



Investment Update July 2022

Investment Headlines & Comment

- A good month for many assets, rebounding after a poor Q2. Credit margins narrowed.
- The Federal Reserve made its second consecutive 0.75% interest rate increase.
- The Bank of England has made rather more modest increases over 2022 to date.

Feature Section

This month, we consider how various overseas bond markets have responded to the current environment of inflation and rising short-term interest rates.

All data is sourced from the JP Morgan Government Bond Index.

Figure 1a shows the US yield curve as at 30 September 2021, when we last discussed overseas government bond markets, and the current curve as at 31 July 2022. Figure 1b shows the equivalent data for Germany, Figure 1c for Italy, and Figure 1d for the UK. Note the vertical scales vary chart by chart, and longer-term yields are only quoted at 15- and 30-year points, so the shapes of the curves may not capture all the detail.

Figure 1a: US (% , years)

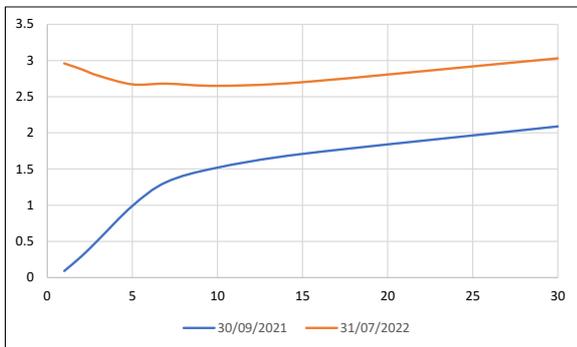


Figure 1c: Italy (% , years)

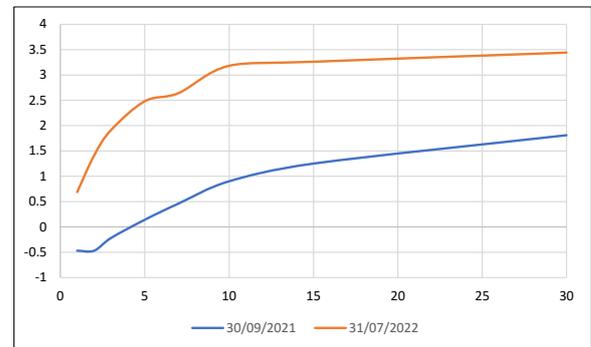


Figure 1b: Germany (% , years)

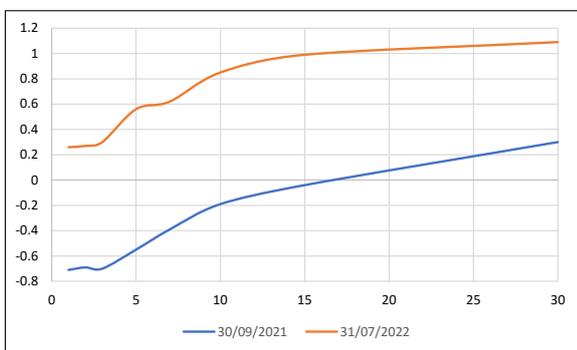
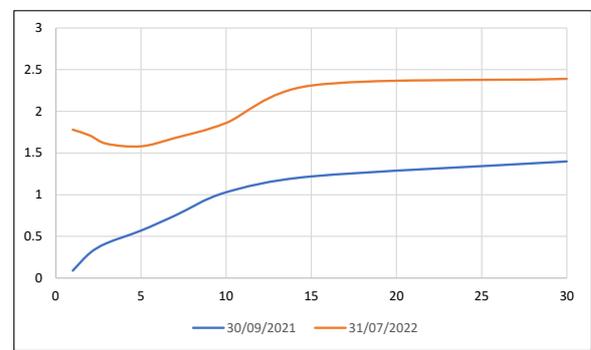


Figure 1d: UK (% , years)



The US has clearly seen the largest jump in short-term yield expectations, with a rise of almost 3% at the 1-year point, but their longer-term rates have also increased, with both 15- and 30-year yields up by around 1%.

For the UK, the rise at the short end is somewhat less than for the US, but still material at around 1.7%, and again both 15- and 30-year UK yields are up by around 1%. It will be interesting to see what emerges from this week's next meeting of the Bank's Monetary Policy Committee.

For Germany and Italy, the rise at the 1-year point is around 1% for both countries, less than for both the US and the UK, but thereafter the increase for Italy is considerably more with 5-year yields up by 2.3%, whereas German 5-year yields are only up by 1.1%. As noted in various past editions, the Eurozone continues to be an example of a political will and an economic shouldn't.



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 July 2022

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	2.3	-1.2	5.5	3.2	4.0	7.2	7.2
Overseas Equities	6.8	1.3	2.5	9.5	10.4	13.1	10.3
US Equities	9.0	3.3	6.5	13.3	14.5	16.6	8.6
Europe ex UK Equities	5.1	-2.2	-9.4	3.6	4.5	9.7	11.5
Japan Equities	5.3	2.4	-1.8	3.4	4.4	9.6	6.3
Pacific ex Japan Equities	0.0	-2.6	-4.5	4.0	4.7	8.2	10.9
Emerging Markets	-0.4	-3.3	-8.3	1.5	3.0	5.9	10.6
UK Long-dated Gilts	3.9	-6.2	-24.0	-6.1	-1.0	2.8	5.2
UK Long-dated Corp. Bonds	5.3	-5.0	-24.0	-4.6	-0.4	3.7	5.3
UK Over 5 Yrs Index-Linked Gilts	6.0	-8.5	-19.9	-4.1	0.7	4.7	6.4
High Yield (Global)	4.2	-0.1	-1.7	-0.2	3.0	6.7	8.8
Overseas Bonds	1.6	2.2	-2.7	-3.0	0.7	2.1	4.5
Property *	0.7	3.8	23.7	9.5	8.7	9.5	8.0
Cash	0.2	0.4	0.7	0.5	0.6	0.5	2.0
Commodities £-converted	-0.2	0.1	63.1	15.0	12.5	0.1	2.0
Hedge Funds original \$ basis *	-2.9	-4.7	-5.6	6.2	5.1	5.0	5.5
Illustrative £-converted version *	0.8	3.3	7.4	7.9	6.5	7.7	6.8
Euro relative to Sterling	-2.7	-0.3	-1.8	-2.7	-1.3	0.6	1.5
US \$ relative to Sterling	-0.2	3.2	14.3	0.2	1.6	2.6	1.3
Japanese Yen relative to Sterling	1.4	0.0	-6.2	-6.5	-2.2	-2.8	0.7
Sterling trade weighted	1.5	-0.7	-2.8	2.1	0.7	-0.5	-1.2
Price Inflation (RPI) *	0.9	5.1	11.8	5.5	4.5	3.5	3.3
Price Inflation (CPI) *	0.8	4.0	9.4	4.1	3.3	2.5	2.5
Price Inflation (RPIX) *	0.8	5.1	11.9	5.6	4.6	3.6	3.4
Earnings Inflation **	-1.5	-1.9	3.9	3.8	3.6	2.8	2.9
All Share Capital Growth	2.2	-1.9	1.9	-0.2	0.3	3.4	3.5
Dividend Growth	0.4	3.3	22.9	-6.0	-0.7	2.7	3.7
Earnings Growth	-4.0	-4.3	17.1	3.0	13.1	0.4	4.9

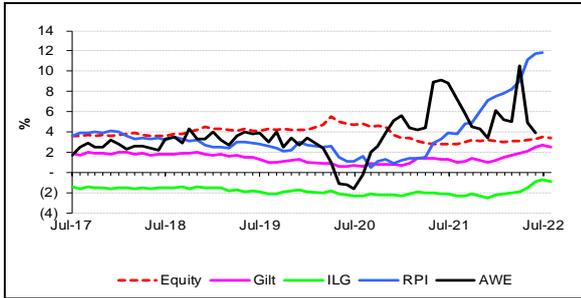
Note: All market returns are total returns for pension funds with income reinvested monthly. Indices used are as follows:

- 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.

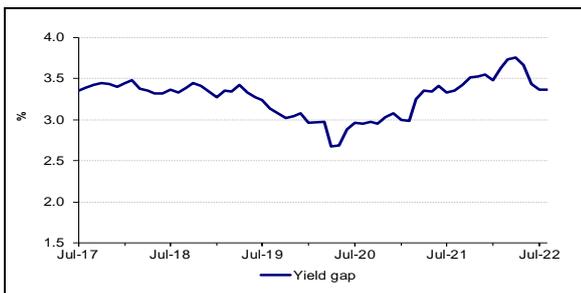


Yields and Yield Gaps

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.

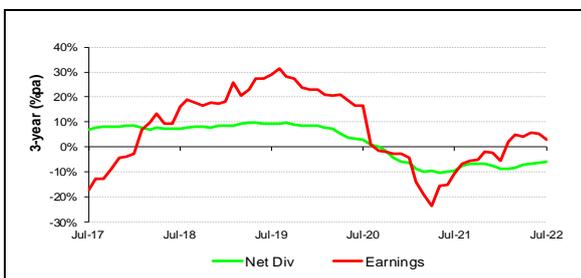
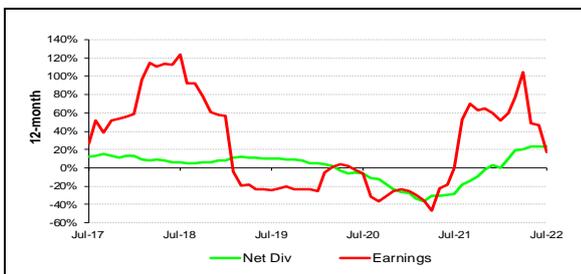


The gap gives a current expectation around 3.4% for longer-term inflation including the (unknown) risk premium for gilts, relative to index-linked gilts.

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]

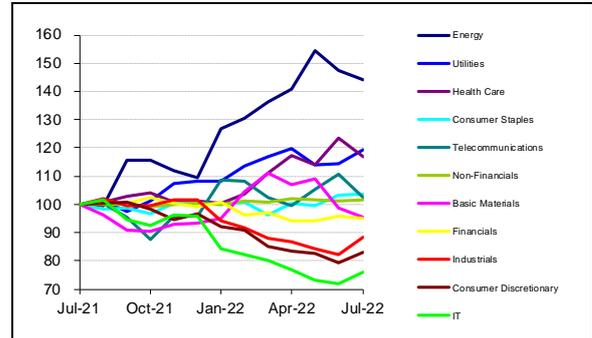
Figure 3: Dividend & Earnings Growth



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



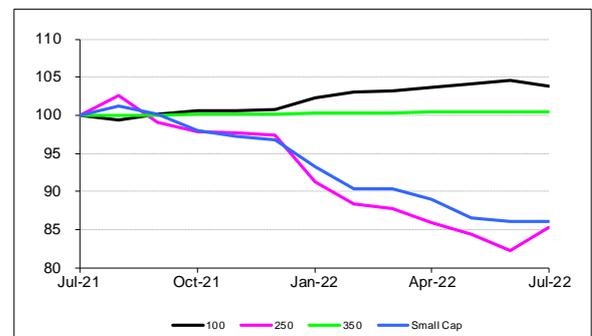
Note: Sector labels for relative lines are in end-value order

There was a slight fall this month in the rolling 12-month sector dispersion (falling from 70% to 68%).

(% absolute return)	1 mth	3 mth	12 mth
Energy	0.0	1.1	52.0
Basic Materials	-0.8	-11.7	0.7
Industrials	10.0	0.7	-6.6
Consumer Staples	2.5	2.1	9.2
Health Care	-3.2	-1.6	23.2
Consumer Discretionary	7.0	-1.6	-12.3
Telecommunications	-5.3	1.6	8.2
Utilities	6.6	-1.7	25.8
Non-Finan	2.7	-1.5	7.1
Financials	1.2	-0.2	0.1
IT	8.3	-2.3	-19.8
All Share	2.3	-1.2	5.5

UK Equity Size Returns

Figure 4b: Size groups relative to All Share



This month, Mid Cap rose relative to the All Share, but Small Cap fell slightly.

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



Bond market information

Figure 5: £ Non-Gilt Credit Margins

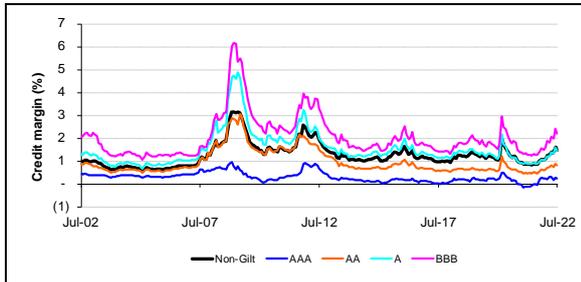


Table 2a: Over 15 Yr Corporate Yields & Margins

Month End	iBoxx Corp AA Y'ld (%)	FT 20 yr Gilt (%)	Margin (%)
Feb '22	2.62	1.67	0.95
Mar '22	2.71	1.84	0.87
Apr '22	3.05	2.13	0.92
May '22	3.40	2.46	0.94
Jun '22	3.78	2.66	1.12
Jul '22	3.45	2.45	1.00

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

Category	Mkt Val (£bn @ Jul 22 & 19, 16)			Weight (%)
Gilts (55)	1,593	1,410	1,389	72.6
Non-Gilts (1,210)	601	622	568	27.4
AAA (146)	129	125	113	5.9
AA (157)	80	89	99	3.6
A (390)	161	170	170	7.3
BBB (517)	231	239	186	10.5

Category	Mkt Val (£bn @ Jul 22, 19)		W't (%)	Dur'n (yrs)
Gilts (55)	1,593	1,410	72.6	11.2
< 5 Yrs (12)	417	342	19.0	2.5
5-15 Yrs (16)	517	364	23.6	7.7
> 15 Yrs (27)	659	704	30.0	19.6
Non-Gilts (1,210)	601	622	27.4	6.8
< 5 Yrs (477)	258	205	11.8	2.9
5-15 Yrs (501)	232	268	10.6	7.2
> 15 Yrs (232)	111	149	5.1	15.0

Tables 2d, 2e: € Market Size and Maturity (Jul 22)

Category	Mkt Val (€bn)	Weight (%)
Sovereigns (448)	7,142	58.4
Non-Sovereigns	5,098	41.6
AAA (1,092)	1,549	12.7
AA (780)	1,041	8.5
A (1,406)	1,130	9.2
BBB (1,946)	1,378	11.3

Category	Mkt Val (€bn)	Weight (%)
1 – 3 Yrs (1,439)	2,772	22.6
3 – 5 Yrs (1,413)	2,586	21.1
5 – 7 Yrs (1,051)	2,006	16.4
7 – 10 Yrs (967)	2,021	16.5
10+ Yrs (802)	2,856	23.3

Table 2f: Breakdown of £ Index-Linked Market

Category (Number of issues)	Mkt Val (£bn @ Jul 22 & 19)		W't (%)	Dur'n (yrs)
Gilts (32)	726	766	100.0	18.4
< 5 Yrs (4)	94	106	13.0	1.8
5 – 15 Yrs (9)	216	155	29.8	9.0
> 15 Yrs (19)	416	505	57.3	27.0

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

Month End	US (%)	Euro (%)	Sterling (%)
Mar '22	5.70	4.23	6.08
Apr '22	6.56	5.01	6.68
May '22	6.53	5.22	7.41
Jun '22	8.21	7.00	9.10
Jul '22	7.03	5.92	8.50

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

£ Gilt Market “main” Issuance

- £4.37bn, ¼% 2025 (2.53x, 2.23%, 25%, Jun '22)
- £3.44bn, 1% 2032 (2.45x, 2.15%, 25%, Jun '22)
- £2.50bn, 1½% 2039 (2.56x, 2.64%, 25%, Apr '22)
- £2.38bn, 1¼% 2051 (2.24x, 2.53%, 19%, May '22)
- £0.70bn, IL 1/8% 2051 (2.28x, -0.58%, 0%, Jan '22)

Note: Issuance amounts are nominals. The second % figure in each row is the yield or real yield. The third % 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 Green Gilt (Gr), tender or syndication cases.

