



UK Week in Markets

Fortnight ending 3 January 2021



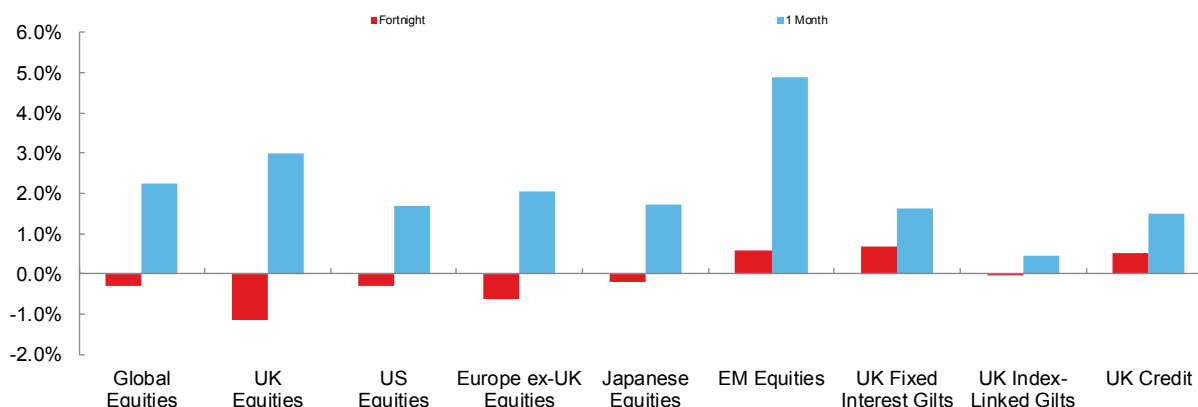
Key News and Events

- A new Covid-19 strain was identified in the UK which is believed to be up to 70% more transmissible than the previous dominant variant. It has caused the virus situation in the UK to re-escalate and the variant has now surfaced in other countries around the world. Meanwhile, the UK Medicines and Healthcare products Regulatory Agency approved the vaccine jointly developed by AstraZeneca and Oxford University. The European Union (EU) started its vaccination process after the European Medicines Agency approved the Pfizer/BioNTech vaccine for distribution.
- After years of negotiations, the UK and the EU reached a historic Brexit trade deal. The deal was struck after issues including EU fishing rights in UK waters and fair competition rules were agreed. EU fishing rights in UK waters will be reduced by one-quarter over a five and a half-year transition period, after which access will depend on annual negotiations. Elsewhere, Spain and the UK also agreed to keep the land border between the British overseas territory of Gibraltar and Spain open.
- US President Donald Trump finally signed the \$900bn coronavirus relief bill to avert a government shutdown but reiterated his demand to increase the direct payment to Americans from \$600 to \$2,000 per person. The increased direct payment was approved by the Democrat-controlled House of Representatives but is yet to reach the Republican-controlled Senate as the proposal was blocked by Republican Senate majority leader Mitch McConnell. President Trump also vetoed the \$740bn defence bill which was later overridden by the Senate.



Market Overview

Index Returns



Cumulative Return Over Last 12 Months

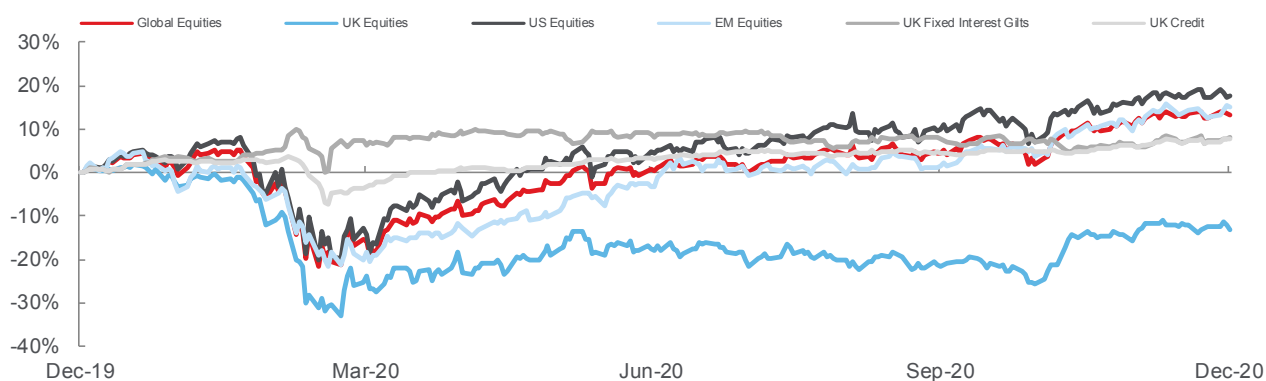


Chart Source: FactSet, FTSE, MSCI, ICE BofAML. Total return in GBP terms shown.



Market Summary

Equities

- Global equity markets rose in local currency terms over the fortnight.
- The MSCI AC World Index rose by 0.9% in local currency terms and fell by 0.3% in sterling terms.
- The Financials sector was the best performer, returning 1.0% in sterling terms.
- The Energy sector was the worst performer, returning -3.8% in sterling terms.
- Emerging Market equities were the best performing market in sterling terms (+0.6%).
- UK equities were the worst performing market in sterling terms (-1.1%).

Government Bonds

- The 10-year gilt yield fell by 4bps to 0.20% and the 20-year gilt yield fell by 4bps to 0.69%.
- The 10-year US treasury yield fell by 4bps to 0.92%.
- At the 10-year maturity, the German bund yield was unchanged at -0.58% and the French government bond yield was unchanged at -0.34%.
- Greek government bond yields fell by 4bps to 0.62%.
- The UK Over 5-year real yield fell by 1bp to -2.30% and the UK 20-year real yield fell by 1bp to -2.54%.
- 20-year breakeven inflation fell by 5bps to 3.14%.

Credit

- The sterling non-gilt spread over UK gilt yields (based on the Merrill Lynch index) rose by 1bp to 99bps over the fortnight.
- The US high yield bond spread over US treasury yields fell by 17bps to 386bps over the fortnight.
- Local currency emerging market debt fell over the fortnight, returning -1.6%.
- The spread of hard currency emerging market debt over US treasury yields fell by 1bp to 356bps over the fortnight.

Commodities

- The S&P GSCI index rose by 0.4% in USD terms over the fortnight.
- The S&P GSCI Energy index fell by 1.5% as the price of Brent Crude oil fell by 0.9% to US\$52/BBL.
- Industrial metal prices fell by 3.4% as copper prices fell by 2.8% to US\$7,742/MT.
- Agricultural prices rose by 7.1% and gold prices rose by 0.4% to US\$1,888/Oz.

Currencies

- Sterling strengthened by 1.4% against the US dollar and rose by 1.4% against the euro, ending the fortnight at \$1.37/£ and €1.12/£ respectively.
 - The US dollar decreased by 0.1% against the Japanese yen, ending the fortnight at ¥103.25/\$.
-

Contacts

Himmat Dhaliwal

Aon – London
himmat.dhaliwal@aon.com
+44 (0) 1372 73 3619

Nikhil Anto

Aon – Bangalore
nikhil.anto@aon.com
+91 80 6621 8236

About Aon Global Asset Allocation

Where are we in the economic cycle? What is the relative value of different asset classes? How are technical factors, such as regulation, impacting prices? Aon's Global Asset Allocation team continually asks and answers questions like these. We use our findings to help clients make timely decisions about asset allocation in their schemes' portfolios.

With over 160 years of combined experience, the team is one of the strongest in UK investment consultancy today.

Our experts analyze market movements and economic conditions around the world, setting risk and return expectations for global capital markets.

The team use those expectations to help our clients set and, when it's right to do so, revise their long-term investment policies.

We believe that the medium-term (1–3 years) has been under exploited as a source of investment performance. Maintaining medium-term views that complement our long-term expectations, we help our clients to determine when to make changes to their investment strategy

About Aon

Aon plc (NYSE:AON) is a leading global professional services firm providing a broad range of risk, retirement and health solutions. Our 50,000 colleagues in 120 countries empower results for clients by using proprietary data and analytics to deliver insights that reduce volatility and improve performance.

For further information on our capabilities and to learn how we empower results for clients, please visit <http://aon.mediaroom.com>.

© Aon plc 2020. All rights reserved.

Aon Solutions UK Limited is authorised and regulated by the Financial Conduct Authority. Registered in England & Wales.
Registered No: 4396810.
Registered Office:
The Aon Centre
The Leadenhall Building
122 Leadenhall Street
London EC3V 4AN

Appendix: Disclaimer

This document and any enclosures or attachments are prepared on the understanding that it is solely for the benefit of the addressee(s). Unless we provide express prior written consent, no part of this document should be reproduced, distributed or communicated to anyone else and, in providing this document, we do not accept or assume any responsibility for any other purpose or to anyone other than the addressee(s) of this document. Notwithstanding the level of skill and care used in conducting due diligence into any organisation that is the subject of a rating in this document, it is not always possible to detect the negligence, fraud, or other misconduct of the organisation being assessed or any weaknesses in that organisation's systems and controls or operations. This document and any due diligence conducted is based upon information available to us at the date of this document and takes no account of subsequent developments. In preparing this document we may have relied upon data supplied to us by third parties (including those that are the subject of due diligence) and therefore no warranty or guarantee of accuracy or completeness is provided. We cannot be held accountable for any error, omission or misrepresentation of any data provided to us by third parties (including those that are the subject of due diligence). This document is not intended by us to form a basis of any decision by any third party to do or omit to do anything.

Any opinions or assumptions in this document have been derived by us through a blend of economic theory, historical analysis and/or other sources. Any opinion or assumption may contain elements of subjective judgement and are not intended to imply, nor should be interpreted as conveying, any form of guarantee or assurance by us of any future performance. Views are derived from our research process and it should be noted in particular that we cannot research legal, regulatory, administrative or accounting procedures and accordingly make no warranty and accept no responsibility for consequences arising from relying on this document in this regard. Calculations may be derived from our proprietary models in use at that time. Models may be based on historical analysis of data and other methodologies and we may have incorporated their subjective judgement to complement such data as is available. It should be noted that models may change over time and they should not be relied upon to capture future uncertainty or events.

BLOOMBERG® is a trademark and service mark of Bloomberg Finance L.P. and its affiliates (collectively "Bloomberg"). BARCLAYS® is a trademark and service mark of Barclays Bank Plc (collectively with its affiliates, "Barclays"), used under license. Bloomberg or Bloomberg's licensors, including Barclays, own all proprietary rights in the Bloomberg Barclays Indices. Neither Bloomberg nor Barclays approves or endorses this material, or guarantees the accuracy or completeness of any information herein, or makes any warranty, express or implied, as to the results to be obtained therefrom and, to the maximum extent allowed by law, neither shall have any liability or responsibility for injury or damages arising in connection therewith.

London Stock Exchange Group plc and its group undertakings (collectively, the "LSE Group"). © LSE Group 2020. FTSE Russell is a trading name of certain of the LSE Group companies. "FTSE®" "Russell®", "FTSE Russell®" are a trade mark(s) of the relevant LSE Group companies and is/are used by any other LSE Group company under license. All rights in the FTSE Russell indexes or data vest in the relevant LSE Group company which owns the index or the data. Neither LSE Group nor its licensors accept any liability for any errors or omissions in the indexes or data and no party may rely on any indexes or data contained in this communication. No further distribution of data from the LSE Group is permitted without the relevant LSE Group company's express written consent. The LSE Group does not promote, sponsor or endorse the content of this communication.

The MSCI information may only be used for your internal use, may not be reproduced or disseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each other person involved in or related to compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties (including, without limitation, any warranties of originality, accuracy, completeness, timeliness, non-infringement, merchantability and fitness for a particular purpose) with respect to this information. Without limiting any of the foregoing, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) or any other damages. (www.msci.com)

Neither Markit, its Affiliates nor any third party data provider makes any warranty, express or implied, as to the accuracy, completeness or timeliness of the data contained herewith nor as to the results to be obtained by recipients of the data. Neither Markit, its Affiliates nor any data provider shall in any way be liable to any recipient of the data for any inaccuracies, errors or omissions in the Markit data, regardless of cause, or for any damages (whether direct or indirect) resulting therefrom. Opinions, estimates and projections in this report do not reflect the opinions of Markit Indices and its Affiliates. Markit has no obligation to update, modify or amend this report or to otherwise notify a reader thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate. Without limiting the foregoing, Markit, its Affiliates, or any third party data provider shall have no liability whatsoever to you, whether in contract (including under an indemnity), in tort (including negligence), under a warranty, under statute or otherwise, in respect of any loss or damage suffered by you as a result of or in connection with any opinions, recommendations, forecasts, judgments, or any other conclusions, or any course of action determined, by you or any third party, whether or not based on the content, information or materials contained herein.