



## Investment Update December 2020

### Investment Headlines & Comment

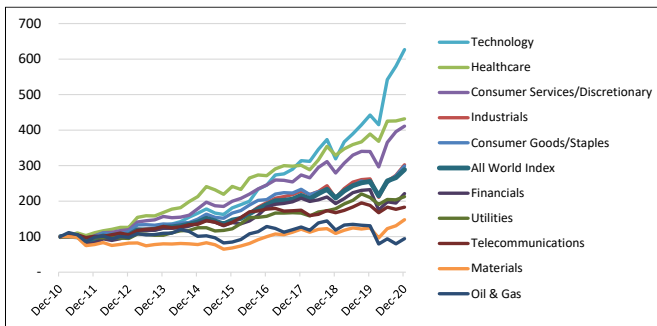
- A good month in local terms for many equity markets.
- Sterling rallies against the US Dollar.
- Credit margins continue to contract.

### Feature Section

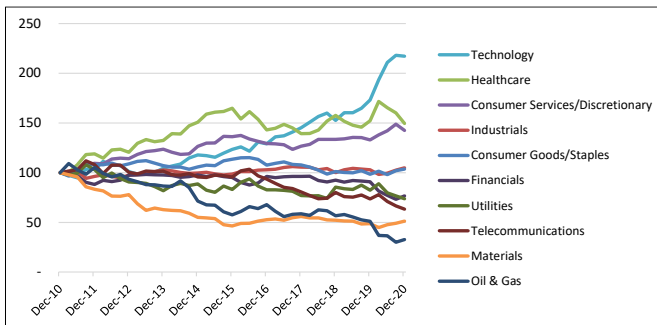
This month we consider sector returns in Global Equities over the last decade, following on from related analysis in our [January 2018](#) issue. All data is from FTSE Russell, and we have confined ourselves to the broad sector level rather than all the sub-sectors.

Figure 1a shows the cumulative absolute total returns, and Figure 1b shows the cumulative total returns *relative* to that of the FTSE All-World index (with each having an initial level of 100). The legend is in end-value order. Figure 1c shows the progression in the sector weightings within the index.

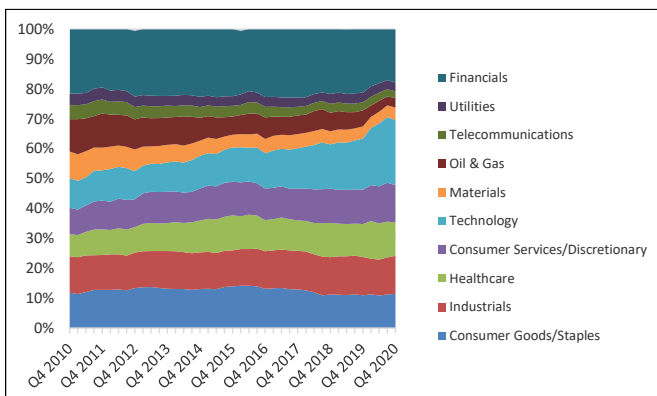
**Figure 1a: Cumulative total returns**



**Figure 1b: Cumulative relative returns**



**Figure 1c: Sector weightings**



The 10-year return for the overall index is 11.2% p.a. but the sector returns range from an eye-popping 20.1% p.a. for Technology down as far as -0.6% p.a. for Oil & Gas.

The strength of the Technology rally in 2020 is very clearly demonstrated in Figure 1a, but it really does prompt the question of whether history is in danger of repeating itself some 20 years on from the first “Tech bubble”.

Equally starkly displayed is the prolonged sequence of poor returns from the Materials and Oil & Gas sectors, both in absolute terms and relative to the wider market. This may in part be down to consumers of their products adopting more environmentally-friendly approaches. Their weightings within the overall index have contracted by 54% and 70% respectively over the last 10 years, whereas Technology has more than doubled.

Another sector that has seen material contraction is the Telecommunications sector, which has contracted by 51% within the overall index. However, this may be down to companies missing out on reinvesting with associated compounding in a period of strong equity markets. Both Telecommunications and Utilities have a history of paying much higher dividend levels than the Technology sector.

Finally, the sectors with the lowest volatility (based on the 10 consecutive 12-month absolute returns) have been Consumer Goods / Staples, Healthcare and Consumer Services / Discretionary.



**Asset Returns and Financial Measures [in Sterling unless marked otherwise]**

The cells in bold with light shading show the best and worst performing asset classes from each column. The commodities and \$-based and unhedged-£-conversion hedge fund returns are excluded from that.

[NB: Future returns cannot be inferred from this table alone, but coupled with other items within *Update*, readers can make inferences as to whether they should be higher or lower than the past returns shown below.]

**Table 1: Investment Data to 31 December 2020**

Asset Class	1 month (%)	3 months (%)	12 months (%)	3 years (% p.a.)	5 years (% p.a.)	10 years (% p.a.)	20 years (% p.a.)
UK Equities	3.9	12.6	<b>-9.8</b>	<b>-0.9</b>	5.1	5.6	4.6
Overseas Equities	2.2	8.4	14.3	10.7	15.1	11.6	7.4
US Equities	1.6	6.8	17.1	<b>14.5</b>	<b>17.5</b>	<b>15.6</b>	6.0
Europe ex UK Equities	2.5	9.4	7.8	5.9	11.0	8.0	8.1
Japan Equities	1.7	8.5	11.1	5.6	10.6	8.4	4.4
Pacific ex Japan Equities	4.3	13.2	<b>19.4</b>	7.7	14.7	7.9	<b>10.7</b>
Emerging Markets	<b>4.9</b>	<b>13.3</b>	15.0	6.2	14.9	5.4	10.4
UK Long-dated Gilts	2.8	1.1	13.9	8.6	9.4	9.2	7.0
UK Long-dated Corp. Bonds	3.2	6.0	14.8	8.9	10.2	9.1	7.4
UK Over 5 Yrs Index-Linked Gilts	0.5	1.4	12.4	6.1	9.3	8.8	7.5
High Yield (Global)	0.0	1.7	4.7	5.5	10.1	8.1	8.3
Overseas Bonds	<b>-1.4</b>	<b>-3.6</b>	6.1	4.5	6.2	3.7	5.2
Property *	0.7	1.4	<b>-1.9</b>	2.9	4.4	7.5	7.2
Cash	0.0	0.0	0.3	0.6	<b>0.5</b>	<b>0.6</b>	<b>2.3</b>
Commodities £-converted	3.5	8.3	<b>-26.1</b>	<b>-8.5</b>	<b>-0.4</b>	<b>-7.5</b>	<b>-3.2</b>
Hedge Funds original \$ basis *	6.0	5.2	9.1	4.4	5.0	4.1	5.4
Illustrative £-converted version *	2.7	5.0	5.7	4.9	7.5	5.7	5.8
Euro relative to Sterling	<b>-0.1</b>	<b>-1.3</b>	5.6	0.3	4.0	0.4	1.8
US \$ relative to Sterling	<b>-2.3</b>	<b>-5.4</b>	<b>-3.1</b>	<b>-0.3</b>	1.5	1.4	0.4
Japanese Yen relative to Sterling	<b>-1.4</b>	<b>-3.3</b>	2.0	2.6	4.7	<b>-1.0</b>	1.0
Sterling trade weighted	0.3	1.9	<b>-2.3</b>	0.3	<b>-2.7</b>	<b>-0.1</b>	<b>-1.1</b>
Price Inflation (RPI) *	<b>-0.3</b>	0.1	0.9	2.1	2.5	2.6	2.7
Price Inflation (CPI) *	<b>-0.2</b>	0.3	0.4	1.4	1.7	1.9	2.0
Price Inflation (RPIX) *	<b>-0.3</b>	0.1	1.1	2.2	2.6	2.7	2.8
Earnings Inflation **	0.9	3.0	3.8	3.5	3.2	2.4	2.9
All Share Capital Growth	3.7	11.9	<b>-12.5</b>	<b>-4.5</b>	1.3	1.8	1.0
Dividend Growth	<b>-3.6</b>	<b>-15.6</b>	<b>-26.4</b>	<b>-5.9</b>	<b>-0.2</b>	3.6	3.3
Earnings Growth	1.8	15.0	<b>-23.2</b>	<b>-2.8</b>	<b>-1.0</b>	<b>-2.6</b>	1.6

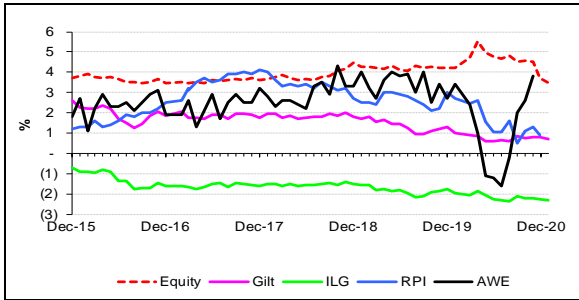
Note: All market returns are total returns for pension funds with income reinvested monthly. Indices used are as follows:

- UK Equities (incl. dividends and earnings) – FT-A All Share.
- Overseas Equities (incl. regions) – blend of FT All-World / World sub-indices
- Emerging Markets from MSCI US \$ based total return index (overall Index to 31 Oct 2001, Free Index from 1 Nov 2001 to take account of foreign investment restrictions), conversion to UK £ by J&A.
- UK Bonds – FT-A indices (Gilts Over 15 Years, ILG Over 5 Years)
- UK Corporate Bonds – iBoxx Non-Gilt **Over 15 Year** index (all credit ratings combined)
- High Yield – ICE Global, £ Unhedged
- Overseas Bonds – JP Morgan Traded Unhedged World ex UK
- Property – MSCI IPD UK Monthly Property Index
- Commodities – GSCI Total Return, converted to UK £ by J&A
- Hedge Funds Composite – HFRI US \$ based total return index plus converted to UK £ by J&A. NB A smooth “cash + x%” return will only be shown in the base ‘hedged’ currency, here the US \$.
- Cash – an indicative index based on the three-month London Interbank Sterling mid-rate, calculated internally by J&A
- Price and earnings inflation – RPI, CPI, RPIX, and Average Weekly Earnings (whole economy, not seasonally adjusted, latest provisional data)
- Currency data – London close, from the Financial Times
- \* denotes data lagged by 1 month, \*\* by 2 months – these reflect the later publication dates of these data items.

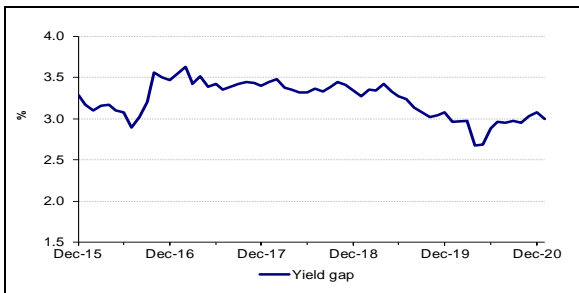


## Yields and Yield Gaps

Figure 2: Yields, Inflation and Yield Gaps



The yield gap is a measure of expected average future inflation, derived as long bond yield minus ILG yield.

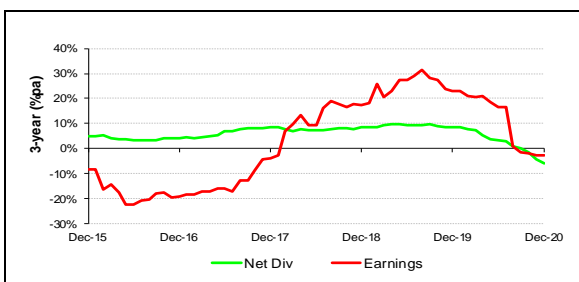
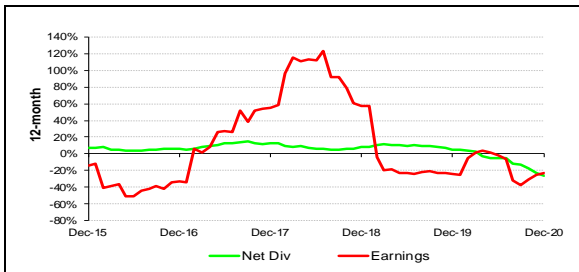


The gap gives a current expectation around 3.0% for longer-term inflation including the risk premium for gilts, relative to index-linked gilts.

## Growth in Earnings and Dividends

These charts show movements in rolling 12-month and 3-year dividend and earnings growth for UK Equities over the last 5 years. [NB the charts have different scales]

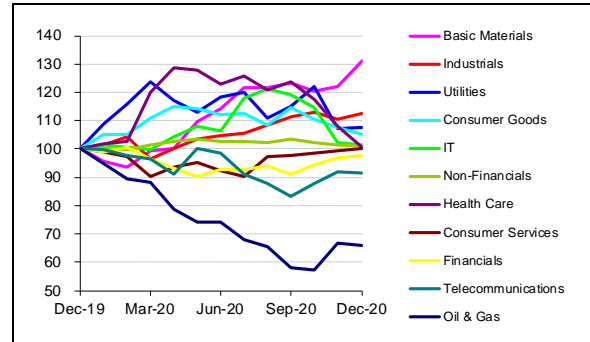
Figure 3: Dividend & Earnings Growth



Note: Earnings data from mid-2015 onwards is no longer reliable as one-off events may be affecting the prospective P/E ratios

## UK Equity Sector Returns

Figure 4a: Sectors relative to All Share



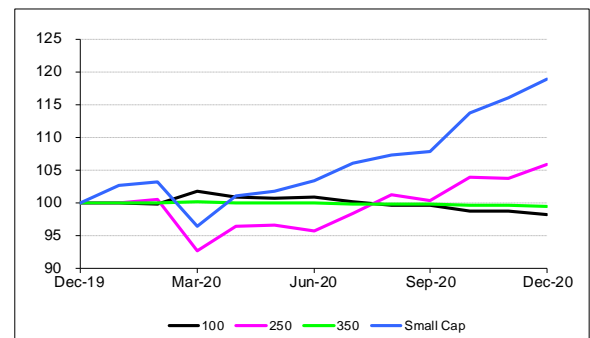
Note: Sector labels for relative lines are in end-value order

There was a rise this month in the rolling 12-month sector dispersion (up from 59% to 65%).

(% absolute return)	1 mth	3 mth	12 mth
Oil & Gas	2.5	28.4	-40.5
Basic Materials	11.4	19.6	18.1
Industrials	5.8	13.9	1.4
Consumer Goods	1.2	3.1	-5.3
Health Care	-3.4	-8.4	-9.4
Consumer Services	4.5	15.3	-9.7
Telecommunications	3.7	23.8	-17.4
Utilities	4.0	5.3	-3.1
Non-Financials	3.5	9.9	-9.1
Financials	5.0	20.8	-11.8
IT	3.3	-3.9	-8.4
All Share	3.9	12.6	-9.8

## UK Equity Size Returns

Figure 4b: Size groups relative to All Share



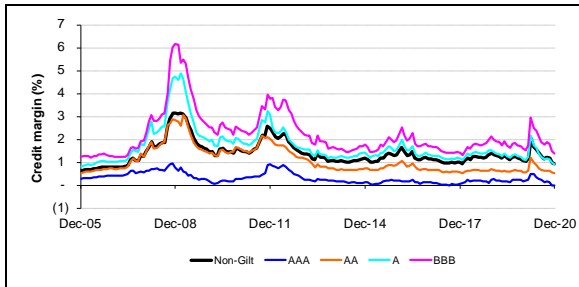
Within the continuing UK Equity market rally, Mid Cap and Small Cap both rose in relative terms this month.

Sources for charts on this page:  
Financial Times, Office for National Statistics, J&A



**Bond market information**

**Figure 5: £ Non-Gilt Credit Margins**



**Table 2a: Over 15 Yr Corporate Yields & Margins**

Month End	iBoxx Corp AA Y'ld (%)	FT 20 yr Gilt (%)	Margin (%)
Jul '20	1.37	0.60	0.77
Aug '20	1.60	0.86	0.74
Sep '20	1.53	0.74	0.79
Oct '20	1.65	0.79	0.86
Nov '20	1.52	0.82	0.70
Dec '20	<b>1.34</b>	<b>0.70</b>	<b>0.64</b>

**Tables 2b, 2c: £ Market Size (£bn) and Maturity**

Category	Mkt Val @ Dec 20 & 17, 14			Weight (%)
	20	17	14	
Gilts (49)	1,813	1,362	1,226	72.5
Non-Gilts (1,172)	689	584	560	27.5
AAA (144)	133	113	106	5.3
AA (155)	86	83	94	3.4
A (371)	195	170	181	7.8
BBB (502)	274	217	178	11.0

Category	Mkt Val (£bn @ Dec 20 & 17)	W't (%)	Dur'n (yrs)
Gilts (49)	1,813	1,362	72.5
< 5 Yrs (12)	422	403	16.9
5-15 Yrs (14)	520	360	20.8
> 15 Yrs (23)	871	599	34.8
Non-Gilts (1,172)	689	584	27.5
< 5 Yrs (432)	231	190	9.2
5-15 Yrs (507)	292	240	11.7
> 15 Yrs (233)	165	153	6.6

**Tables 2d, 2e: € Market Size and Maturity (Dec 20)**

Category	Mkt Val (€bn)	Weight (%)
Sovereigns (402)	7,620	59.4
Non-Sovereigns	5,212	40.6
AAA (995)	1,416	11.0
AA (795)	1,220	9.5
A (1,241)	1,128	8.8
BBB (1,734)	1,448	11.3

Category	Mkt Val (€bn)	Weight (%)
1 – 3 Yrs (1,265)	2,657	20.7
3 – 5 Yrs (1,316)	2,518	19.6
5 – 7 Yrs (1,025)	2,086	16.3
7 – 10 Yrs (864)	2,201	17.2
10+ Yrs (697)	3,370	26.3

**Table 2f: Breakdown of £ Index-Linked Market**

Category (Number of issues)	Mkt Val (£bn @ Dec 20 & 17)	W't (%)	Dur'n (yrs)
Gilts (28)	811	656	100.0
< 5 Yrs (3)	70	59	8.6
5 – 15 Yrs (8)	202	152	24.9
> 15 Yrs (17)	539	445	66.5

**Table 2g: High Yield bond yields (BB-B indices)**

Month End	US (%)	Euro (%)	Sterling (%)
Jul '20	5.11	3.69	5.62
Aug '20	4.98	3.45	5.32
Sep '20	5.33	3.66	5.47
Oct '20	5.29	3.62	5.32
Nov '20	4.65	2.85	4.47
Dec '20	<b>4.38</b>	<b>2.74</b>	<b>4.32</b>

Sources: DMO, FTSE, iBoxx, ICE, J&A

**£ Gilt Market “main” Issuance**

- o During the expanded gilt issuance programme, there is insufficient space here to list all the auction / tender exercises, so please click [here](#) for the details.

Note: Issuance amounts are nominals. The first % figure in each row is the yield or real yield. The second % figure is the additional amount taken up under the Post Auction Option Facility (PAOF), as a % of the amount of the issue. No PAOF applies for tender or syndication cases.

