

## Summary

### Inflation

- Annual UK CPI declined by 0.3% to 1.7% over the quarter. The decline was driven by a decrease in prices across housing, water, electricity/gas, and transport sectors predominantly caused by a decrease in fuel prices.
- Annual UK RPI declined by 0.5% to 2.4% over the quarter. The larger decrease compared to CPI was due to different weightings of housing and gas prices in RPI than CPI.
- Despite the decline in RPI over the quarter, UK inflation expectations have increased at the shorter end of the curve. As can be seen from the longer end of the curve, RPI expectations have declined, partly due to the announcement from the chancellor that RPI might be converging to CPIH.

### Bond yields

- Real Gilt yields have decreased over the medium term and marginally over the long term, reflecting a lower path of expected future cash rates. The decline is largely driven by the effect of recent Brexit and political uncertainty on investor sentiment.
- Nominal Gilt yields also largely decreased across the curve, driven by reduced real yields at the short end and inflation expectations at the long end.

### Credit spreads

- Investment grade credit spreads have widened across the board mainly due to a lag in pricing when Real Gilt yields decrease.

## Macro picture

UK GDP (y/y)	1.3%
UK BOE base rate	0.75%
March 2024 real gilt yield	-2.5%
March 2040 real gilt yield	-2.1%
UK RPI (y/y)	2.4%
UK CPI (y/y)	1.7%

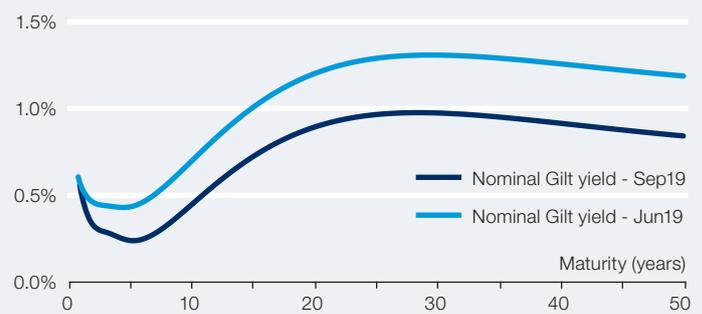
Sources: ONS, Barcap, Reuters, FT.com, 30 September 2019 or latest published figures

## UK credit spreads



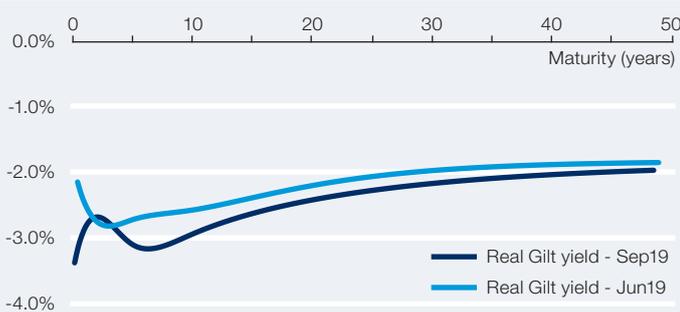
Source: Thompson Reuters, IBOXX non-financials +15 year indices - 30 September 2019

## Nominal Gilt yield forward curve



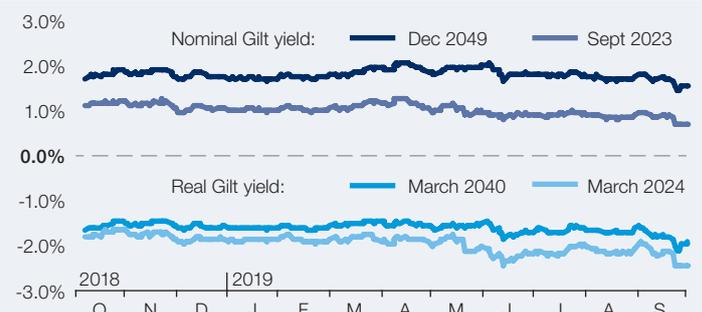
Source: Barcap - 30 June 2019 and 30 September 2019

## Real Gilt yield forward curve



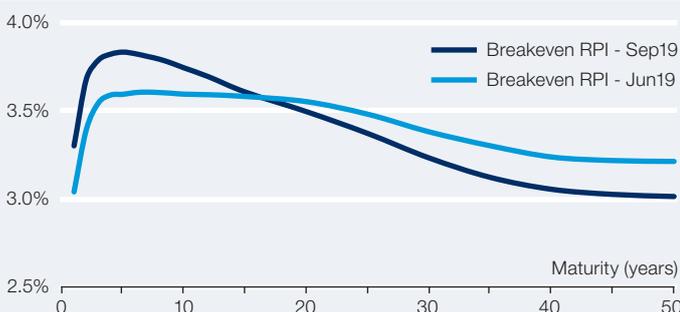
Source: Barcap - 30 June 2019 and 30 September 2019

## Historical nominal and real yields



Source: Barcap - 30 September 2019

## RPI swap rate



Source: Barcap - 30 June 2019 and 30 September 2019

## RPI, CPI and HPI historical returns



Source: Thomson Reuters, ONS - 30 September 2019

## Alpha's Cashflow Driven Investing (CDI) thought leadership series:



### Commercial ground rents as a compelling fixed income alternative

We believe that long-dated commercial ground rents, should be considered a bond-like asset class but possess many characteristics superior to traditional fixed income instruments.

- Commercial ground rents can be seen as a fixed income instrument – with property collateral – rather than simply a real asset
- There are compelling reasons for liability-aware investors to consider an allocation to commercial ground rents, even as a potential substitute for part of a fixed income allocation
- We explore and compare some key attributes across both bonds and commercial ground rents:
- Relative to bonds, we believe that commercial ground rents, when structured correctly, can offer enhanced returns without increasing risk, and can maximise downside protection
- Commercial ground rents may provide a better cashflow match against long-dated, inflation linked liabilities

Risk	Return
Volatility	Value
Illiquidity	Indexation

Commercial ground rents as a compelling fixed income alternative

With bond yields at all-time lows, where else can investors turn for contractual cashflows?

Part of Alpha Real Capital's Cashflow Driven Investing series

Alpha Real Capital

Compared to public and private fixed income alternatives, allocating to commercial ground rents:

- Generates a meaningful risk-adjusted yield pick-up
- Improves downside protection through greater security cover
- Represents an efficient use of illiquidity budget

### Others in our CDI series

Also available to view at [alpharealcapital.com/news](http://alpharealcapital.com/news)



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#### Lifetime Mortgages

Addressing investor concerns

Addressing historical concerns and the impact of proposed regulatory changes



#### Cashflow Driven Investing

for defined benefit pension schemes

Secure income investing in a low-yield environment

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## Alpha Real Capital

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