Investment report for Teesside Pension Fund
September 2025

Political and economic outlook

Yet another quarter passes and again it's another quarter in which the political and economic situation appears to have deteriorated. At the present rate of progress we could still have a number of deteriorating quarters ahead of us, the bottom, unbelievably, appears a long way off.
The recent incursion of Russian drones into Polish airspace has led to heightened military readiness from NATO states. Clearly the air defence systems over Poland were shown to be inadequate and NATO can be expected to increase its air presence in the area.
Globally there has been a significant decline in press and media freedom. Civil liberties have been restricted and there has been a general undermining of democratic rights. The shooting of Charlie Kirk in the United States is a reflection of the decline in the democratic checks and balances in democracies that have existed up until now.
The blatant disregard for international law by Israel's incursion into Qatar leading to the killing of Hamas leaders and a Qatari officer will certainly lead to a diplomatic backlash and maybe broader regional instability.
The European move towards more economic and strategic autonomy is not without risk. It is defensively weaker than previously and trade disputes will make any move towards a stronger position more difficult as economic growth slows down.
Across the globe it is difficult to find an area where political tensions aren't heightened. There are continuing conflicts in Africa and political violence and unrest in Southeast Asia. These protests are mainly driven by

corruption, inequality and restrictions on civil liberties. In the main governments have responded by suppressing the population.
It is not surprising given the above that the commitment to tackling climate change has been diluted significantly. Unfortunately this has implications for water shortages, agriculture and supply chain shocks which will themselves heighten political tensions.
On the economic front rising national debt in the G7 economies has caused bond yields to rise and to an increased risk of ratings downgrades. The UK, France, Japan and the US look especially vulnerable.
Inflation continues to remain above target levels which is limiting Central Banks ability to reduce short-term interest rates because of the fear of reigniting inflation. Additionally many emerging markets are also facing high debt levels increasing the risk of default and currency devaluation.
American economic policies and other factors are pointing the way to a global growth slowdown which is likely to increase the chances of further financial instability.
The transition to a green economy requires huge capital investment and this is increasingly unlikely to happen as country finances become constrained. Without this investment it is likely that there will be food insecurity and commodity price volatility with a disproportionate impact on poorer countries.
Labour market demographics, AI transitioning and rising income inequality all point to an increasingly challenging economic management position making higher growth even more difficult to achieve.

Markets

Despite the rising political tensions and the poorer economic outlook equity markets continue to rise however it's an increasingly difficult balancing act to perpetuate. I would expect equity outperformance against other assets to

reverse in the medium term. Poorer economic performance is likely to put pressure on corporate profits and might lead to an improving inflationary outlook which would favour bonds over equities.
Government bond yields have fallen slightly from their recent highs and the recent auction of US Treasury bonds went well on the basis of better than expected wholesale prices inflation and weak jobs data. After a long period of underperformance bonds might just be able to hold their own.
After 5 years of extraordinary underperformance index linked stocks may well be showing signs of bottoming out on a yield basis not dissimilar to conventional government bonds.
Greater economic insecurity and slower growth point to a subdued property market. No more funds should be committed until the outlook becomes more certain and favourable. This should give us a chance to assess how well our new property team at Borders to Coast is performing.
Tight liquidity will continue to impact on the unquoted and private equity markets and this will lead to further underperformance over the medium term.
Tight finance would indicate that no asset class will be off to the races.

Portfolio recommendation

As noted previously the fund remains in a strong financial position and as a result there is little reason to adopt a high level of risk. The fund has reduced exposure to equities and built higher cash levels which should serve it well. I'm not averse to allowing cash levels to creep up a little more to hopefully reinvest at lower market levels, but in a way this is all fine tuning and therefore not suited to investment planning.

Our exposure to unquoted and infrastructure assets are likely to impact on the performance of the fund due to the liquidity environment but there is little we can do about this.
Apart from allowing cash levels to build up a tad and maybe dipping a toe into index linked to markets (when Borders to Coast has the appropriate investment vehicle) there is little to be done on the asset allocation profile of the fund.

Peter Moon
11 September 2025