



Investment Update January 2023

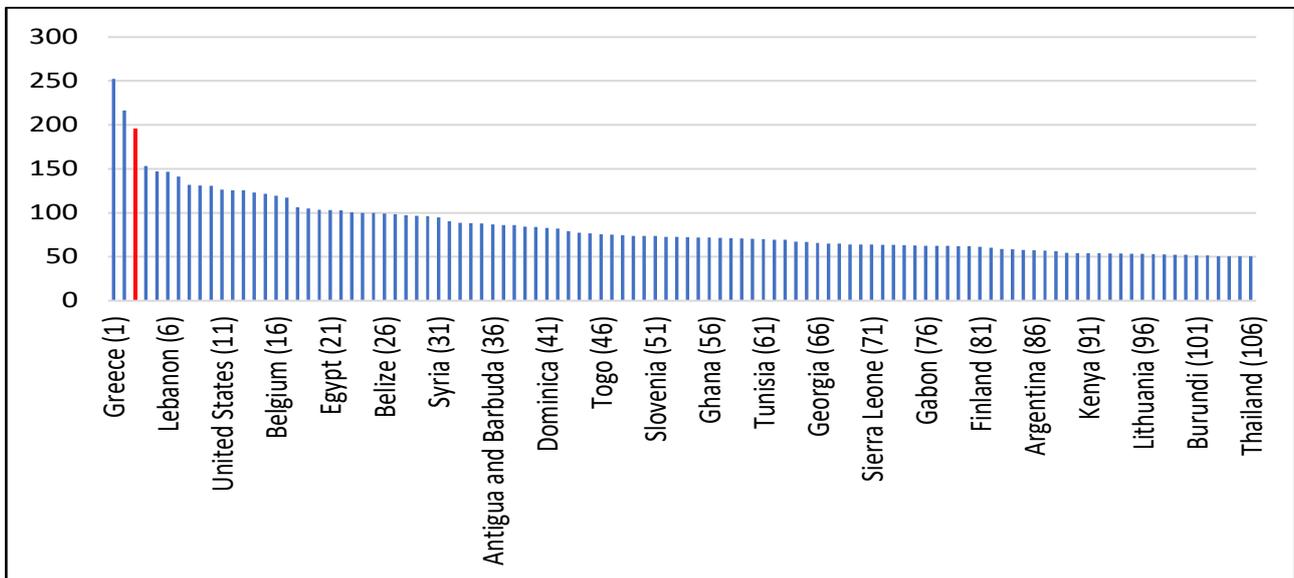
Investment Headlines & Comment

- A strong month for many European equity markets.
- Credit margins continue to come down from their 2022 spikes.
- There were modest falls in nominal and real gilt yields.

Feature Section This month we revisit the public debt ratios which we last considered in our [July 2019](#) issue, to see how things have progressed. The data is once again from the [World Factbook](#) of the Central Intelligence Agency, but relates to mostly 2020 data (due to publication lags). It thus includes some countries' pandemic-related borrowing, but perhaps not all of it. Also, the ratios will be inflated due to the pandemic leading to countries having lower Gross Domestic Product values in 2020.

Figure 1 below shows a selection of ratios from the CIA World Factbook, in descending order (the bracketed number is the country's ranking), but the data reliability has to be questioned in some cases, and it is only for public debt, not corporate debt as well. We have cut off the (very long) tail of values below 50% - this thus again excludes European countries such as the Czech Republic, Denmark, Norway, Switzerland, and further afield, New Zealand (but no longer Australia as well). That leaves 106 countries or entities with public debt ratios over 50%, of which 24 are over 100%.

Figure 1: Public debt to GDP ratios (%)



Source: CIA World Factbook

The highest ratio is now for Greece, which has leapfrogged Japan, increasing from 182% to a whopping 252%, whilst Japan's figure has dropped slightly to 216%. The red bar is the UK, which has risen from 29th to 3rd, with a rather drastic move from 87% to 195%. This is on the face of it initially rather puzzling, because the previous 87% was pretty similar to the Office for Budget Responsibility's (OBR) figure for 2017, whereas the 195% is clearly nowhere near the OBR's figure of 97% for 2020.

The answer may lie in the Factbook data also including "debt instruments issued (or owned) by government entities other than the treasury; treasury debt held by foreign entities; debt issued by subnational entities, as well as intragovernmental debt (treasury borrowings from surpluses in social funds, such as for retirement, medical care, and unemployment)". Could increased awareness of some unfunded public sector pensions be the concise explanation?

Within the EU, the highest ranked cases are Spain at 7th with 141% and Italy at 8th at 132%. Other EU cases over 100% include Portugal, France, Belgium and Croatia. The USA has moved from 82% to 126% whereas Germany has not moved from its previous level of 64%. Hopefully any future review will show some reversion to pre-pandemic rates at least, not least given the increased cost of borrowing from the global rise in yield curves.



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 January 2023

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	4.5	10.4	5.2	5.0	4.2	6.3	8.4
Overseas Equities	4.6	3.8	0.6	10.0	9.3	12.0	11.0
US Equities	4.1	-1.0	-0.8	12.1	12.6	15.4	9.8
Europe ex UK Equities	6.7	14.5	2.0	7.6	5.9	8.5	12.0
Japan Equities	3.4	9.1	2.4	4.3	3.7	9.0	7.6
Pacific ex Japan Equities	5.9	18.0	2.7	7.1	4.2	7.3	11.7
Emerging Markets	5.4	14.3	-3.8	4.1	1.8	5.1	11.1
UK Long-dated Gilts	3.9	-0.4	-33.3	-14.8	-5.3	1.1	3.6
UK Long-dated Corp. Bonds	5.9	7.6	-26.1	-10.8	-3.1	2.4	4.2
UK Over 5 Yrs Index-Linked Gilts	3.9	1.7	-33.5	-10.3	-3.7	1.9	4.9
High Yield (Global)	1.9	2.2	1.3	1.9	4.4	6.1	8.6
Overseas Bonds	0.4	0.4	-4.4	-2.4	1.2	2.1	4.2
Property *	-3.3	-14.5	-10.1	2.2	3.2	7.3	6.6
Cash	0.3	0.9	2.3	0.9	0.8	0.7	2.0
Commodities £-converted	-2.4	-9.4	22.9	17.4	9.6	-1.2	0.7
Hedge Funds original \$ basis *	-0.3	2.3	-4.1	5.7	4.4	4.7	5.7
Illustrative £-converted version *	-1.3	-5.0	7.9	9.2	6.9	7.9	7.2
Euro relative to Sterling	-0.6	2.8	5.6	1.6	0.1	0.3	1.5
US \$ relative to Sterling	-2.3	-6.5	9.0	2.3	2.9	2.6	1.5
Japanese Yen relative to Sterling	-0.9	6.9	-3.4	-3.7	-0.6	-1.0	1.0
Sterling trade weighted	1.0	-0.1	-5.1	-1.2	-0.4	-0.3	-1.3
Price Inflation (RPI) *	0.6	3.7	13.4	7.3	5.3	3.9	3.6
Price Inflation (CPI) *	0.4	2.7	10.5	5.4	3.9	2.7	2.7
Price Inflation (RPIX) *	0.5	3.4	12.9	7.2	5.3	3.9	3.6
Earnings Inflation **	1.4	2.7	7.6	5.4	4.6	3.3	3.1
All Share Capital Growth	4.4	9.8	1.5	1.6	0.6	2.6	4.6
Dividend Growth	0.6	1.8	17.9	-5.1	-0.6	2.9	4.0
Earnings Growth	0.3	-9.2	-20.4	-3.6	1.0	-1.6	4.0

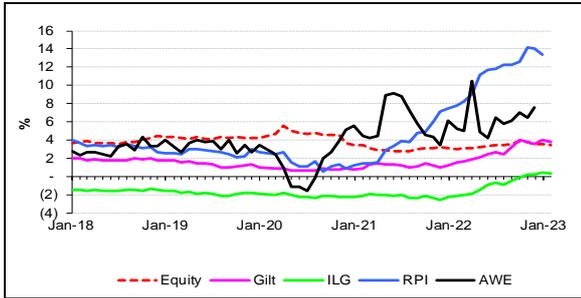
Note: All market returns are total returns for pension funds with income reinvested monthly. Indices used are as follows:

- 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.

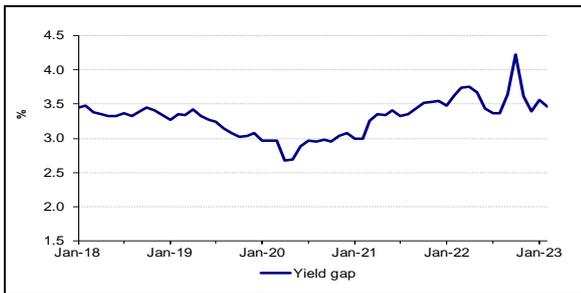


Yields and Yield Gaps

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.

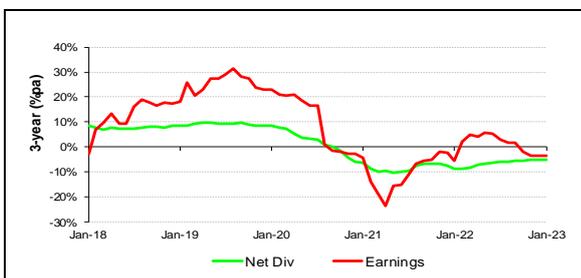
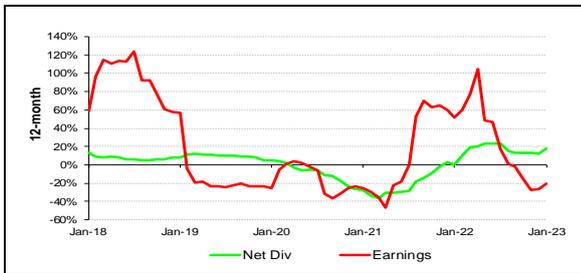


The gap gives a current expectation of around 3.5% p.a. for longer-term inflation including the (unknown) risk premium for gilts, relative to index-linked gilts.

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]

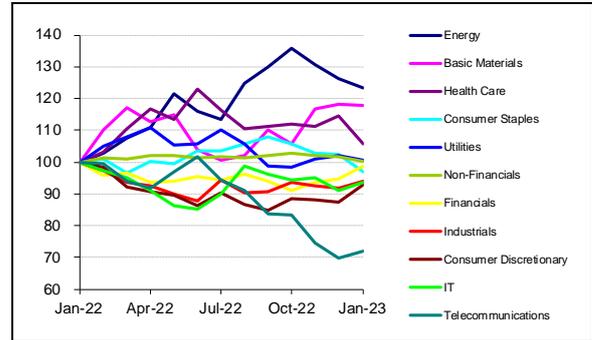
Figure 3: Dividend & Earnings Growth



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



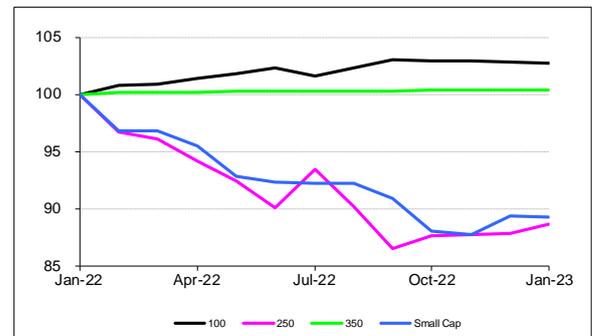
Note: Sector labels for relative lines are in end-value order

There was a fall this month in the rolling 12-month sector dispersion (down from 68% to 51%).

(% absolute return)	1 mth	3 mth	12 mth
Energy	2.2	0.4	29.9
Basic Materials	4.4	23.4	24.1
Industrials	7.0	10.8	-1.0
Consumer Staples	-1.4	1.1	1.8
Health Care	-3.5	4.4	11.3
Consumer Discretionary	11.1	15.8	-2.5
Telecommunications	8.2	-4.4	-24.2
Utilities	3.1	12.9	5.7
Non-Finan	3.2	7.8	5.6
Financials	9.2	19.7	4.0
IT	7.6	9.5	-1.5
All Share	4.5	10.4	5.2

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 very slightly.

Sources for charts on this page:

Financial Times, Office for National Statistics, J&A



Bond market information

Figure 5: £ Non-Gilt Credit Margins

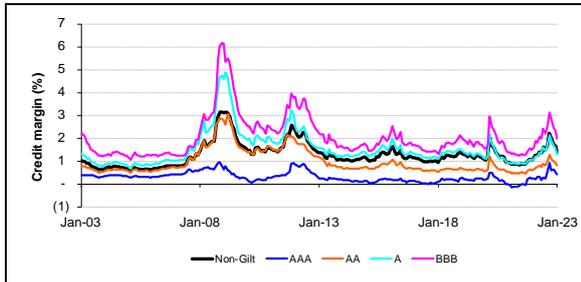


Table 2a: Over 15 Yr Corporate Yields & Margins

Month End	iBoxx Corp AA Y'ld (%)	FT 20 yr Gilt (%)	Margin (%)
Aug '22	4.18	3.20	0.98
Sep '22	5.07	4.03	1.04
Oct '22	4.68	3.82	0.86
Nov '22	4.26	3.54	0.72
Dec '22	4.72	4.02	0.70
Jan '23	4.40	3.77	0.63

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

Category	Mkt Val (£bn @ Jan 23 & 20, 17)			Weight (%)
	Jan 23	20	17	
Gilts (54)	1,438	1,440	1,322	72.6
Non-Gilts (1,190)	542	650	539	27.4
AAA (136)	109	131	103	5.5
AA (148)	69	87	85	3.5
A (401)	153	182	168	7.7
BBB (505)	212	250	183	10.7

Category	Mkt Val (£bn @ Jan 23 & 20)		W't (%)	Dur'n (yrs)
Gilts (55)	1,438	1,440	72.6	10.0
< 5 Yrs (13)	448	310	22.6	2.6
5-15 Yrs (15)	460	418	23.2	7.9
> 15 Yrs (27)	530	712	26.8	18.0
Non-Gilts (1,190)	542	650	27.4	6.3
< 5 Yrs (492)	252	213	12.7	2.9
5-15 Yrs (472)	198	279	10.0	7.0
> 15 Yrs (226)	93	159	4.7	13.9

Tables 2d, 2e: € Market Size and Maturity (Jan 23)

Category	Mkt Val (£bn)	Weight (%)
Sovereigns (463)	6,648	57.5
Non-Sovereigns	4,918	42.5
AAA (1,138)	1,535	13.3
AA (797)	965	8.3
A (1,439)	1,089	9.4
BBB (1,965)	1,329	11.5

Category	Mkt Val (£bn)	Weight (%)
1 – 3 Yrs (1,484)	2,787	24.1
3 – 5 Yrs (1,526)	2,584	22.3
5 – 7 Yrs (1,071)	1,868	16.1
7 – 10 Yrs (938)	1,905	16.5
10+ Yrs (783)	2,422	20.9

Table 2f: Breakdown of £ Index-Linked Market

Category (Number of issues)	Mkt Val (£bn @ Jan 23 & 20)		W't (%)	Dur'n (yrs)
Gilts (31)	588	760	100.0	17.1
< 5 Yrs (4)	94	94	16.0	2.7
5 – 15 Yrs (9)	197	183	33.4	9.5
> 15 Yrs (18)	297	483	50.5	26.7

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

Month End	US (%)	Euro (%)	Sterling (%)
Sep '22	8.69	7.85	11.39
Oct '22	8.21	7.37	10.86
Nov '22	7.86	6.72	10.07
Dec '22	8.17	7.11	10.32
Jan '23	7.48	6.47	9.54

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

£ Gilt Market “main” & “Green” Issuance

- £4.44bn, 3½% 2025 (2.23x, 3.63%, 11%, new)
- £3.50bn, 4¼% 2027 (2.18x, 3.67%, 0%, Nov '22)
- £3.70bn, 3¼% 2033 (2.77x, 3.70%, 23%, new)
- £6.00bn, 3¾% 2053 (**11.4x**, 3.72%, n/a, new)

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.

