



PRUDENTIAL

Staff Pension Scheme

Defined Contribution Section

Market commentary from the DC Section Investment Consultant



August 2025

Your journey

Investment Markets and PSPS Funds Update – August 2025

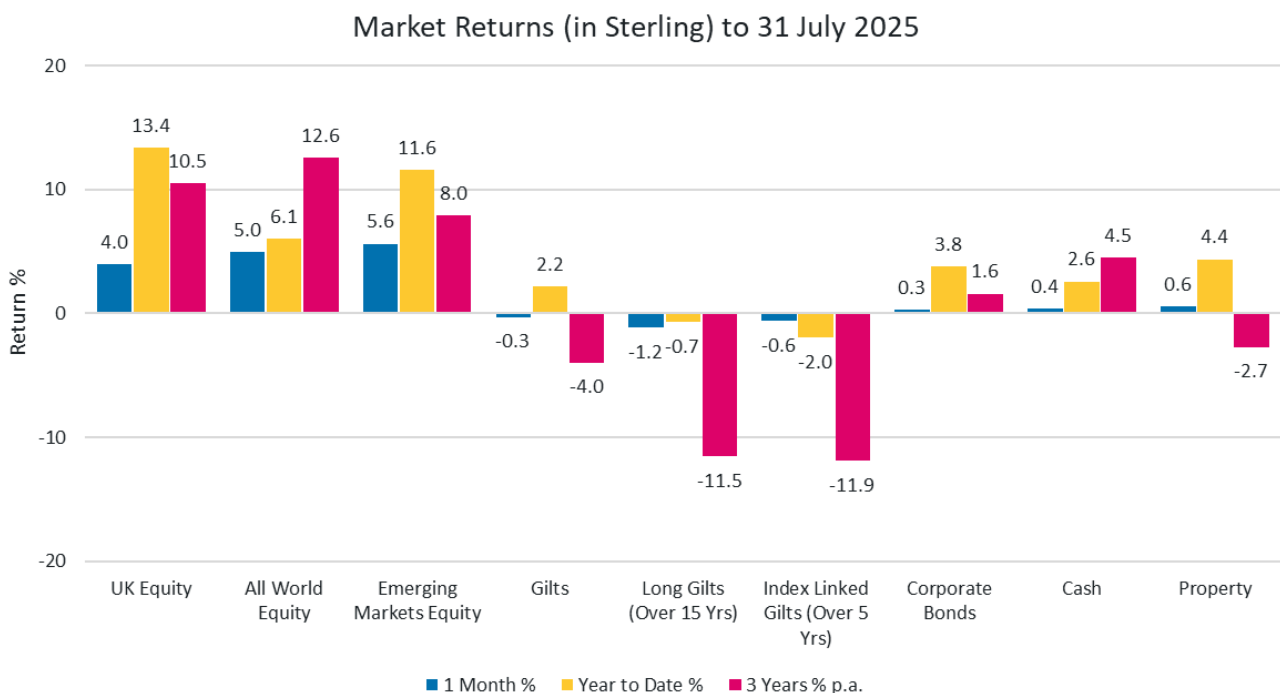
Introduction

This paper is addressed to the Trustee of the Prudential Staff Pension Scheme (“Scheme”) DC Section and provides a regular update on the performance of PSPS funds and investment markets.

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Where the subject of this note refers to legal or tax matters, please note that Hymans Robertson LLP is not qualified to give such advice therefore we recommend that you seek independent advice on these matters.

Performance of Investment markets



Source: LSEG Datastream

Indices: FTSE All Share, FTSE All World £, FTSE All Emerging £, FTSE British Govt Over 15Y, FTSE British Govt Index Linked Over 5Y, iBoxx Sterling Non-Gilts, SONIA, MSCI UK Monthly property

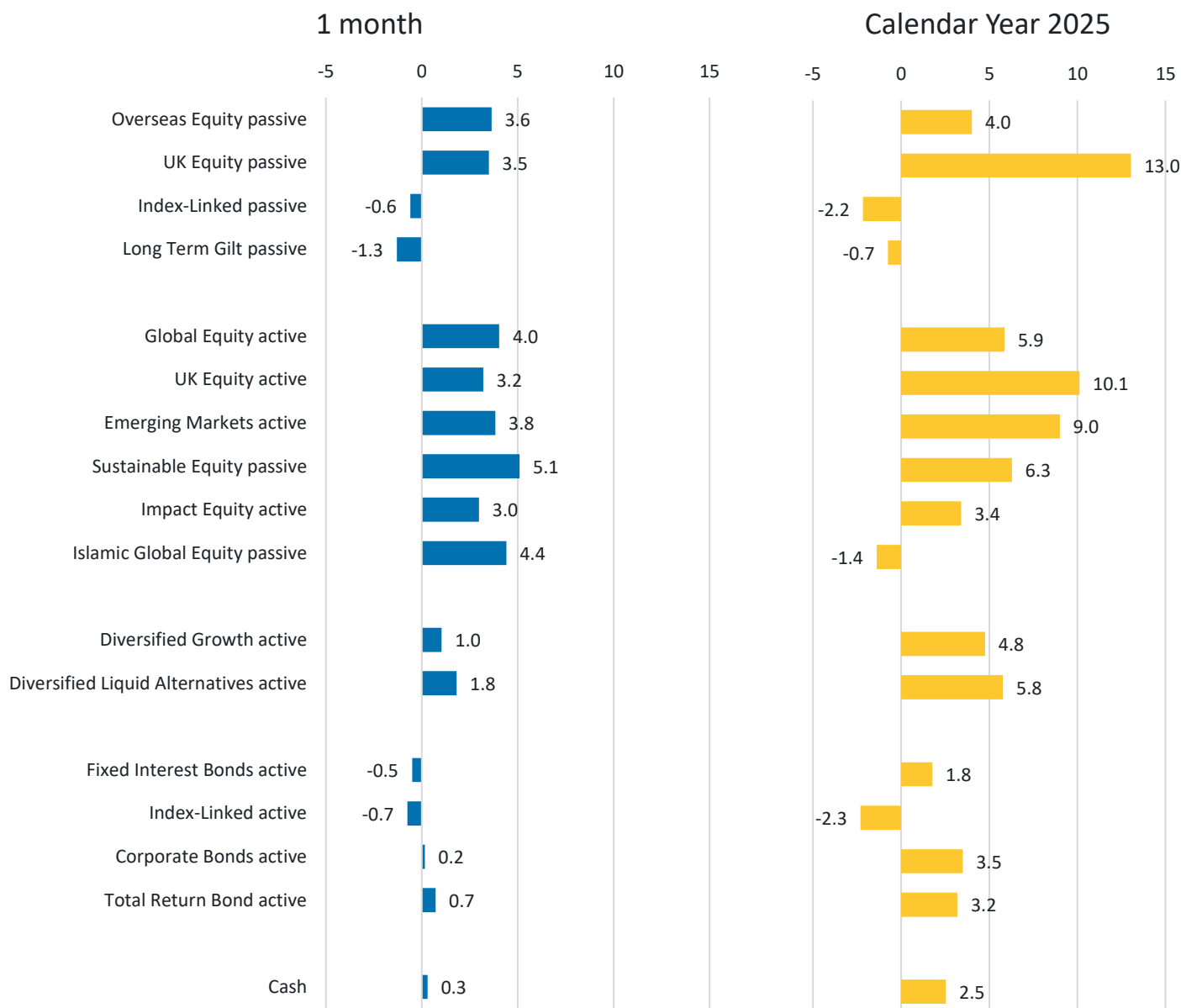
July highlights

- The US economy rebounded in the second quarter (Q2) (3% annualised) as the import-driven drag from Q1 unwound. However, underlying domestic growth slowed. While July's PMI data indicate a rebound in service-led growth, declining business optimism and a recent weak labour market report raise concerns over its sustainability.
- The eurozone economy grew modestly in Q2 as tariff-related boosts faded, while monthly UK GDP releases point to contractions in both April and May. China's economy grew by a larger-than-expected

1.1% quarter on quarter in Q2, supported by resilient exports and policy measures; however, domestic headwinds persist.

- UK inflation rose more than expected to an 18-month high of 3.6% year on year. US inflation edged up to 2.7%, while inflation in the eurozone returned to the European Central Bank's (ECB) 2% target, having dipped below it in May.
- The US Federal Reserve (Fed), ECB and Bank of Japan (BoJ) kept rates unchanged in July. Across the major advanced economies, sovereign bond yields rose and yield curves steepened, as tariff-induced growth concerns eased and worries about higher government spending (and hence bond issuance) intensified.
- Slightly reduced tariff uncertainty, resilient economic data and a strong Q2 earnings report supported risk assets. Global equities gained 2.2%, with tech stocks outperforming. Meanwhile, speculative-grade credit spreads fell more than their investment-grade counterparts.
- The trade-weighted US dollar registered its first monthly gain this year in July, up 1.0%, after a weak H1. Gold prices rose a modest 0.4%, while oil prices reversed some of their year-to-date decline, rising 7.3%.

The chart below shows the **estimated** performance (net of annual fees) of the PSPS funds for **July 2025** and for the **calendar year 2025**. Please note that these are estimates of fund performance and not official performance figures from the fund provider. Longer term historical performance can also be found in appendix 1.



Please note –One day price lag on underlying funds of Overseas Equity Passive Fund. Unit prices of underlying component funds sourced from Bloomberg or Fund manager websites.

What is the impact on DC Section members?

Most funds posted positive returns over the month of July, with equity funds producing the strongest returns.

Equity funds have recovered their falls of earlier in the year and UK and Emerging Markets equities continue to have been the strongest for the calendar year to 31 July 2025. The Islamic Fund which has not yet fully recovered the falls incurred earlier in the year and remain marginally negative for the calendar year to date.

The multi-asset funds have produced strong positive returns over the first 7 months of 2025. Gilt based funds have been the weakest in 2025.

Lifestyle Returns

We show the estimated performance of the Multi-Asset Lifestyle in Appendix 2 for periods to 31 March 2025. In the lifestyle, the allocation of members' investments across certain PSPS funds is adjusted automatically depending on each member's period to targeted retirement date, moving from riskier to less risky assets as members approach retirement. Therefore, the returns for members will vary across age groups and between members with different period to retirement. In the appendix we show the estimated returns for 3 different types of members, based on their periods to retirement.

Members who are in the legacy Active and Passive Lifestyles Targeting Annuity Purchase and are in the de-risking phase (less than 10 years to retirement), will have been exposed to gilts and index-linked gilts to a significant extent that have produced negative returns over 2024. These legacy lifestyles are designed for people seeking to purchase an annuity at retirement with their DC pot. Typically, falling gilt values (and higher yields) is accompanied by improved annuity rates, offsetting the negative performance.

Note on Currency

For the PSPS funds which invest in non-UK assets, the funds bear currency risk (i.e. the effect of changes in the value of currencies and in particular the change in value of the currency in which the assets are invested relative to sterling). Therefore, the return from these funds is driven both by the change in valuation of the assets themselves and the translation of that value from the local currency to sterling.

Market Commentary –July 2025

The global economy

Advanced estimates showed US GDP rebounded at a 3.0% annualised pace in Q2, as the import-driven drag from Q1 reversed. However, underlying domestic demand – consumer spending and business investment – grew only modestly, marking the softest consecutive-quarter growth since the pandemic. Flash PMI data indicate that private sector activity picked up at the start of Q3, led by services, while manufacturing lost momentum as tariff front-loading effects faded. However, the sustainability of this growth is uncertain. Business optimism for the year ahead deteriorated to a two-and-a-half-year low (excluding April's trough), with firms increasingly concerned over tariffs, federal spending cuts and rising cost pressures.

Flash eurozone GDP estimates indicate the economy suffered a limited setback as the tariff front-loading effects, which boosted many economies' Q1 outturns, faded. The eurozone expanded a modest 0.1% in Q2, slightly ahead of no-growth expectations, while timelier flash PMI data indicate a further increase in private sector activity at the start of Q3. Meanwhile, the UK posted its second month-on-month contraction in May, putting the economy at risk of an overall contraction in Q2. Furthermore, flash PMI data suggest private sector activity slowed in July as the services-sector recovery lost momentum. In Asia, China's economy registered a larger-than-expected 1.1% expansion in Q2, primarily driven by resilient exports and policy support. However, higher tariffs, weak domestic demand, deflationary dynamics and property-market weakness continue to pose challenges.

UK annual headline CPI unexpectedly rose to an 18-month high of 3.6% in June, driven by transport (fuel and fares), clothing and food prices. The data aligns with recent PMI surveys and indicates businesses are starting to pass higher payroll costs, stemming from last autumn's budget, onto consumers. US headline inflation rose to 2.7% year-on-year in June, as tariff-related pressures began to surface, albeit modestly. While firms have so far absorbed much of the impact, July's flash PMI survey signals that tariff-induced cost pressures are building, alongside persistent wage-driven inflation from labour shortages. Inflation pressures remain far less pronounced in the eurozone, with headline CPI edging up to 2.0% year on year in June, broadly in line with expectations. Core

inflation (which excludes volatile energy and food prices) remains above headline inflation in the UK, US and eurozone, at 3.7%, 2.9% and 2.3%, respectively.

The US Federal Reserve maintained rates at 4.25–4.50% p.a. for the fifth consecutive meeting, balancing trade policy uncertainty and still-resilient economic data. However, shortly after month-end, a very weak labour market report led markets to reassess the employment outlook, pricing in a higher probability of a September rate cut and anticipating three 0.25% p.a. cuts by year-end. The ECB (European Central Bank) kept rates at 2.0% pa, as inflation is at target and growth remains modestly positive. While markets scaled back the likelihood of further easing, traders still expect one more 0.25% p.a. cut by year-end. Despite the recent rise in inflation, the Bank of England is largely expected to look through it, viewing the pressures as temporary, and proceed with a cautious withdrawal of monetary policy restraint. Markets are pricing in at least two 0.25% pa rate cuts this year, which would lower the bank rate to 3.75% pa by year-end. In contrast, the BoJ maintained rates at 0.5% pa in July – the highest level since 2008 – as it continues its cautious approach to policy normalisation.

Fixed income markets

Sovereign bond yields rose across regions

Expectations of higher government spending (and therefore bond issuance) across the major advanced economies, coupled with reports highlighting waning institutional demand, contributed to a rise in long-term bond yields. Above-target inflation releases in the US, UK and Japan also placed upward pressure on yields.

Benchmark US 10-year Treasury yields rose 0.2% pa, to 4.4% pa, on resilient economic data and growing unease over the long-term sustainability of US government debt, following the passage of President Trump's reconciliation bill. Ten-year UK and German government bond yields both rose 0.1% pa, to 4.6% pa and 2.7% pa, respectively. Japanese 10-year yields rose to 1.6% pa, while 30-year yields climbed 0.2% pa, to 3.1% pa.

Ten-year implied inflation (as measured by the difference between nominal and inflation-linked bond yields) rose 0.1% pa in the US, UK and Germany, to 2.4% pa, 3.1% pa and 1.8% pa, respectively, as nominal yields rose more than their real counterparts.

Credit spreads tightened, while euro speculative-grade spreads fell more than their US counterparts

Investment-grade credit spreads fell 0.1% pa across regions. US and euro spreads narrowed to 0.8% pa, while sterling spreads remained slightly wider at 0.9% pa. The tightening was supported by strong corporate earnings, resilient economic data and easing tariff-related uncertainties.

Improved investor sentiment was reflected in a larger fall in speculative-grade bond spreads. Euro high-yield spreads outperformed their US counterparts, narrowing 0.5% pa, to 2.7% pa, supported by robust growth data and optimism around the US-EU trade agreement. US high-yield spreads tightened more modestly, declining 0.1% pa, to 2.9% pa.

As at end-July, credit spreads fell below the already low levels seen at the start of the year, with speculative-grade spreads narrowing more than investment-grade. Euro spreads led the tightening, while US and sterling spreads declined modestly.

Global equities

Asian Pacific ex Japan and UK topped regional rankings, followed by EM and Japan

Global equities (FTSE All World Total Return Index) rose 2.2% (in local currency terms) in July, driven by strong Q2 earnings reports, resilient economic data and somewhat reduced trade uncertainty. The US administration reached preliminary trade agreements with key partners, including Japan and the EU. Although tariffs remain much higher than before President Trump's inauguration, investor sentiment was supported by the reduced risk of further escalation.

Asia Pacific ex Japan was the best-performing region, supported by AI-driven investment in Taiwan and South Korea – both of which reached trade agreements with the US – and resilient Chinese economic data. These factors also supported broader emerging market equities, alongside gains in iron ore and steel prices; however, EM equity outperformance was more modest.

UK equities outperformed, boosted by their overweight to commodity-related sectors (energy and materials) and a weaker pound, which tends to benefit FTSE 100 companies with large overseas earnings. Optimism around the preliminary trade deal with the US and a weaker yen supported the export-heavy Japanese market.

North American equities tracked the global benchmark, while Europe ex UK underperformed

Trump's budget reconciliation bill, which was more expansionary than the initial version, and strong Q2 earnings supported North American equities. US mega-cap tech stocks delivered standout earnings and revenue beats, leading growth to outperform value.

Europe ex UK was the worst-performing region, delivering only a modest positive return. The region's overweight to consumer staples and healthcare (the only sectors to post negative performance) and below-average exposure to the outperforming technology sector detracted from performance. Additionally, the initial boost from the preliminary trade agreement with the US faded, as investor focus shifted to lingering uncertainties surrounding the deal's details.

Tech stocks led growth to outperform value, while cyclical stocks generally led defensive stocks

The best-performing tech sector lifted growth (2.9%) over value (1.4%) (both in local currency terms). Alongside tech, cyclical sectors generally fared better than defensive stocks. Energy outperformed on higher oil prices. Industrials and financials benefited from resilient economic data and preliminary trade agreements. Despite mixed performance from commodities, the basic materials sector delivered positive returns. Conversely, the defensive consumer staples and healthcare sectors lagged amid improved risk sentiment and growing concerns about the US imposition of price controls on global pharmaceutical companies. Consumer discretionary and utilities bucked the trend: the former was weighed down by weaker consumer spending, while the latter is seen as a likely beneficiary of AI and infrastructure investment.

Currencies, commodities and property

The trade-weighted US dollar registered its first monthly gain of 2025 in July, rising 1.0%, after a weak H1. This comes on the back of resilient economic data and expectations of higher policy rates. Equivalent sterling, euro and yen measures fell 1.8%, 0.4% and 2.2%, respectively.

Gold's rally stalled somewhat in July, up a modest 0.4% (in US dollar terms), as sentiment improved and uncertainty surrounding US trade policy reduced. That said, gold is up 25.6% (in dollar terms) over the year to date. Oil prices rose 7.3% (in US dollar terms) amid strong seasonal demand and US threats of 100% secondary tariffs

on Russian crude buyers. The increase in July reverses some of the year-to-date weakness but increased Middle Eastern supply and weakening demand mean oil prices are still down 3.0% (in US dollar terms) over the year to date. The performance of non-energy commodities was somewhat mixed, with copper prices plunging at month-end after Trump excluded refined copper from being tariffed. Iron ore and steel prices rose.

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For and on behalf of Hymans Robertson LLP

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Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investments in developing or emerging markets may be more volatile and less marketable than in mature markets.

Exchange rates may also affect the value of an overseas investment. As a result, an investor may not get back the amount originally invested. Past performance is not necessarily a guide to future performance.

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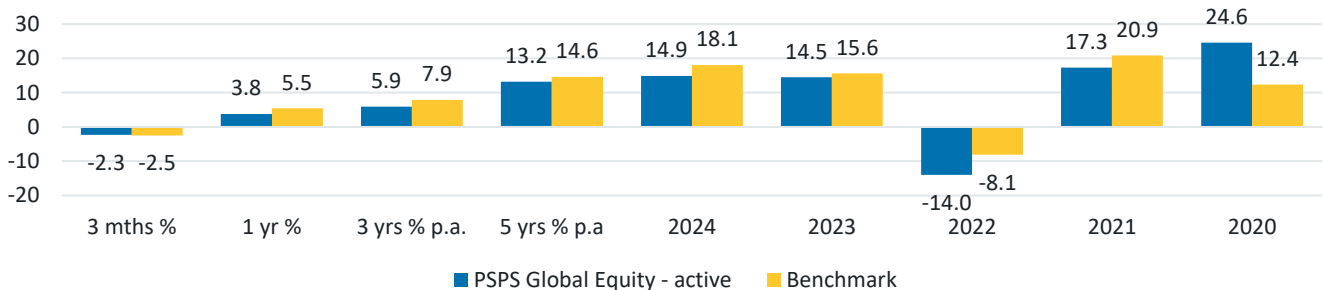
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Appendix 1

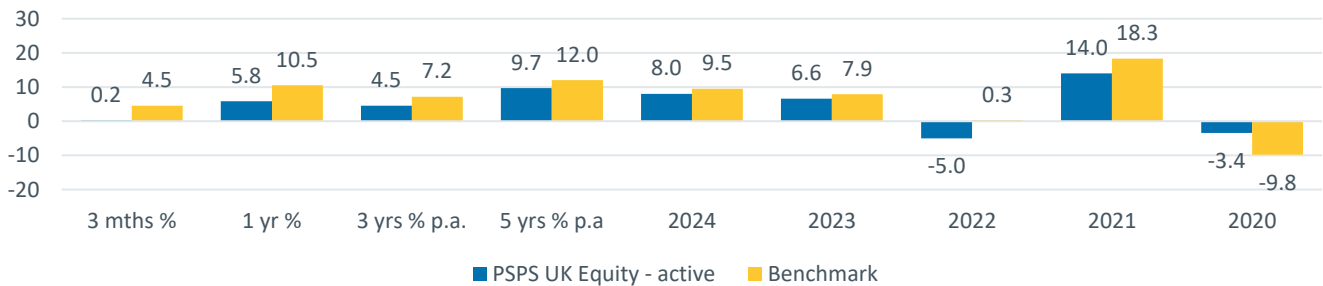
Performance of PSPS Funds (to 31/3/25)

The charts below summarise the performance (gross) of the PSPS funds and their benchmarks showing historic calendar years and the current calendar year to latest available quarter end date (updated quarterly). Official performance data from fund provider shown below is to end March 2025. (Source The Prudential Assurance Company Limited).

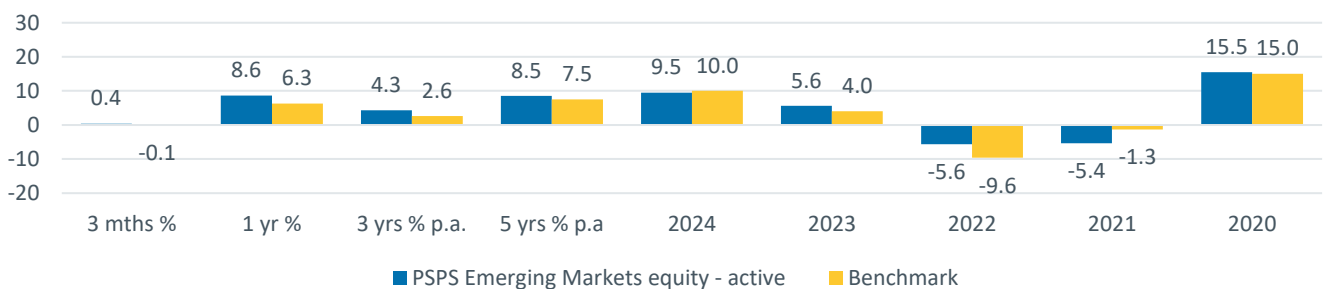
PSPS Global Equity - active



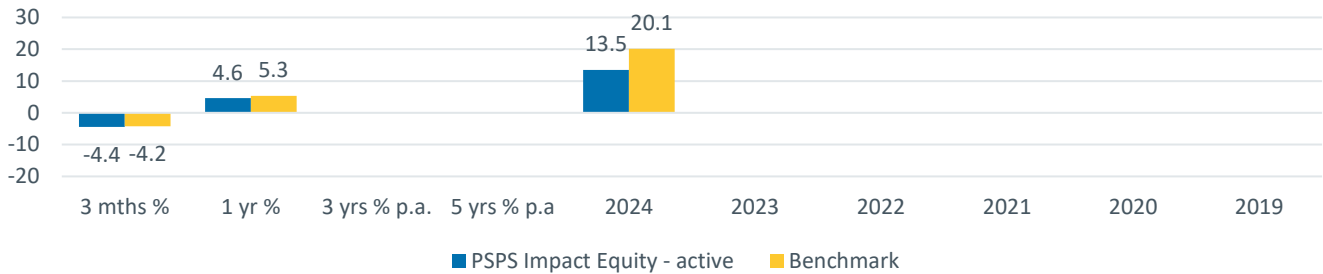
PSPS UK Equity - active



PSPS Emerging Markets equity - active

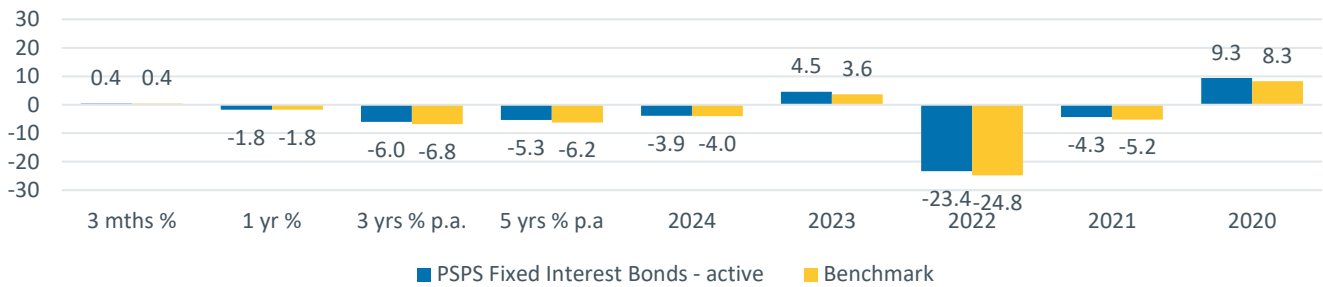


PSPS Impact Equity - active

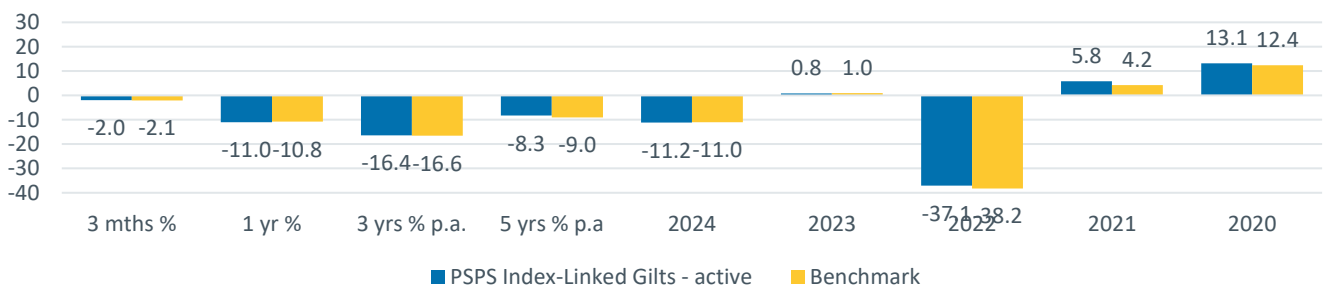


PSPS Impact Equity – active launched 11th May 2023

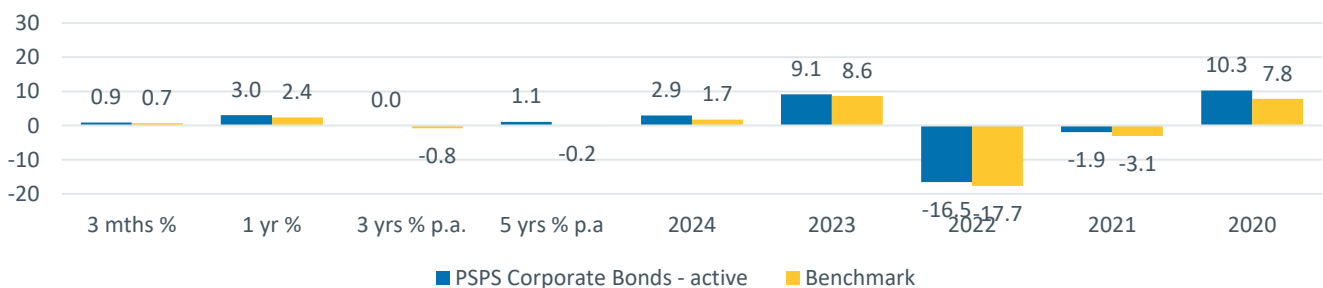
PSPS Fixed Interest Bonds - active



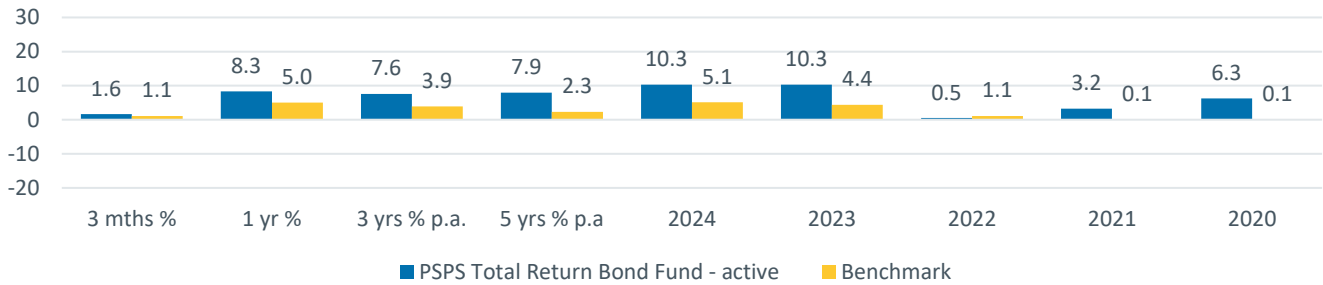
PSPS Index-Linked Gilts - active



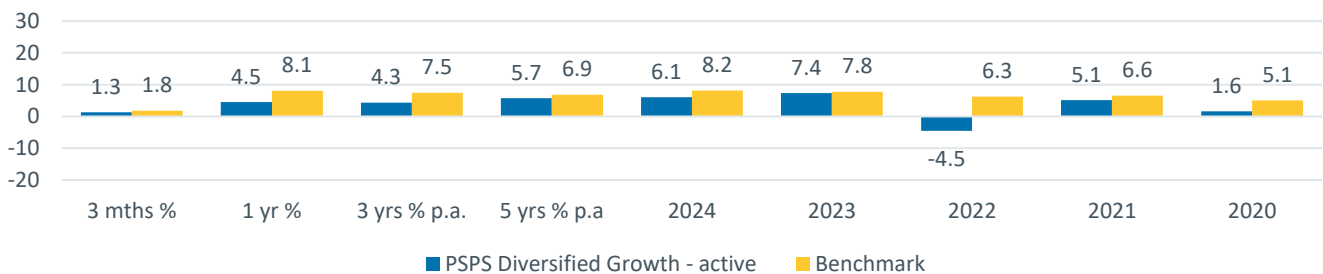
PSPS Corporate Bonds - active



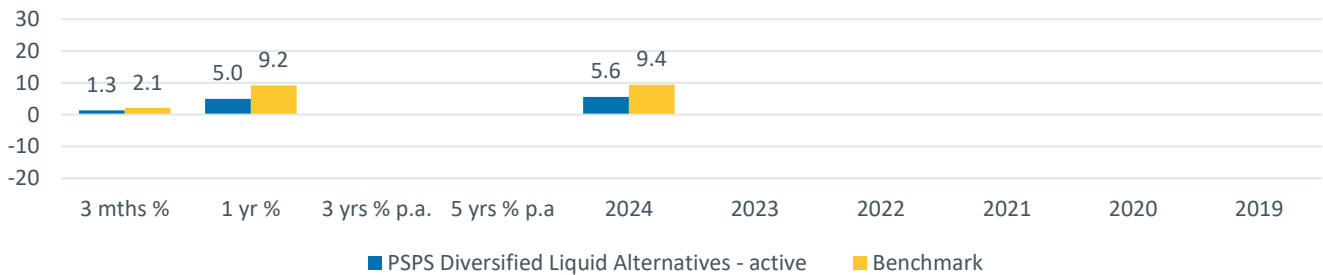
PSPS Total Return Bond Fund - active



PSPS Diversified Growth - active

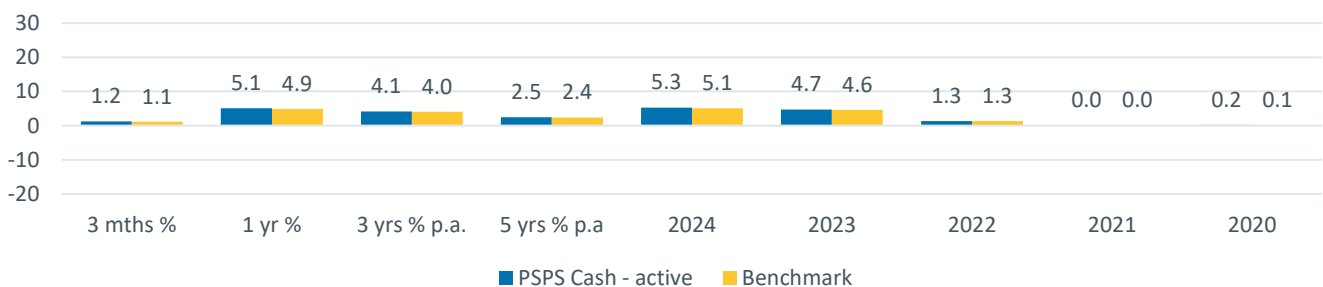


PSPS Diversified Liquid Alternatives - active

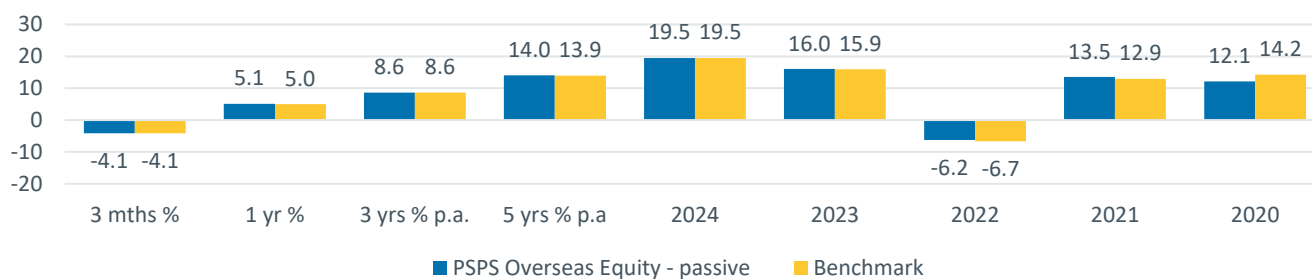


PSPS Diversified Liquid Alternatives – active launched 11th May 2023

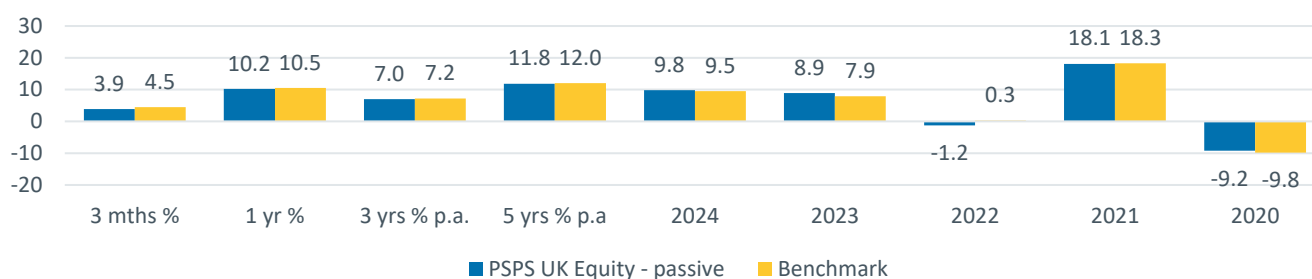
PSPS Cash - active



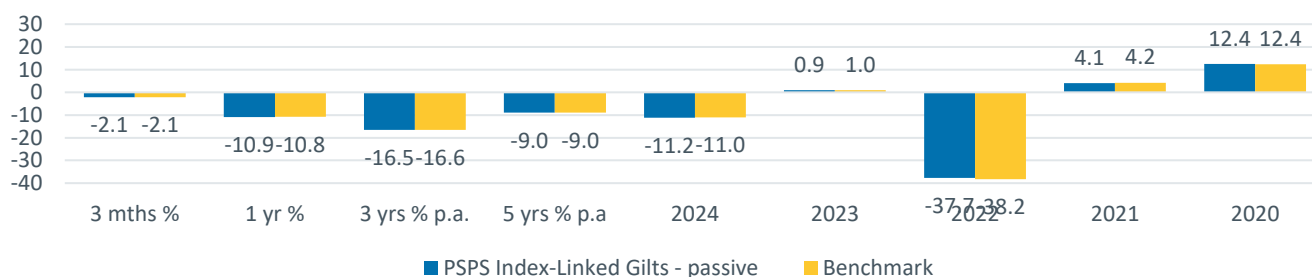
PSPS Overseas Equity - passive



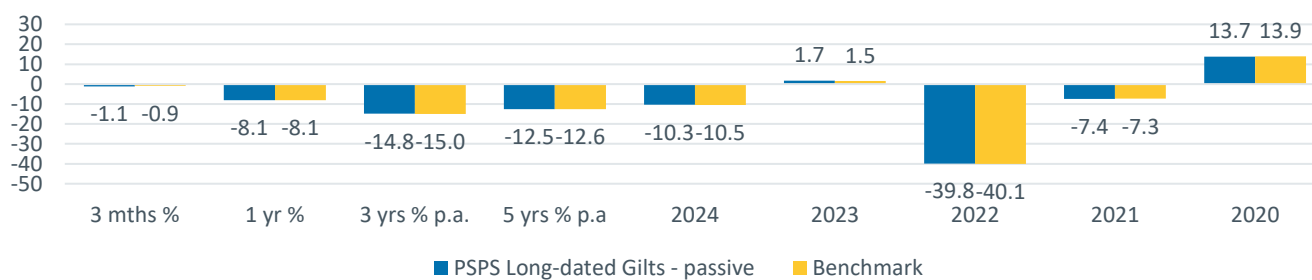
PSPS UK Equity - passive



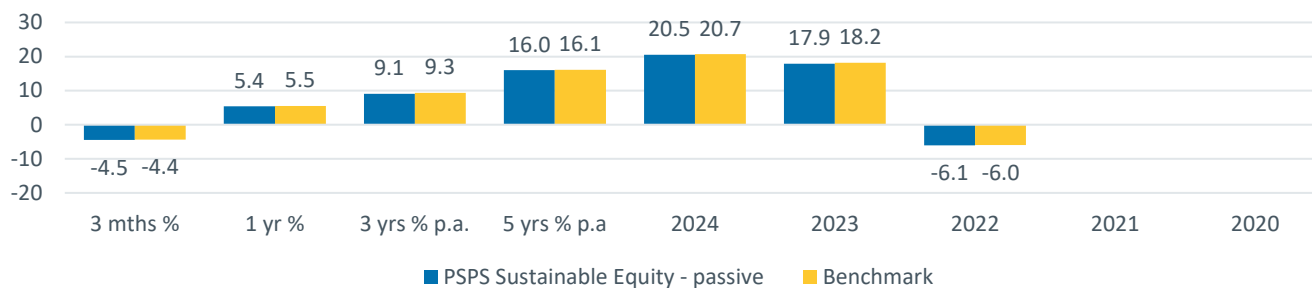
PSPS Index-Linked Gilts - passive



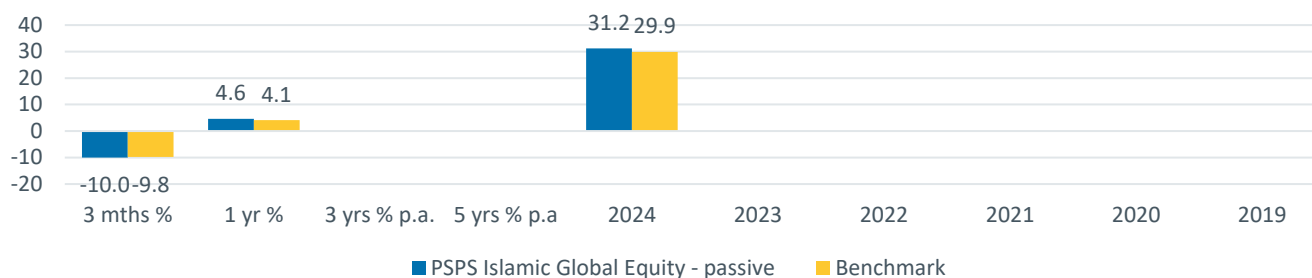
PSPS Long-dated Gilts - passive



PSPS Sustainable Equity - passive



PSPS Islamic Global Equity - passive

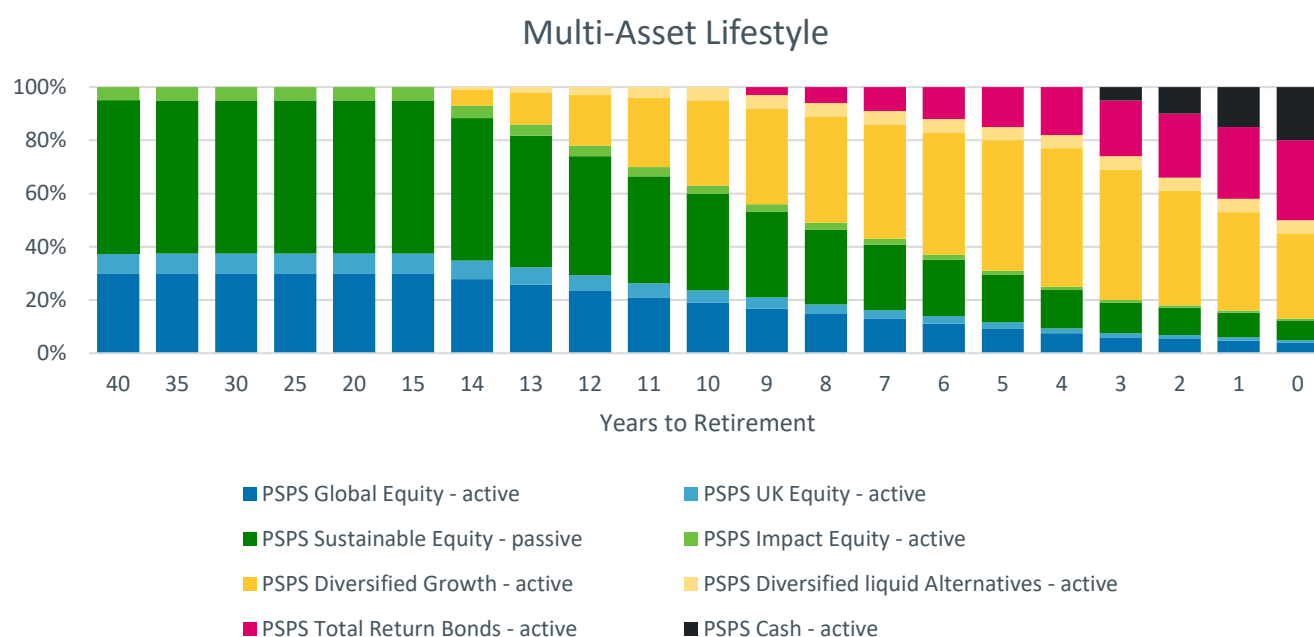


PSPS Islamic Global Equity – passive launched 11th May 2023

Appendix 2

Appendix 2 - Lifestyle Performance

The Multi-Asset Lifestyle strategy automatically adjusts members' investments across certain PSPS funds based on their periods to targeted retirement date as illustrated below, moving from riskier to less risk assets as retirement approaches.



Because the allocation to certain funds varies from member to member based on the period to retirement, returns for individual members will vary depending on their period to retirement. Therefore it is not possible to state a single figure for the lifestyle return but instead we have estimated three returns that are representative of different types of members based on their period to retirement.

We have selected a member with 30 years to retirement whose returns will reflect members earlier in their career and is a reasonable assumption of the return for any member who is over 15 years from retirement. We then also show the returns for members 10 and 3 years from retirement who will have begun the process of moving from riskier to less risk assets.

Member - Years to Target Retirement Age	3 Months %	12 Months %	3 Years % p.a.	5 Years % p.a.
30 Years	-3.5	5.0	7.9	13.3
10 Years	-1.7	5.0	6.9	10.4
3 Years	0.4	5.5	5.9	7.8

Performance based upon Lifestyle and years to retirement. Asset allocations will vary in line with the lifestyle chart shown (above). Actual performance for individual members will vary. Figures are illustrative and are not actual performance experienced. Performance has been

estimated for a member at certain periods to retirement (as at date to which performance is estimated, i.e. quarter end date referred to in table above) based on the approximate returns achieved historically on a quarter-by-quarter basis through being invested in the current lifestyle strategy (introduced in May 2023 and shown in the chart, above) and its predecessor lifestyles.