

LDI Monthly Update

Strategy Update
**Liability-Driven
Investing**

April 2024

- UK budget highlights continued pressure on government finances
- Bank of England (BoE) keeps interest rates at 5.25%
- UK inflation continues its descent towards target

Market Commentary

The announcements made in the Spring Budget 2024 are expected to give a modest boost to the economy in the coming quarters. However, this boost is only partially financed by tax rises in later years, while spending on public services is expected to remain flat in the near term. The latest budget reveals that the government is meeting the current incarnation of the fiscal rules by a small fraction — demonstrating that government finances are likely to remain under pressure over the coming years.

The BoE left interest rates at 5.25% for the fifth consecutive meeting. However, the central bank continued to shift incrementally towards a dovish direction, as the two most hawkish members of the committee no longer voted in favour of hikes, while one member continued to vote for a cut in rates to 5.00%.

For February, the headline Consumer Price Index inflation printed at 3.4% YoY, down from 4.0% the prior month and slightly lower than consensus estimates of 3.5% YoY. Whilst second-round effects may lead to some stickiness in inflation, downstream inflation indicators continue to suggest a building disinflation trend, which should bolster the BoE's confidence in inflation returning to target.

Nominal gilt yields decreased across the curve, with larger moves higher seen at shorter tenors (10-year yields down 19 bp) compared to longer tenors (30-year yields down 14 bp). Real gilt yields followed a similar trend, with 10-year yields down 24 bp, versus 30-year yields falling 13 bp.



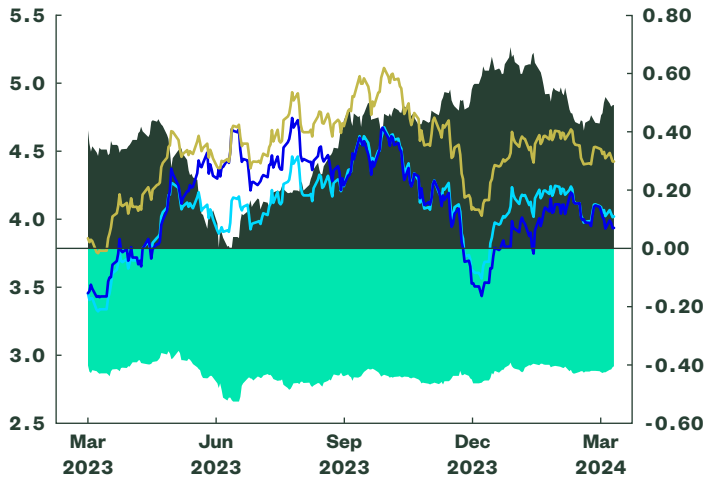
Figure 1 Market Moves

28 March 2024	Gilt Yields		OIS Swaps		Swap Spreads		Gilt Real Yields		Gilt Breakeven		RPI Swaps		Iota Spread	
	%	CoM (bp)	%	CoM (bp)	bp	CoM (bp)	%	CoM (bp)	%	CoM (bp)	%	CoM (bp)	bp	CoM (bp)
5yr	3.82	-21.6	3.81	-21.4	30.9	-1.3	0.12	-30.9	3.70	9.4	3.90	0.3	19.6	-9.1
10yr	3.93	-19.0	3.67	-17.6	-30.0	0.6	0.29	-24.2	3.65	5.3	3.68	-0.5	3.3	-5.8
30yr	4.42	-14.1	3.69	-13.6	-67.4	-0.5	1.13	-12.7	3.27	-1.2	3.27	-2.7	0.0	-1.5
50yr	4.02	-11.5	3.50	-12.7	-51.7	-2.8	0.83	-6.1	3.18	-5.5	3.14	-4.8	-4.4	0.7
10s30s	0.49	4.8	0.02	4.0	-48.8	-1.1	0.84	11.5	-0.38	-6.5	3.16	-2.2	-3.3	4.3
30s50s	-0.41	2.6	-0.19	1.0	15.7	-2.3	-0.30	6.6	-0.09	-4.3	-0.13	-2.1	-4.4	2.2

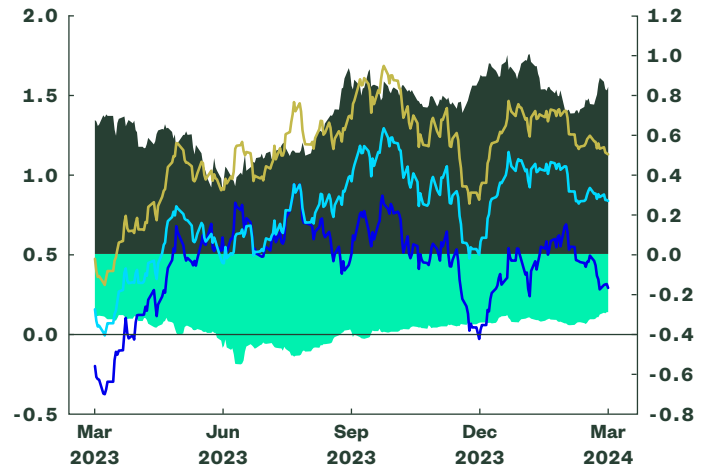
Source: Bloomberg, State Street Global Advisors, as at 28 March 2024. Past performance is not a reliable indicator of future performance.

Figure 2 Market Curves

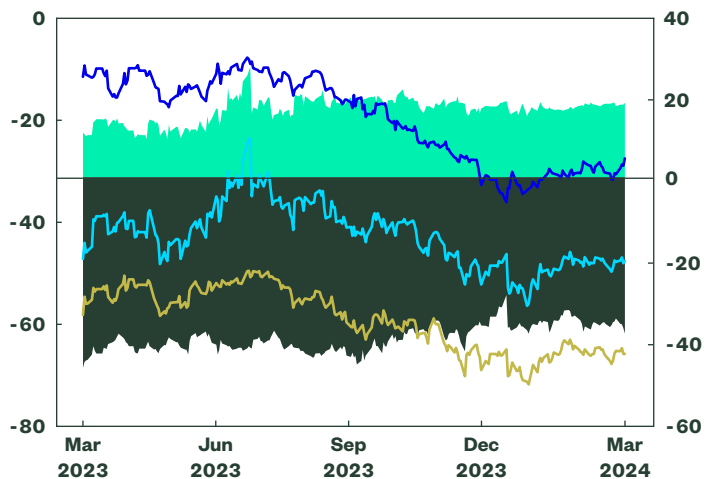
Nominal Gilt Yields (%)



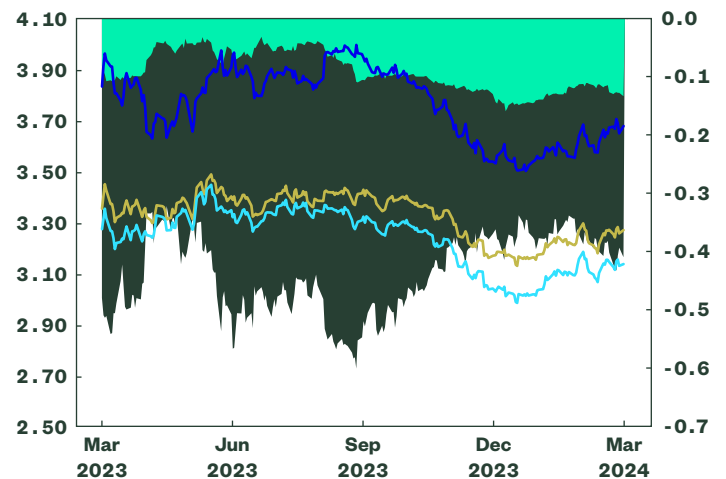
Real Gilt Yields (%)



OIS Swap Spreads (bp)



RPI Swaps (%)



10s30s (RHS) 30s50s (RHS) 10yr 30yr 50yr

Source: Bloomberg, State Street Global Advisors, as at 28 March 2024. Past performance is not a reliable indicator of future performance.

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ID2100987-4778869.24.1.EMEA.INST 0424
Exp. Date: 30/04/2025