

## Investment Update October 2023



### Investment Headlines & Comment

- A poor month across equity markets.
- Commodities did not fare too well either.
- UK inflation held steady rather than falling as expected.

### Feature Section

This month we update our review of EU inflation, last examined in our [October 2020](#) edition. The UK's own inflation rate is clearly a big current issue, but how have our neighbours been faring? Data is sourced from Eurostat.

**Figure 1a: Cumulative inflation indices**

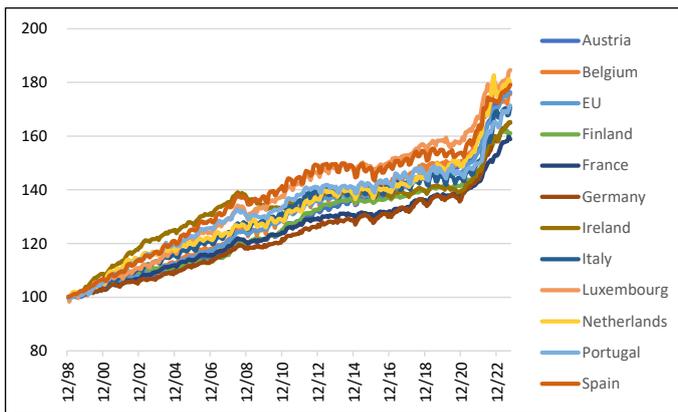


Figure 1a shows the cumulative Harmonised Index of Consumer Prices (HICP), rebased to 100 at the start for the original 11 members and also the overall EU rate (using the version allowing for its expanding membership). Over the 24 ¾ year period, there is 0.6% p.a. between the highest and lowest original members – Luxembourg being the highest at 2.5% p.a. and France the lowest at 1.9% p.a. That suggests a reasonable degree of convergence over the long term.

**Figure 1b: Rolling 12-month inflation (%)**

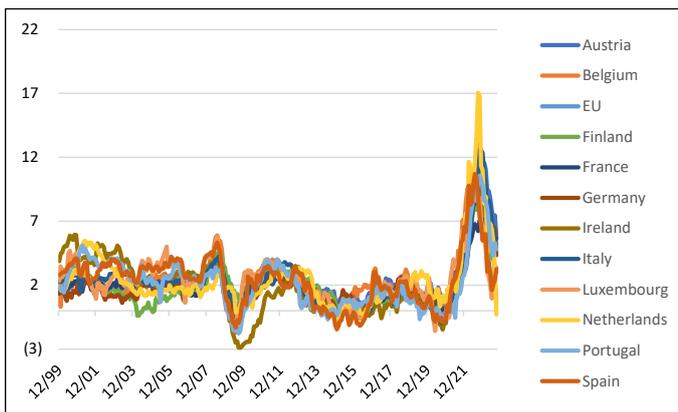


Figure 1b then breaks this data down into rolling 12-month inflation rates. Given different countries will have different patterns of consumption (e.g. in their choice of energy sources), some variation is to be expected at any given point in time. However the range of spikes experienced in 2022 is quite striking, with France's 12-month rate peaking at only 7% whereas the Netherlands peaked at 17%. For the EU as a whole, their peak was 12%.

**Figure 1c: Rolling 3-year inflation (% p.a.)**

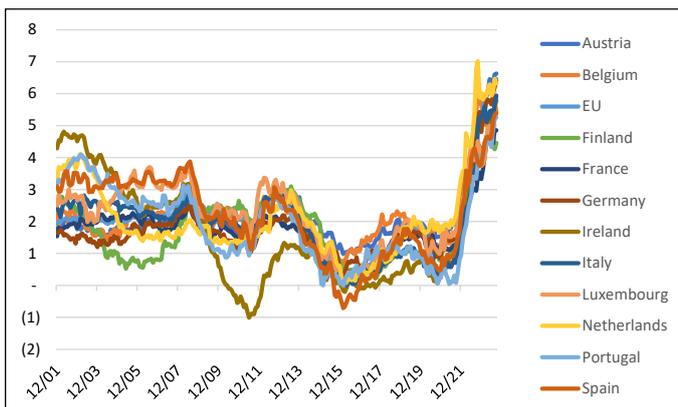


Figure 1c goes on to test whether there is any greater uniformity on a rolling 3-year view. Over the latest 3-year period, the gap between Austria (highest) and Finland (lowest) is 2.2% p.a. so there is still a reasonable degree of dispersion.

As things stand, the Netherlands are alone in currently experiencing mild deflation, but Belgium is pretty close to it. The highest current 12-month rate is for Austria at 5.8%.



**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 October 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	<b>-3.9</b>	<b>-4.8</b>	5.9	11.7	3.9	4.7	6.9
Overseas Equities	<b>-2.3</b>	<b>-4.0</b>	5.3	9.3	9.3	10.8	9.9
US Equities	<b>-1.8</b>	<b>-2.8</b>	4.6	<b>12.0</b>	<b>12.0</b>	<b>14.2</b>	8.4
Europe ex UK Equities	<b>-2.9</b>	<b>-6.4</b>	<b>11.9</b>	9.0	6.7	6.9	<b>11.2</b>
Japan Equities	<b>-3.9</b>	<b>-2.8</b>	11.2	4.3	4.3	7.4	6.1
Pacific ex Japan Equities	<b>-3.6</b>	<b>-7.7</b>	4.9	<b>-0.7</b>	4.3	5.9	9.5
Emerging Markets	<b>-3.4</b>	<b>-6.8</b>	5.6	<b>-1.2</b>	3.0	4.5	8.8
UK Long-dated Gilts	<b>-0.1</b>	<b>-6.9</b>	<b>-16.0</b>	<b>-20.8</b>	<b>-8.8</b>	<b>-0.7</b>	2.9
UK Long-dated Corp. Bonds	<b>-1.2</b>	<b>-5.2</b>	<b>-3.6</b>	<b>-14.6</b>	<b>-4.8</b>	0.9	3.6
UK Over 5 Yrs Index-Linked Gilts	<b>-0.7</b>	<b>-7.4</b>	<b>-12.9</b>	<b>-16.6</b>	<b>-7.3</b>	0.5	4.0
High Yield (Global)	<b>-0.5</b>	<b>3.3</b>	3.7	1.6	3.0	5.9	7.8
Overseas Bonds	<b>-0.7</b>	0.2	<b>-5.5</b>	<b>-6.6</b>	<b>-1.3</b>	1.7	3.7
Property *	<b>-0.2</b>	<b>-0.2</b>	<b>-13.6</b>	3.6	2.2	6.8	6.3
Cash	<b>0.4</b>	1.4	4.8	2.1	1.5	1.0	<b>2.0</b>
Commodities £-converted	<b>-3.7</b>	5.9	<b>-5.5</b>	32.0	7.0	0.0	1.0
Hedge Funds original \$ basis *	<b>-0.6</b>	0.4	6.2	6.7	4.9	4.5	5.2
Illustrative £-converted version *	3.2	4.6	<b>-2.8</b>	8.8	6.4	7.5	6.9
Euro relative to Sterling	0.6	1.7	1.5	<b>-1.1</b>	<b>-0.4</b>	0.3	1.2
US \$ relative to Sterling	0.5	6.0	<b>-5.1</b>	2.1	1.0	2.8	1.7
Japanese Yen relative to Sterling	<b>-0.8</b>	<b>-0.5</b>	<b>-6.9</b>	<b>-9.7</b>	<b>-4.7</b>	<b>-1.5</b>	0.1
Sterling trade weighted	<b>-0.3</b>	<b>-2.6</b>	2.5	1.1	0.6	<b>-0.3</b>	<b>-1.0</b>
Price Inflation (RPI) *	0.5	0.5	8.9	8.7	5.9	4.2	3.7
Price Inflation (CPI) *	0.5	0.4	6.6	6.6	4.4	2.9	2.8
Price Inflation (RPIX) *	0.4	0.2	7.6	8.3	5.7	4.1	3.7
Earnings Inflation **	<b>-1.4</b>	0.2	7.0	6.3	4.8	3.6	3.2
All Share Capital Growth	<b>-4.0</b>	<b>-5.8</b>	2.0	7.9	0.3	1.0	3.2
Dividend Growth	<b>-0.7</b>	1.7	8.0	3.2	<b>-0.2</b>	2.9	4.2
Earnings Growth	7.2	39.0	26.5	20.3	<b>-1.7</b>	3.4	4.7

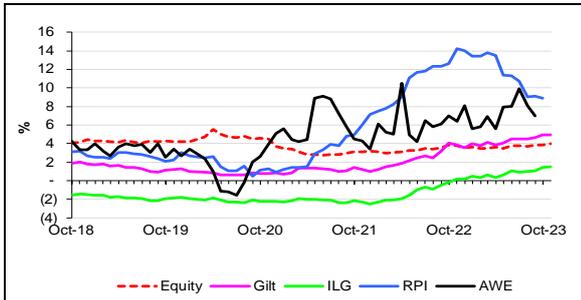
Note: All market returns are total returns for pension funds with income reinvested monthly. Indices used are as follows:

- 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.

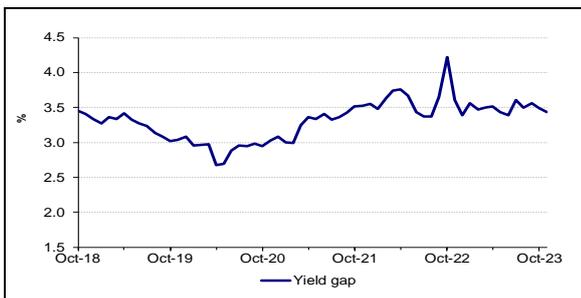


## Yields and Yield Gaps

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.

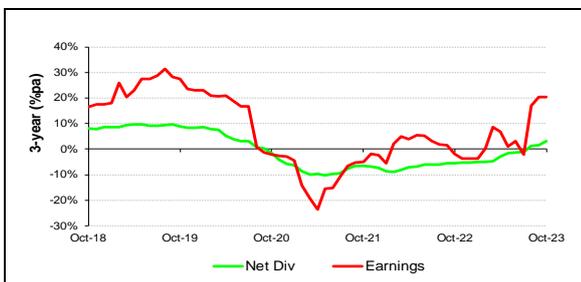
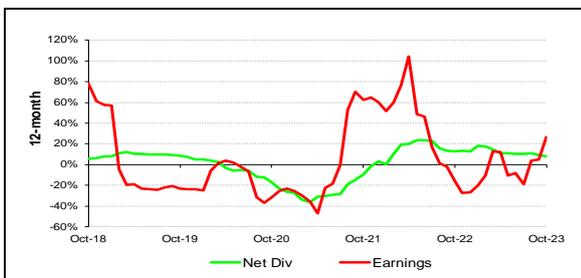


The gap gives a current expectation of around 3.4% p.a. for longer-term inflation including the (unknown) risk premium for gilts, relative to index-linked gilts.

## 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]

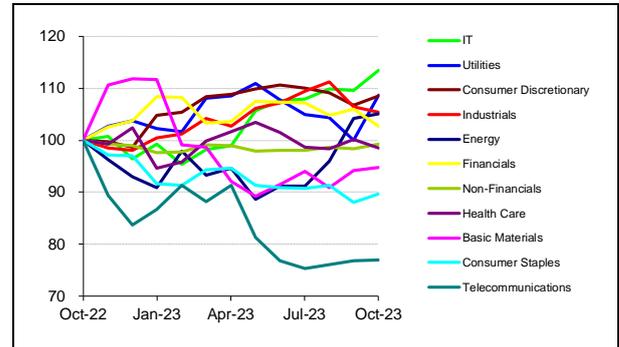
Figure 3: Dividend & Earnings Growth



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



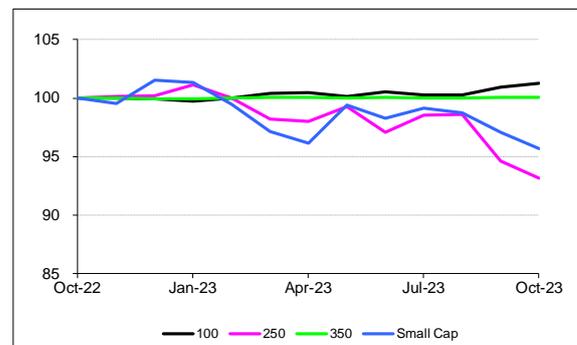
Note: Sector labels for relative lines are in end-value order

There was a slight rise this month in the rolling 12-month sector dispersion (up from 35% to 37%).

(% absolute return)	1 mth	3 mth	12 mth
Energy	-3.1	9.7	11.3
Basic Materials	-3.3	-4.1	0.4
Industrials	-4.8	-8.3	11.7
Consumer Staples	-1.9	-5.8	-5.0
Health Care	-5.4	-4.8	4.4
Consumer Discretionary	-2.3	-6.1	14.9
Telecommunications	-3.7	-2.7	-18.5
Utilities	4.4	-1.4	15.1
Non-Finan	-3.0	-3.6	5.1
Financials	-6.9	-8.8	8.8
IT	-0.5	0.0	20.2
All Share	-3.9	-4.8	5.9

## UK Equity Size Returns

Figure 4b: Size groups relative to All Share



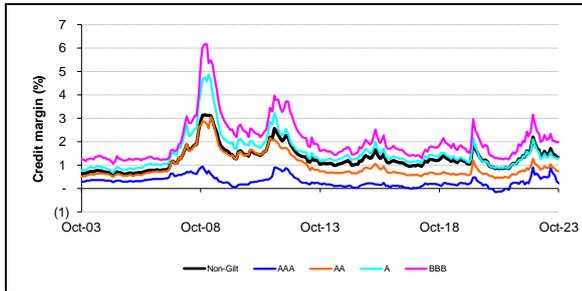
This month, Mid Cap and Small Cap both fell relative to the All Share.

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 (%)
May '23	5.20	4.47	0.73
Jun '23	5.08	4.50	0.58
Jul '23	4.99	4.48	0.51
Aug '23	5.15	4.61	0.54
Sep '23	5.37	4.90	0.47
Oct '23	<b>5.52</b>	<b>4.92</b>	<b>0.60</b>

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

Category	Mkt Val (£bn @ Oct 23 & 20, 17)			Weight (%)
Gilts (57)	1,347	1,731	1,332	70.9
Non-Gilts (1,256)	552	666	572	29.1
AAA (154)	122	133	112	6.4
AA (163)	73	85	89	3.9
A (434)	161	186	160	8.5
BBB (505)	195	261	212	10.3

Category	Mkt Val (£bn @ Oct 23 & 20)		W't (%)	Dur'n (yrs)
Gilts (57)	1,347	1,731	70.9	9.0
< 5 Yrs (13)	421	407	22.2	2.5
5-15 Yrs (16)	461	486	24.3	7.5
> 15 Yrs (28)	465	838	24.5	16.4
Non-Gilts (1,256)	552	666	29.1	5.5
< 5 Yrs (562)	285	229	15.0	2.6
5-15 Yrs (475)	190	277	10.0	6.8
> 15 Yrs (219)	77	160	4.1	13.1

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

Category	Mkt Val (£bn)	Weight (%)
Sovereigns (482)	6,767	56.7
Non-Sovereigns	5,171	43.3
AAA (1,231)	1,706	14.3
AA (823)	969	8.1
A (1,546)	1,183	9.9
BBB (1,989)	1,314	11.0

Category	Mkt Val (£bn)	Weight (%)
1 – 3 Yrs (1,621)	3,029	25.4
3 – 5 Yrs (1,684)	2,696	22.6
5 – 7 Yrs (1,069)	1,891	15.8
7 – 10 Yrs (956)	1,976	16.6
10+ Yrs (741)	2,345	19.6

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

Category (Number of issues)	Mkt Val (£bn @ Oct 23 & 20)		W't (%)	Dur'n (yrs)
Gilts (33)	538	804	100.0	14.6
< 5 Yrs (5)	121	70	22.5	2.5
5 – 15 Yrs (9)	173	202	32.2	9.3
> 15 Yrs (19)	244	532	45.3	24.5

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

Month End	US (%)	Euro (%)	Sterling (%)
Jul '23	7.72	6.86	10.20
Aug '23	7.84	6.87	10.45
Sep '23	8.32	7.06	10.31
Oct '23	<b>8.76</b>	<b>7.28</b>	<b>10.45</b>

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

**£ Gilt Market “main” & “Green” Issuance**

- £5.31bn, 3½% 2025 (2.61x, 4.96%, 25%, Aug '23)
- £1.50bn, ¾% IL 2033 (2.94x, 0.83%, 0%, Aug '23)
- £4.69bn, 4¾% 2034 (3.12x, 4.44%, 25%, new)
- £3.22bn, 3¾% 2038 (2.97x, 4.87%, 7%, Jul '23)
- £0.90bn, 1/8% IL 2039 (3.17x, 1.27%, 0%, Aug '23)
- £2.25bn, 1½% Gr 2053 (2.83x, 4.94%, n/a, Feb '23)
- £2.75bn, 3¾% 2053 (2.60x, 4.93%, 0%, Jul '23)

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.

