



### Investment Headlines & Comment

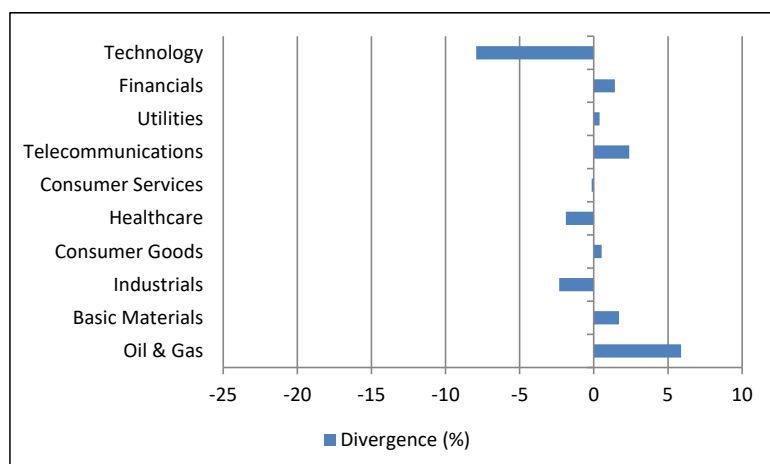
- Most Equity and High Yield markets continued to recover this month. Sterling fell, with little sign of progress in UK-EU trade talks.
- The expanded **gilt issuance** programme continued this month, with another 16 auctions or syndications. A summary of the issuance is [here](#).
- In this, the most notable elements were £82.6bn of offers for a new 10-year gilt (£12bn issued), and £53.1bn for a new 41-year gilt (£7bn issued).

### Feature Section

This month, we return to the sector profile of the UK Equity market, and how it contrasts with the profile for equity markets globally. The 12-month dispersion of returns in the UK market has remained very high this month, and the overall 12-month return lags heavily behind its major overseas competitors.

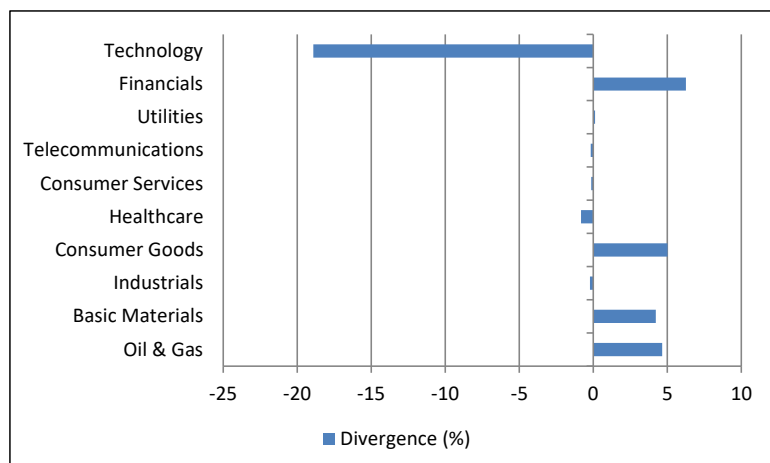
We last looked at the sector divergences in our [June 2013](#) issue. Figure 1a shows the weightings for the UK relative to the World index as at June 2013, and Figure 1b shows the updated relative weightings as at May 2020, but using the same horizontal axis, so that the extent of the changes is clear.

**Figure 1a: Relative weightings – June 2013**



The main absolute weighting change over the near-7-year period has been that the global Technology sector has more than doubled its weighting. As a result, instead of the UK's only main overweight being Oil & Gas, there are now four broadly equal overweights, five near neutral positions (relating to just over 40% of the overall market), and then there is one thumping underweight.

**Figure 1b: Relative weightings – May 2020**



Given the recent pandemic-led events, the Healthcare sector has been the main 12-month performer within the UK market, with a return of 28.0%, and Oil & Gas has easily been the worst area with a return of -44.5% (troubles for BP and Shell making for a markedly worse result than for global comparators where the sector is "only" down -26.7%). One of the knock-on effects of the Oil & Gas return is that UK Equities now represents the worst performing asset over not only 12 months but also over the last three years.

Within global equity markets however, things are slightly different on the best performer, because Healthcare's 12-month return of 25.8% has been somewhat eclipsed by Technology's return of 37.9%.

Source: FTSE



**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 May 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	3.4	<b>-7.8</b>	<b>-11.2</b>	<b>-2.9</b>	1.3	6.1	4.1
Overseas Equities	6.7	3.9	9.1	7.8	11.0	11.2	6.2
US Equities	7.3	7.3	15.7	<b>12.0</b>	<b>14.6</b>	<b>15.0</b>	5.1
Europe ex UK Equities	<b>8.4</b>	0.2	1.8	1.8	6.7	8.0	7.1
Japan Equities	8.2	<b>8.1</b>	9.6	5.0	8.1	8.1	2.9
Pacific ex Japan Equities	2.3	<b>-2.5</b>	<b>-0.1</b>	2.6	6.3	7.2	<b>9.0</b>
Emerging Markets	2.8	<b>-3.8</b>	<b>-2.2</b>	1.5	5.6	4.5	7.7
UK Long-dated Gilts	<b>-0.4</b>	7.8	<b>21.5</b>	9.4	9.8	10.0	7.4
UK Long-dated Corp. Bonds	0.5	1.3	14.2	6.4	7.8	8.8	7.4
UK Over 5 Yrs Index-Linked Gilts	5.1	5.9	10.3	6.3	8.6	9.7	7.6
High Yield (Global)	6.8	<b>-1.4</b>	2.3	3.9	8.5	8.1	7.9
Overseas Bonds	2.1	4.4	8.8	5.4	8.3	4.2	5.7
Property *	<b>-1.3</b>	<b>-3.0</b>	<b>-1.4</b>	4.8	5.9	8.1	7.4
Cash	0.0	0.1	0.7	0.7	<b>0.6</b>	<b>0.6</b>	<b>2.5</b>
Commodities £-converted	18.7	<b>-23.4</b>	<b>-33.0</b>	<b>-9.6</b>	<b>-9.7</b>	<b>-7.5</b>	<b>-2.9</b>
Hedge Funds original \$ basis *	4.7	<b>-6.3</b>	<b>-3.6</b>	1.1	1.5	3.0	4.6
Illustrative £-converted version *	2.9	<b>-2.1</b>	<b>-0.3</b>	2.0	5.6	5.0	5.8
Euro relative to Sterling	3.6	4.6	1.8	1.2	4.6	0.6	1.9
US \$ relative to Sterling	2.0	3.3	1.9	1.3	4.3	1.6	1.0
Japanese Yen relative to Sterling	1.3	3.4	2.7	2.3	7.3	<b>-0.1</b>	1.0
Sterling trade weighted	<b>-2.8</b>	<b>-3.3</b>	<b>-0.9</b>	<b>-0.4</b>	<b>-3.5</b>	<b>-0.4</b>	<b>-1.3</b>
Price Inflation (RPI) *	0.0	0.7	1.5	2.6	2.5	2.8	2.7
Price Inflation (CPI) *	<b>-0.1</b>	0.3	0.8	1.8	1.7	2.0	2.0
Price Inflation (RPIX) *	0.0	0.7	1.6	2.6	2.6	2.8	2.8
Earnings Inflation **	7.3	9.3	1.1	2.1	2.2	1.9	3.0
All Share Capital Growth	3.1	<b>-8.4</b>	<b>-14.3</b>	<b>-6.5</b>	<b>-2.4</b>	2.3	0.5
Dividend Growth	<b>-1.9</b>	<b>-7.5</b>	<b>-5.7</b>	3.9	5.3	5.5	4.5
Earnings Growth	<b>-4.8</b>	<b>-1.2</b>	2.0	18.8	0.5	2.3	3.7

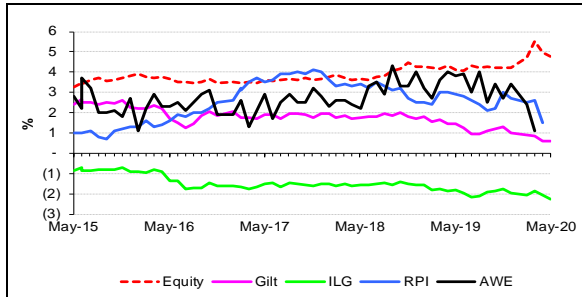
Note: All market returns are total returns for pension funds with income reinvested monthly. Indices used are as follows:

- 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.

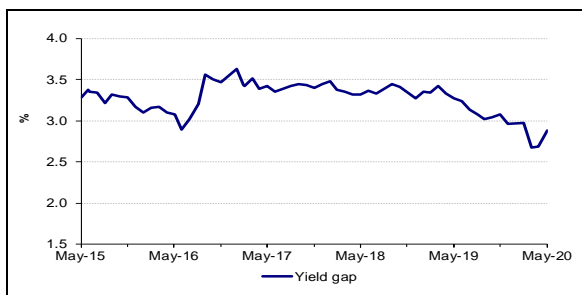


## Yields and Yield Gaps

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.

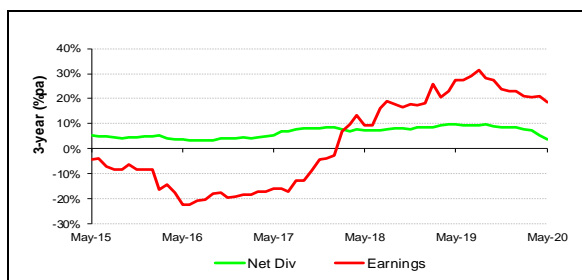
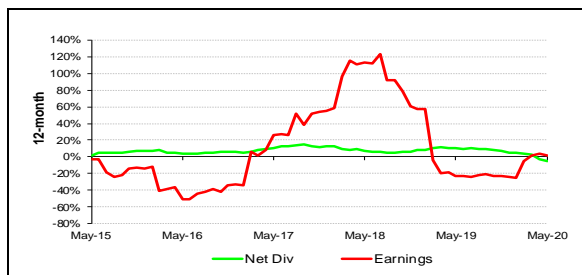


The gap gives a current expectation around 2.9% for longer-term inflation including the risk premium for gilts, relative to index-linked gilts.

## 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]

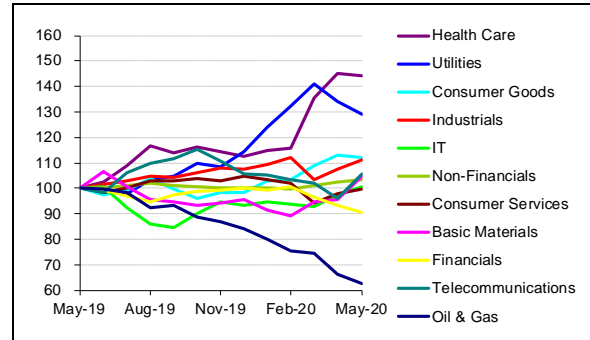
Figure 3: Dividend & Earnings Growth



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



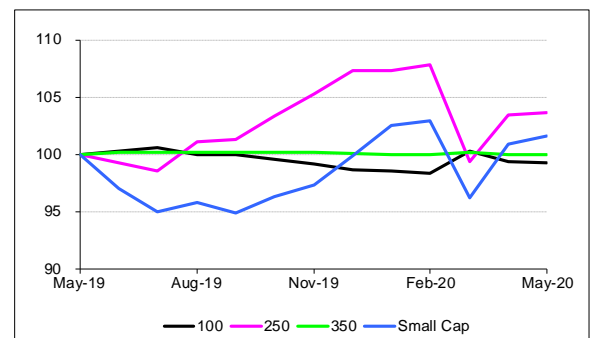
Note: Sector labels for relative lines are in end-value order

There was no change this month in the rolling 12-month sector dispersion (staying high at 82%).

(% absolute return)	1 mth	3 mth	12 mth
Oil & Gas	-2.4	-23.6	-44.5
Basic Materials	13.2	8.2	-6.9
Industrials	7.0	-8.5	-1.4
Consumer Goods	2.7	0.2	-0.3
Health Care	2.8	14.9	28.0
Consumer Services	5.3	-9.9	-11.5
Telecommunications	13.7	-5.6	-6.1
Utilities	-0.2	-9.9	14.8
Non-Financials	4.5	-4.3	-8.0
Financials	0.3	-17.3	-19.7
IT	7.1	-0.9	-10.5
All Share	3.4	-7.8	-11.2

## UK Equity Size Returns

Figure 4b: Size groups relative to All Share



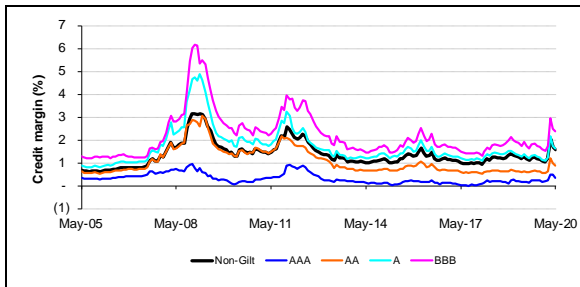
Mid and Small Cap both rose in relative terms this month.

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 (%)
Dec '19	1.99	1.30	0.69
Jan '20	1.66	1.00	0.66
Feb '20	1.69	0.91	0.78
Mar '20	2.30	0.83	1.47
Apr '20	1.57	0.60	0.97
May '20	<b>1.52</b>	<b>0.59</b>	<b>0.93</b>

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

Category	Mkt Val @ May 20 & 17, 14			Weight (%)
	May 20	May 17	May 14	
Gilts (43)	1,592	1,374	1,102	70.7
Non-Gilts (1,167)	661	568	538	29.3
AAA (160)	142	110	103	6.3
AA (164)	87	89	88	3.9
A (349)	181	172	172	8.0
BBB (494)	250	198	174	11.1

Category	Mkt Val (£bn @ May 20 & 17)		W't (%)	Dur'n (yrs)
Gilts (43)	1,592	1,374	70.7	13.8
< 5 Yrs (11)	334	386	14.8	2.7
5-15 Yrs (11)	445	349	19.7	7.9
> 15 Yrs (21)	814	639	36.1	21.5
Non-Gilts (1,167)	661	568	29.3	8.0
< 5 Yrs (427)	227	168	10.1	2.7
5-15 Yrs (506)	275	241	12.2	7.4
> 15 Yrs (234)	159	159	7.0	16.6

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

Category	Mkt Val (€bn)	Weight (%)
Sovereigns (385)	7,067	59.5
Non-Sovereigns	4,818	40.5
AAA (969)	1,326	11.2
AA (774)	1,186	10.0
A (1,186)	1,038	8.7
BBB (1,607)	1,268	10.7

Category	Mkt Val (€bn)	Weight (%)
1 – 3 Yrs (1,176)	2,487	20.9
3 – 5 Yrs (1,317)	2,459	20.7
5 – 7 Yrs (951)	1,862	15.7
7 – 10 Yrs (858)	2,089	17.6
10+ Yrs (619)	2,988	25.1

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

Category (Number of issues)	Mkt Val (£bn @ May 20 & 17)		W't (%)	Dur'n (yrs)
Gilts (28)	798	659	100.0	22.7
< 5 Yrs (3)	71	51	8.8	3.4
5 – 15 Yrs (8)	194	149	24.3	10.1
> 15 Yrs (17)	534	459	66.9	29.9

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

Month End	US (%)	Euro (%)	Sterling (%)
Dec '19	5.15	2.92	4.94
Jan '20	5.23	2.90	4.84
Feb '20	5.64	3.29	5.15
Mar '20	8.26	6.51	8.75
Apr '20	6.94	4.94	7.38
May '20	<b>6.04</b>	<b>4.38</b>	<b>6.60</b>

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

**£ 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.

