



Investment Update September 2021

Investment Headlines & Comment

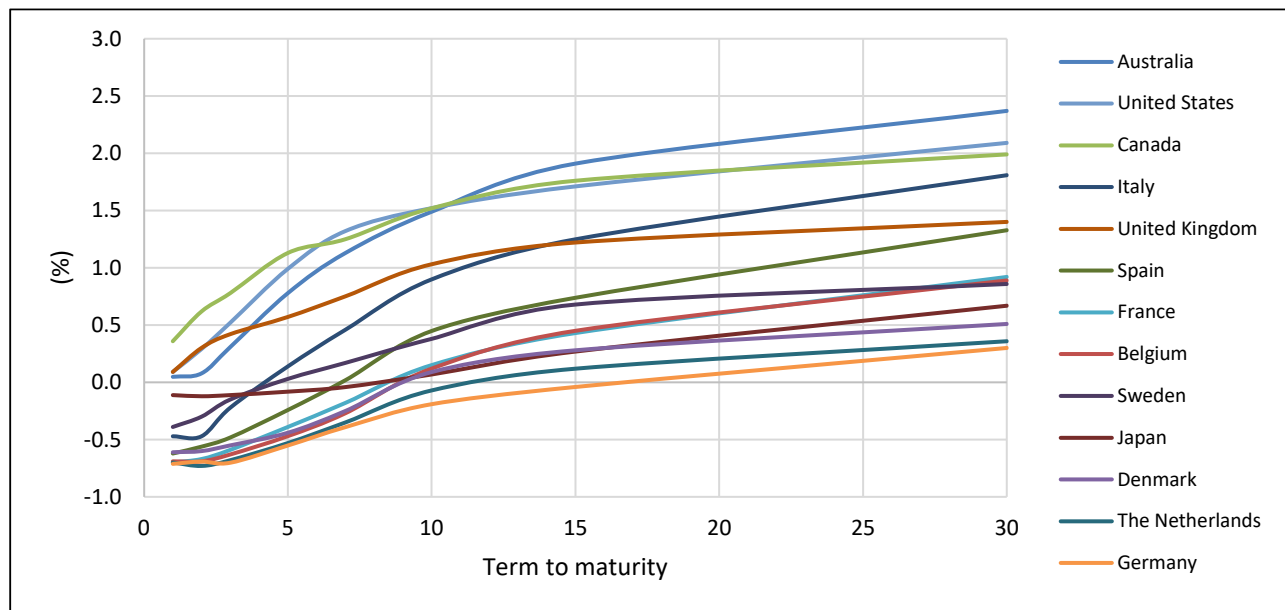
- Table 1 (on p2) shows a poor month for many bond markets, and to a lesser extent for many equity markets as well.
- UK 12-month inflation spiked up this month, largely due to August 2020 conditions. 2-year inflation data is “normal”.
- The launch of the first Green Gilt: issuance of £10bn, offers over £100bn, and a premium *below* “normal” yields.

Feature Section

This month, we consider the range of yield curves across the main index constituents of the JP Morgan Developed Markets Index for government bonds. All data is courtesy of JP Morgan, as of 30 September 2021.

Figure 1 shows the curves for the main 13 markets. The legend shows the countries in descending order for their 30-year yields. We need to make a small caveat on the data in that whilst yields are quoted at the 10- and 15-year points, there is then a jump out to 30 years for the next data point. Any yield curve curvature between those last two points is thus unfortunately effectively “hidden”.

Figure 1: Government Bond Yield Curves



Source: JP Morgan

Remarkably, 9 of the 13 markets shown are currently on negative nominal yields through to at least 3 years, but this group reduces to 6 markets once you look out over 7 years. The set drops to 2 markets by the 10-year point, and to just a single market (Germany) at the 15-year point.

Looking at just those markets which are within the Eurozone, the yield dispersion starts out at the 1-year point as 0.24% for Italy relative to Germany. By the 3-year point, this measure has increased to 0.48%, and by the 10-year point the gap is 1.09%. By 30 years, the measure is 1.51%. Not much sign of Euro cohesion there. Incidentally, the Italian yields are similar to those for the UK at the 15-year point, but clearly higher at the 30-year point. However, it is not just Italian yields that demonstrate a lack of Eurozone convergence – for example, whilst Spanish yields stay fairly close to German yields through the next 3 years, they too then widen out to give a yield gap of 0.64% at 10 years and 1.03% at 30 years.

As we noted in our [November 2016](#) edition, something’s got to give eventually, but just what and when??



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 30 September 2021

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	-1.0	2.2	27.9	3.1	5.4	8.2	6.4
Overseas Equities	-2.1	1.4	22.5	12.3	13.3	14.6	9.5
US Equities	-2.8	2.7	24.7	15.3	16.4	18.5	8.5
Europe ex UK Equities	-3.2	1.1	23.0	9.4	10.5	11.5	10.2
Japan Equities	4.8	7.0	16.9	6.4	8.8	10.4	6.3
Pacific ex Japan Equities	-1.8	-5.3	13.9	8.7	9.4	10.2	12.1
Emerging Markets	-1.9	-5.7	13.7	7.8	8.8	8.0	11.8
UK Long-dated Gilts	-6.5	-2.8	-11.2	4.7	1.8	6.3	6.4
UK Long-dated Corp. Bonds	-5.2	-2.2	-2.7	7.2	3.5	7.4	6.8
UK Over 5 Yrs Index-Linked Gilts	-4.8	2.3	0.2	6.6	3.3	7.5	7.6
High Yield (Global)	1.2	2.1	5.3	5.3	5.3	8.7	8.5
Overseas Bonds	0.2	1.6	-7.6	2.6	0.5	2.5	4.8
Property *	1.4	4.6	11.6	3.8	6.2	7.9	7.4
Cash	0.0	0.0	0.1	0.5	0.5	0.5	2.1
Commodities £-converted	8.2	7.8	51.8	-2.6	2.9	-3.4	-0.3
Hedge Funds original \$ basis *	0.8	0.4	20.8	8.4	7.4	5.4	6.0
Illustrative £-converted version *	1.8	3.7	17.0	6.3	6.4	7.2	6.3
Euro relative to Sterling	0.2	0.1	-5.2	-1.2	-0.1	0.0	1.6
US \$ relative to Sterling	2.1	2.5	-4.1	-1.1	-0.7	1.5	0.4
Japanese Yen relative to Sterling	0.5	1.9	-9.3	-0.5	-2.6	-2.2	0.8
Sterling trade weighted	-0.7	-0.9	4.6	1.2	0.9	0.1	-1.1
Price Inflation (RPI) *	0.6	1.8	4.8	2.7	3.1	2.7	2.9
Price Inflation (CPI) *	0.7	1.2	3.2	1.7	2.1	1.8	2.1
Price Inflation (RPIX) *	0.7	1.9	4.9	2.8	3.2	2.8	3.0
Earnings Inflation **	-0.5	-0.8	7.1	3.5	3.1	2.4	2.8
All Share Capital Growth	-1.2	1.1	23.7	-0.6	1.6	4.3	2.8
Dividend Growth	4.1	13.4	-14.8	-6.7	-0.4	2.8	3.3
Earnings Growth	4.2	43.2	70.4	-5.3	17.8	-1.1	3.9

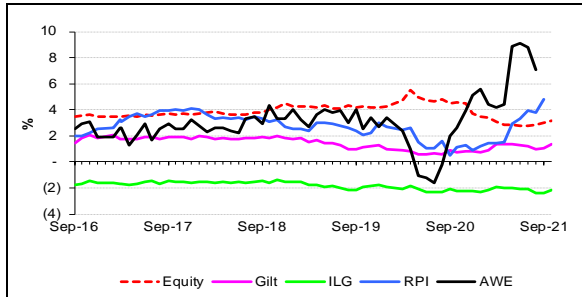
Note: All market returns are total returns for pension funds with income reinvested monthly. Indices used are as follows:

- 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.

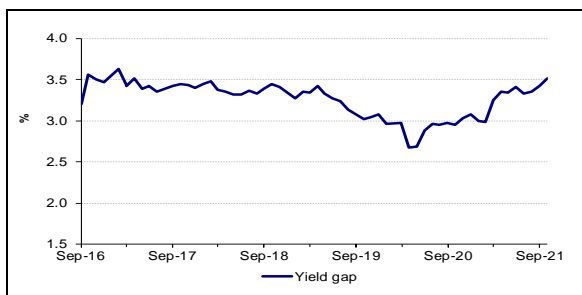


Yields and Yield Gaps

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.

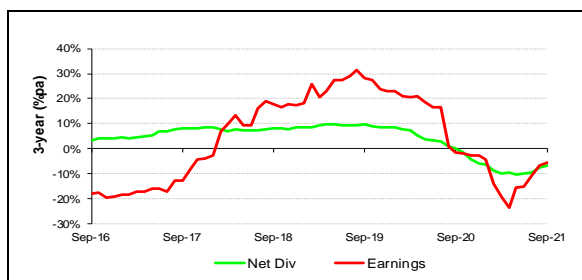
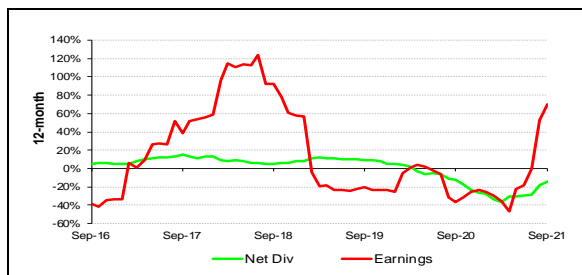


The gap gives a current expectation around 3.5% for longer-term inflation including the risk premium for gilts, relative to index-linked gilts.

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]

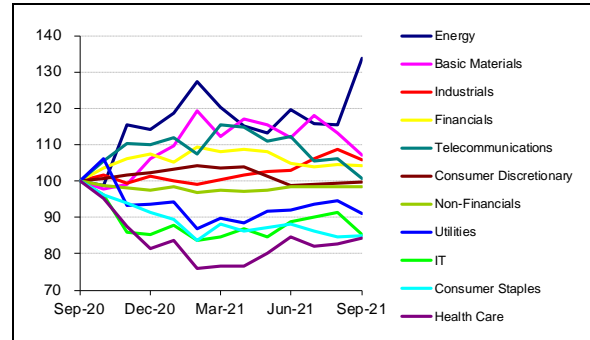
Figure 3: Dividend & Earnings Growth



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



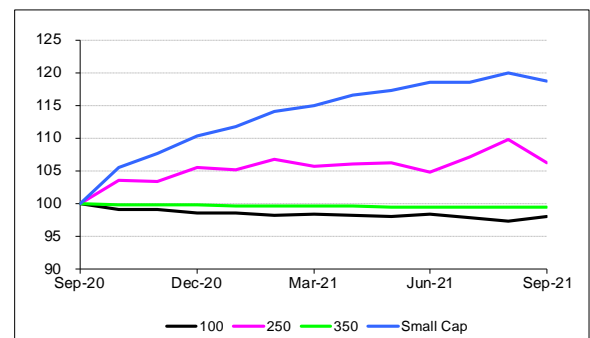
Note: Sector labels for relative lines are in end-value order

There was a rise this month in the rolling 12-month sector dispersion (up from 30% to 49%).

(% absolute return)	1 mth	3 mth	12 mth
Energy	14.8	14.3	71.2
Basic Materials	-6.4	-2.2	36.9
Industrials	-3.4	5.1	35.4
Consumer Staples	-0.5	-1.3	8.8
Health Care	1.0	2.0	8.0
Consumer Discretionary	-0.8	3.3	27.5
Telecommunications	-6.0	-8.4	28.7
Utilities	-4.7	1.2	16.5
Non-Finan	-0.9	2.4	25.9
Financials	-1.3	1.5	33.2
IT	-7.6	-1.9	9.1
All Share	-1.0	2.2	27.9

UK Equity Size Returns

Figure 4b: Size groups relative to All Share



This month, Mid Cap and Small Cap both fell relative to the All Share.

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



Bond market information

Figure 5: £ Non-Gilt Credit Margins

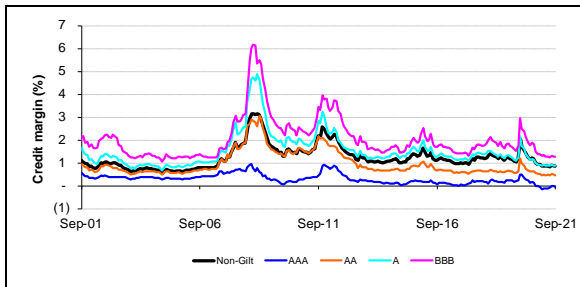


Table 2a: Over 15 Yr Corporate Yields & Margins

Month End	iBoxx Corp AA Y'ld (%)	FT 20 yr Gilt (%)	Margin (%)
Apr '21	1.94	1.33	0.61
May '21	1.93	1.29	0.64
Jun '21	1.86	1.23	0.63
Jul '21	1.62	1.00	0.62
Aug '21	1.65	1.07	0.58
Sep '21	2.01	1.39	0.62

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

Category	Mkt Val (£bn @ Sep 21 & 18, 15)			Weight (%)
	Sep 21	Sep 18	Sep 15	
Gilts (52)	1,750	1,298	1,241	72.9
Non-Gilts (1,161)	651	566	539	27.1
AAA (131)	127	115	101	5.3
AA (139)	75	81	97	3.1
A (373)	184	161	159	7.7
BBB (518)	264	209	181	11.0

Category	Mkt Val (£bn @ Sep 21, 18)		W't (%)	Dur'n (yrs)
Gilts (52)	1,750	1,298	72.9	12.5
< 5 Yrs (13)	445	345	18.5	2.9
5-15 Yrs (14)	531	356	22.1	8.3
> 15 Yrs (25)	774	596	32.2	20.9
Non-Gilts (1,161)	651	566	27.1	7.7
< 5 Yrs (410)	226	187	9.4	2.8
5-15 Yrs (519)	279	237	11.6	7.3
> 15 Yrs (232)	146	141	6.1	16.2

Tables 2d, 2e: € Market Size and Maturity (Sep 21)

Category	Mkt Val (€bn)	Weight (%)
Sovereigns (440)	7,746	59.2
Non-Sovereigns	5,347	40.8
AAA (991)	1,392	10.6
AA (779)	1,290	9.9
A (1,285)	1,148	8.8
BBB (1,871)	1,517	11.6

Category	Mkt Val (€bn)	Weight (%)
1 – 3 Yrs (1,329)	2,822	21.6
3 – 5 Yrs (1,306)	2,609	19.9
5 – 7 Yrs (1,036)	2,042	15.6
7 – 10 Yrs (912)	2,289	17.5
10+ Yrs (783)	3,331	25.4

Table 2f: Breakdown of £ Index-Linked Market

Category (Number of issues)	Mkt Val (£bn @ Sep 21 & 18)		W't (%)	Dur'n (yrs)
Gilts (31)	829	660	100.0	21.1
< 5 Yrs (4)	90	59	10.9	2.6
5 – 15 Yrs (8)	192	155	23.1	9.3
> 15 Yrs (19)	547	447	66.0	28.3

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

Month End	US (%)	Euro (%)	Sterling (%)
Apr '21	4.35	2.66	4.08
May '21	4.35	2.66	4.12
Jun '21	4.21	2.61	4.14
Jul '21	4.23	2.60	4.18
Aug '21	4.18	2.58	4.18
Sep '21	4.25	2.69	4.32

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

£ Gilt Market “main” Issuance

- 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.

