

LDI Monthly Update

Strategy Update
**Liability-Driven
Investing**

March 2024

- UK enters technical recession in Q4 2023
- Bank of England (BoE) keeps interest rates at 5.25%
- Latest UK inflation release modestly below market expectations

Market Commentary

The UK entered technical recession in Q4 2023 with gross domestic product (GDP) at -0.3% QoQ. On a monthly basis, GDP contracted slightly in December. Still, the bigger news was the revisions to previous months' data, which showed an economy slowing more sharply since September 2023 than previously thought.

While it left interest rates at 5.25% for the fourth consecutive meeting, the BoE indicated that the next move would be a cut, but it pushed back more strongly against forecasts that lower rates would be imminent. Two Monetary Policy Committee members continued to vote to raise rates to 5.50%, whereas one member voted to cut rates to 5.00%. In the press conference, Governor Bailey noted, "We have come a long way ... but we are not there yet [in returning inflation to target]."

In January, the headline Consumer Price Index inflation remained unchanged versus the December print at 4.0% YoY, slightly lower than consensus estimates and the BoE's forecast of 4.1% YoY. Driven by base effects, particularly with energy prices, expectations are for the inflation print to fall further toward the central bank's 2% target in the coming months.

Nominal gilt yields increased across the curve, with larger moves higher seen at shorter tenors (10-year yields up 33 bp) compared to longer tenors (30-year yields up 11 bp). Real gilt yields followed a similar trend, with 10-year yields rising 25 bp versus 30-year yields falling 3 bp.



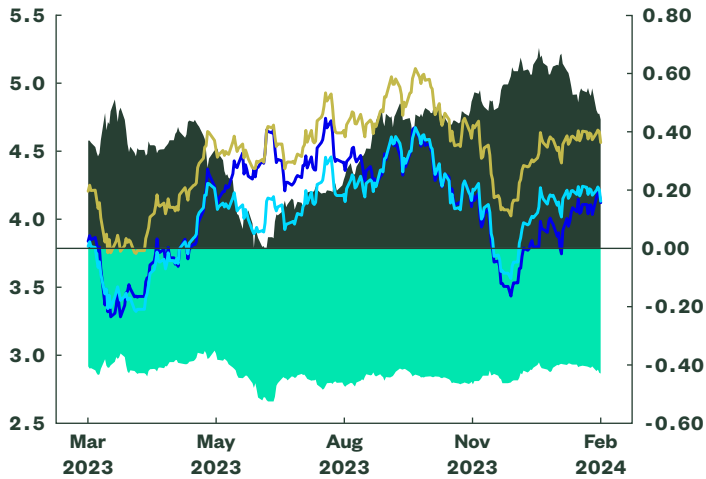
Figure 1 Market Moves

29 February 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	4.04	29.7	4.03	38.7	32.2	2.9	0.43	40.8	3.61	-11.2	3.89	14.3	28.7	25.5
10yr	4.12	32.9	3.84	25.6	-30.6	-0.3	0.53	24.7	3.59	8.2	3.69	13.3	9.1	5.1
30yr	4.56	10.9	3.82	11.1	-66.9	1.6	1.26	-3.0	3.28	12.9	3.30	12.2	1.5	-0.7
50yr	4.13	7.7	3.63	10.6	-48.9	2.3	0.90	-6.9	3.24	14.6	3.19	14.9	-5.1	0.3
10s30s	0.44	-22.0	-0.02	-14.5	-48.8	1.9	0.73	-27.7	-0.31	4.7	3.16	-1.1	-7.6	-5.8
30s50s	-0.43	-3.2	-0.20	-0.5	18.0	0.7	-0.36	-3.9	-0.05	1.7	-0.11	2.6	-6.6	0.9

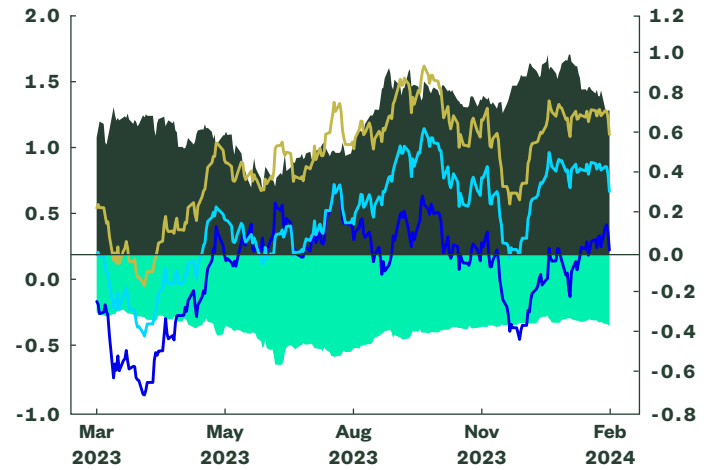
Source: Bloomberg, State Street Global Advisors, as at 29 February 2024. Past performance is not a reliable indicator of future performance.

Figure 2 Market Curves

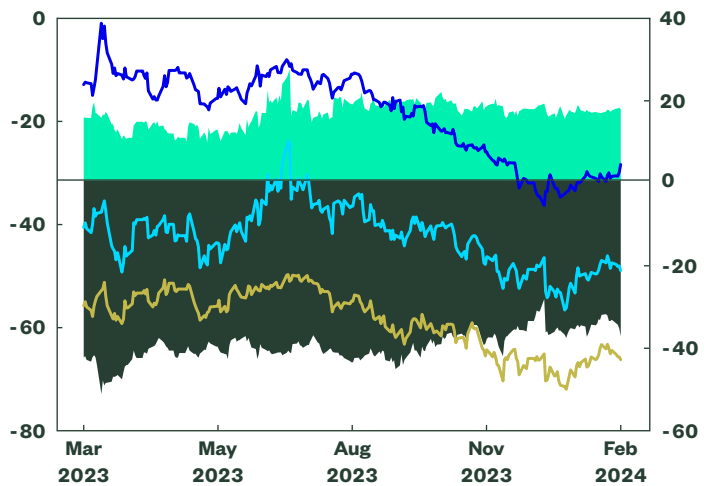
Nominal Gilt Yields (%)



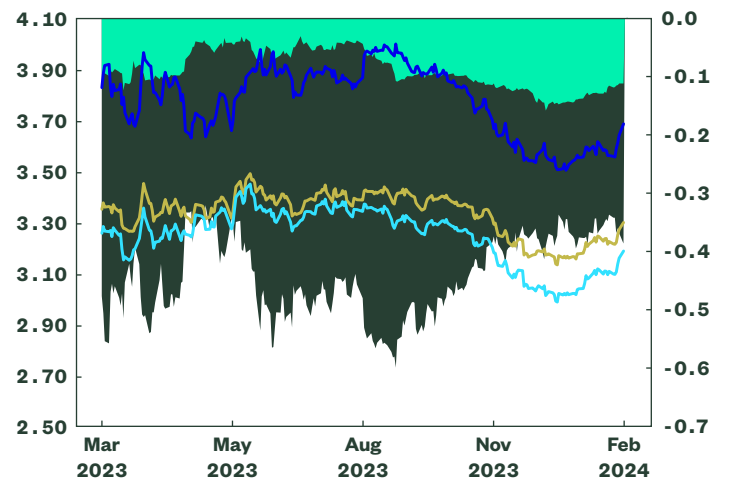
Real Gilt Yields (%)



OIS Swap Spreads (bp)



RPI Swaps (%)



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

Source: Bloomberg, State Street Global Advisors, as at 29 February 2024. Past performance is not a reliable indicator of future performance.

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