

## Summary

### Inflation

- Annual UK CPI fell 0.3% to 1.4% over the quarter. The decline was driven by a weakening of prices in the hotel/restaurant sector as well as the clothing and footwear sector.
- Annual UK RPI fell by 0.2% to 2.2% over the quarter. The decrease was due to the same factors as the decline in CPI. However, this was offset by an increase in air fares which have a larger weighting in RPI than CPI.
- UK inflation expectations have significantly declined over the quarter at the short and medium end of the curve. This is primarily driven by the recent lower than expected RPI and the announcement of the government review of RPI.

### Bond yields

- Real Gilt yields have increased over the curve supported by positive investor sentiment due to the removal of some uncertainty from the recent completion of the UK General Election.
- Nominal Gilt yields have increased across the curve, driven by increased real yields offsetting decreased inflation expectations in the short and medium term.

### Credit spreads

- Investment grade credit spreads widened in October driven by global growth and political uncertainty but are now trending downwards.

## Macro picture

UK CPI (y/y)	1.4%
UK RPI (y/y)	2.2%
March 2024 real gilt yield	-2.3%
March 2040 real gilt yield	-2.0%
UK GDP (y/y)	1.1%
UK BOE base rate	0.75%

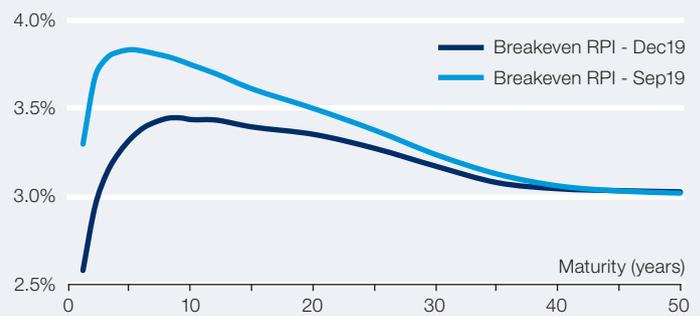
Sources: ONS, Barcap, Reuters, FT.com, 31 December 2019 or latest published figures

## RPI, CPI and HPI historical returns



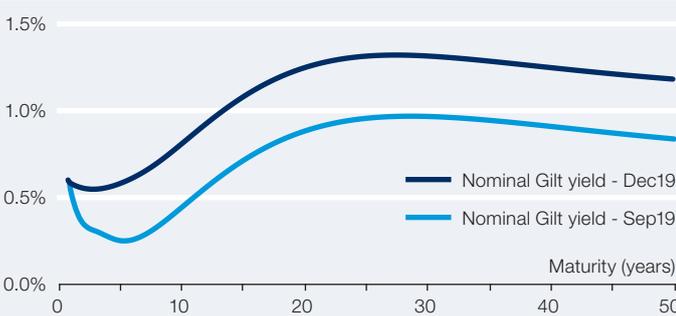
Source: Thomson Reuters, ONS – 31 December 2019

## RPI swap rate



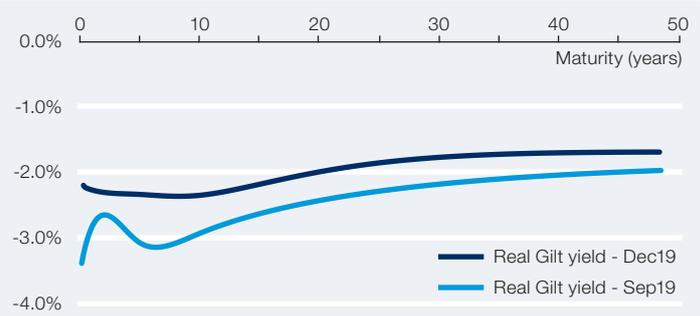
Source: Barcap – 30 September 2019 and 31 December 2019

## Nominal Gilt yield forward curve



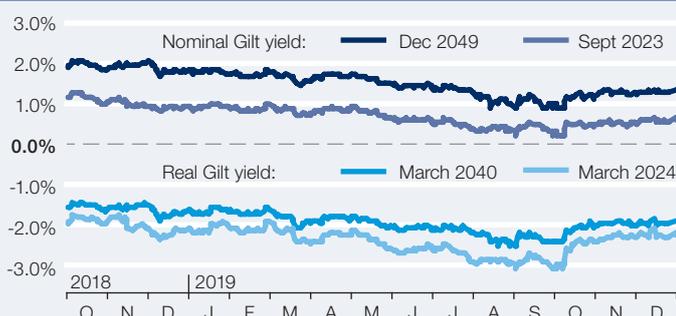
Source: Barcap – 30 September 2019 and 31 December 2019

## Real Gilt yield forward curve



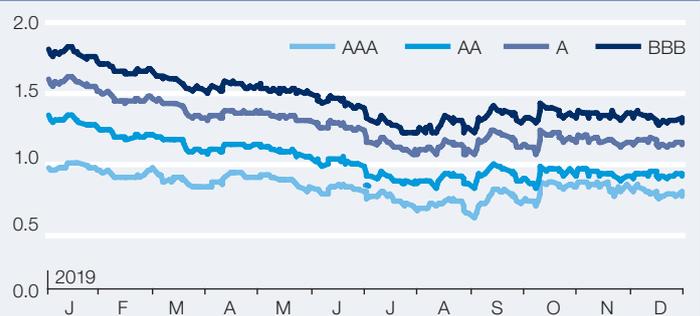
Source: Barcap – 30 September 2019 and 31 December 2019

## Historical nominal and real yields



Source: Barcap – 31 December 2019

## UK credit spreads



Source: Thompson Reuters, IBOXX non-financials +15 year indices – 31 December 2019

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# Alpha Real Capital

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