

# Equities

Global equity cyclically adjusted price-to-earnings ratios have returned to the historically elevated levels seen at the start of the year. This, and elevated real bond yields, means the implied “equity risk premium” looks low relative to history.

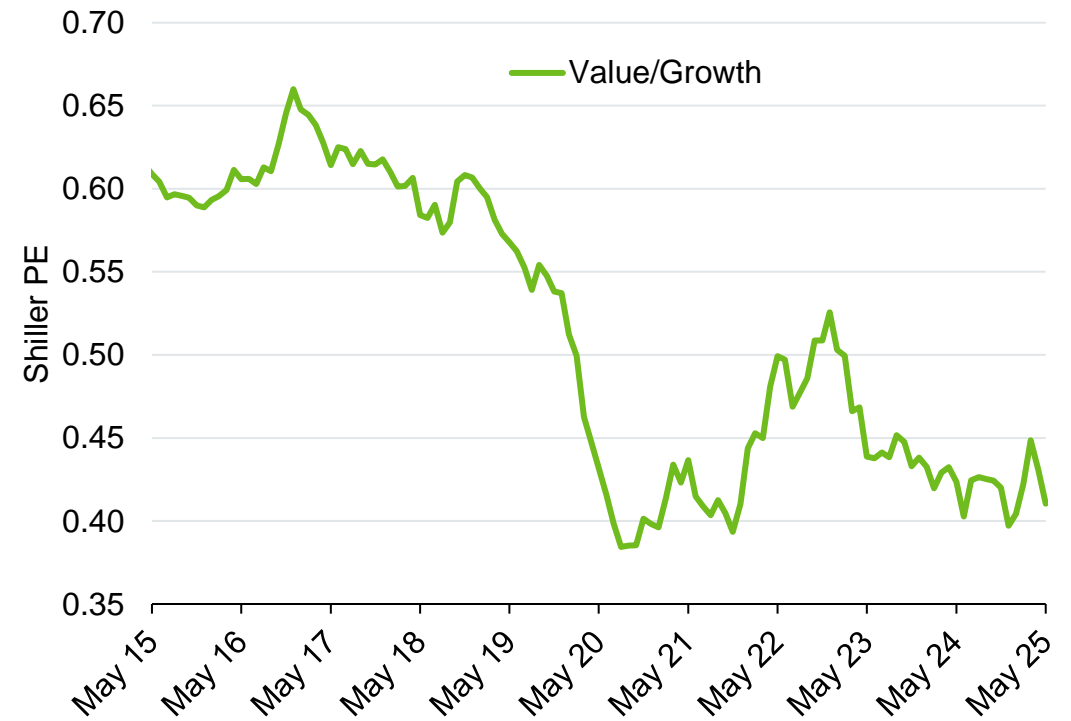
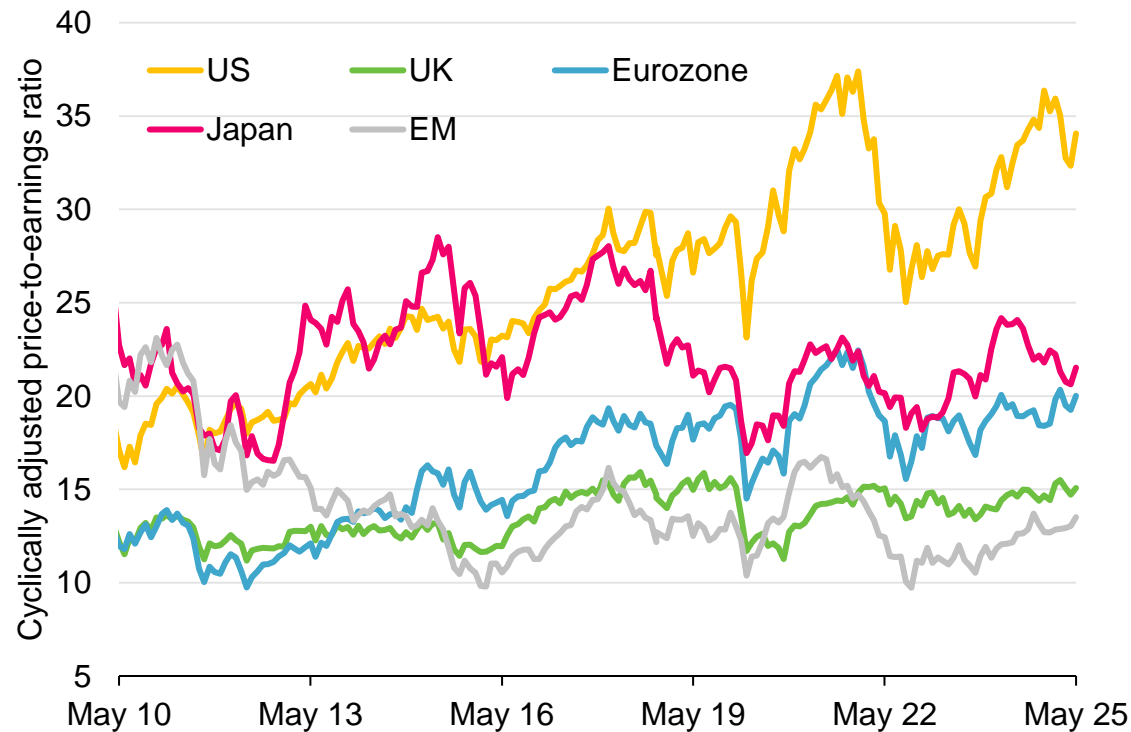


Source: LSEG Datastream, Hymans Robertson

Source: LSEG Datastream, Hymans Robertson

# Equities

Despite the US underperformance, and growth stocks underperforming value stocks, US equity market concentration remains high, while the US continues to trade at a premium to both its own history and global benchmarks. Meanwhile, growth stocks continue to trade at an elevated premium to value stocks versus history, despite the recent underperformance of growth stocks versus value stocks.

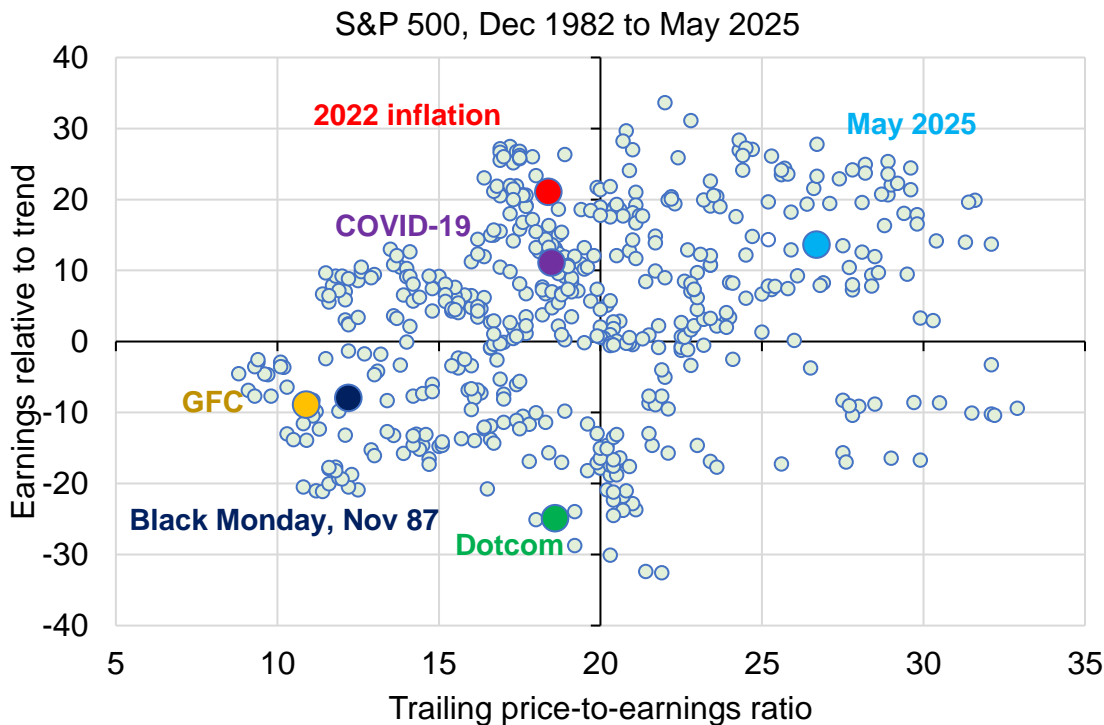
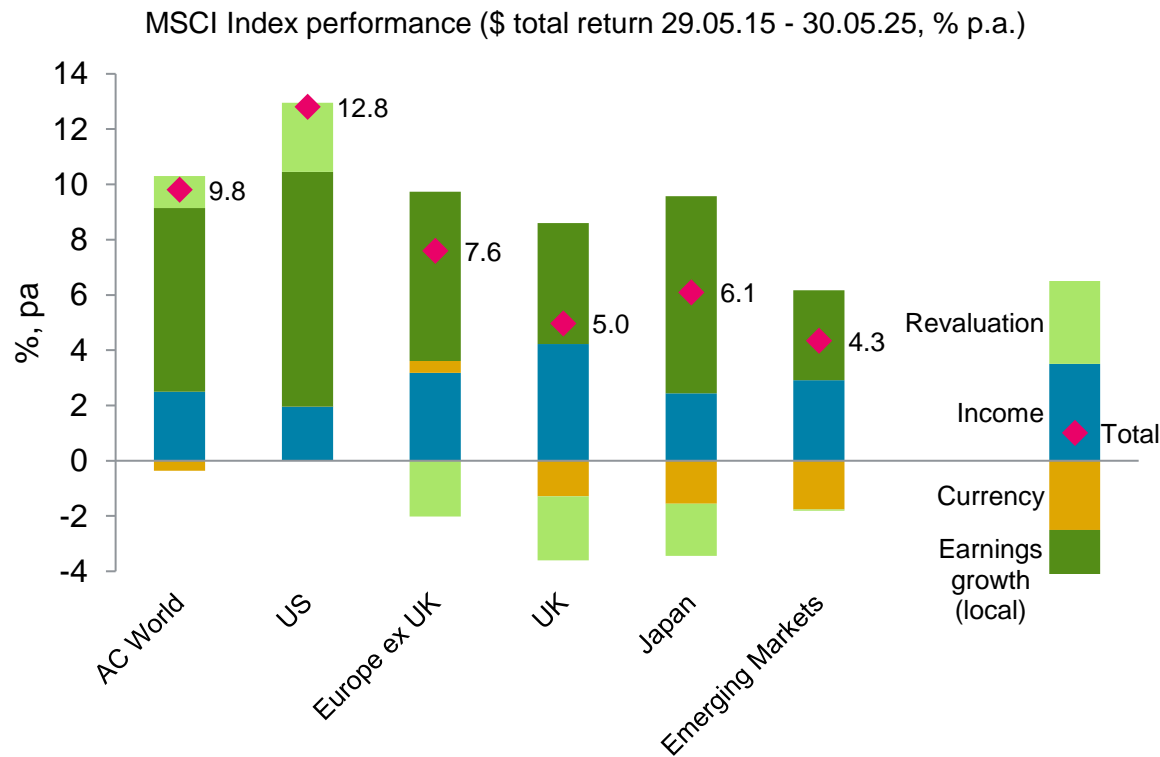


Source: LSEG Datastream, Hymans Robertson

Source: LSEG Datastream, Hymans Robertson

# Equities

Historic returns are no guide to the future. But examining the composition of those returns could be helpful. Given the past decade's above-trend earnings growth and multiple expansion, both earnings and valuations could be headwinds for medium-term US equity returns.

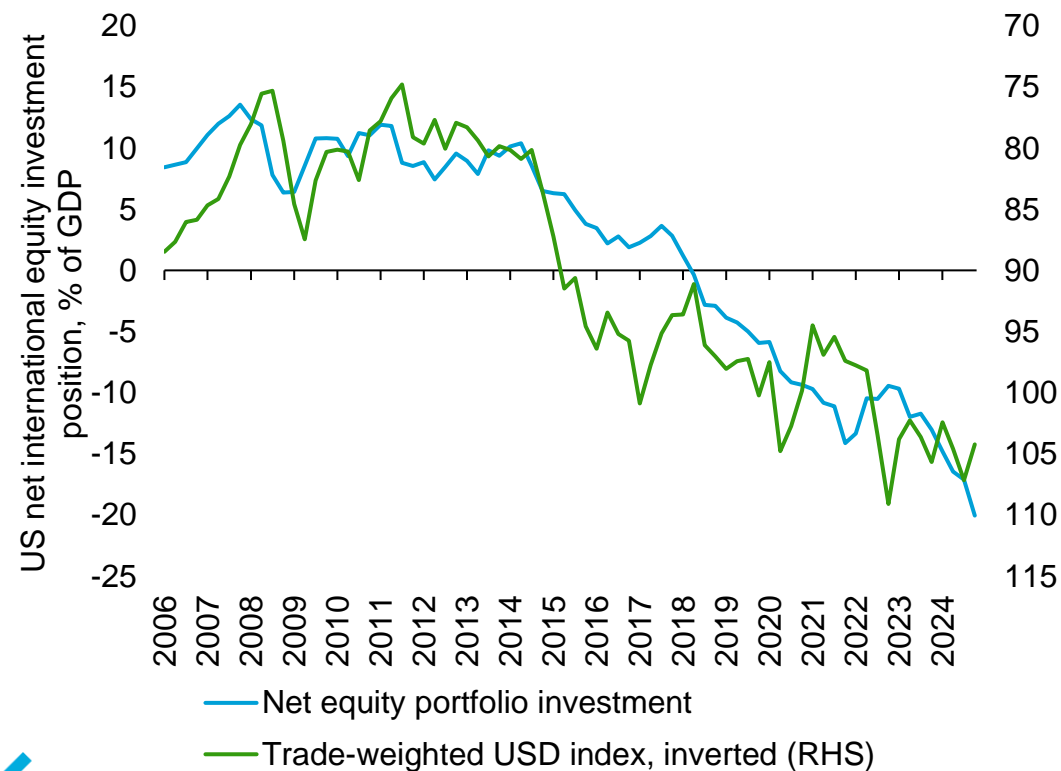


Source: LSEG Datastream, Hymans Robertson

Source: LSEG Datastream, Hymans Robertson

# Currency

Shifts in the US net international investment position (NIIP) have scope to undermine the safe-haven status of the dollar and any longer-term reversal in the US NIIP could weigh on the dollar and US assets more broadly. However, given recent dollar weakness, sterling no longer looks particularly cheap relative to the dollar, based on the \$/£ real effective exchange rate versus its long-term linear trend.



Source: Federal Reserve Bank of St Louis, LSEG Datastream



Source: LSEG Datastream, Hymans

# Thank you



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