



Investment Update November 2023

Investment Headlines & Comment

- A strong month for many equity markets, even after allowing for Sterling's rise.
- Nominal and real gilt yields fell. Corporate credit margins also reduced.
- There was huge demand for the new 30-year gilt [launched](#) this month.

Feature Section

This month we revisit the UK's finances in the light of this month's Autumn Statement. This follows on from our [November 2022](#) edition.

The Office for Budget Responsibility (OBR) was involved, and its commentary can be found [here](#). Figures 1a-1d show the usual metrics, including the Office for Budget Responsibility's (OBR) projections for the current tax year, and the next five tax years.

Figure 1a: Public Sector Net Borrowing (%)

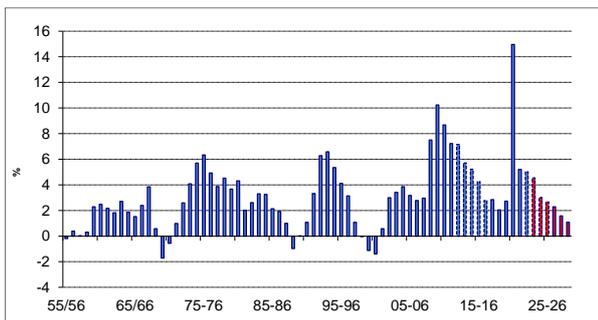


Figure 1b: Debt to GDP Ratio (%)

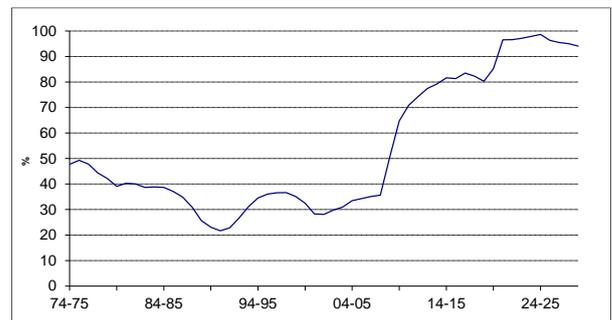


Figure 1c: Interest to GDP Ratio (%)

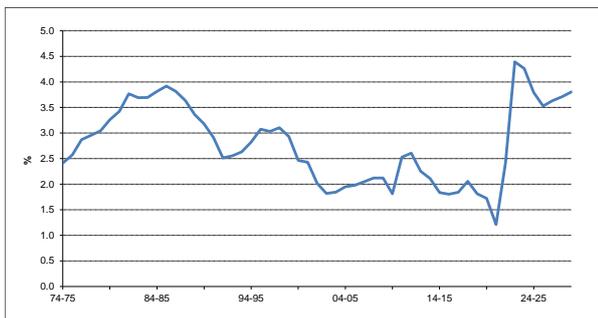
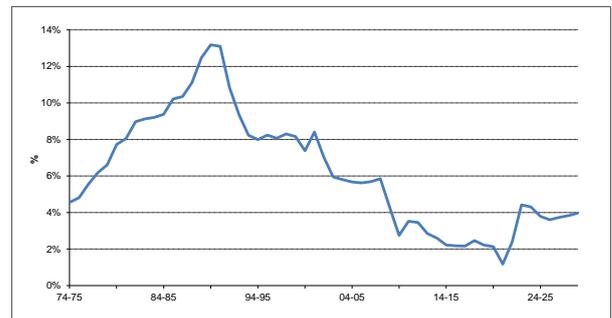


Figure 1d: Interest to Debt Ratio (%)



Source: Office for Budget Responsibility (OBR)

In Figure 1c, the interest spike remains in place in 2022/23 due to the spike in inflation (as measured by RPI) that the UK experienced. However, the OBR now has it dropping for a while, then rising to between 3.5% and 4%, due to the continued jump in interest rates over 2022 and 2023. Similarly, whereas Figure 1d used to show the interest to debt ratio stabilizing at a historically low level of around 2%, it is now projected to be heading to over 4%, which is potentially rather more problematic.

It is worth flagging that all these figures are before you factor in the losses that the Government will have to finance as the Bank of England unwinds the Quantitative Easing (QE) portfolio (because the timing of those sales is not set in stone). These gilt sales are taking place at far lower prices than the Bank paid for the gilts, but when the scheme was created, it was agreed that the Government would bear any losses. The current OBR estimate for those is £108bn, probably emerging over the next decade. There remains £747bn in the QE piggy bank, so quite where nominal gilt yields will end up as the unwinding continues is very much an open question.



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 November 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	3.0	0.6	1.8	8.4	4.9	5.1	7.0
Overseas Equities	5.1	2.1	6.3	8.1	10.0	11.4	10.2
US Equities	4.9	2.1	7.6	10.9	12.6	14.6	8.5
Europe ex UK Equities	6.4	2.0	10.3	6.6	8.1	7.6	11.5
Japan Equities	3.7	1.4	8.9	2.7	4.9	7.8	6.6
Pacific ex Japan Equities	5.7	1.8	-1.9	-0.9	4.5	6.8	9.9
Emerging Markets	3.5	1.3	-1.6	-1.9	2.9	5.2	9.0
UK Long-dated Gilts	5.6	0.2	-15.2	-19.1	-7.2	0.1	3.2
UK Long-dated Corp. Bonds	7.0	3.0	-3.7	-13.5	-2.7	1.7	3.9
UK Over 5 Yrs Index-Linked Gilts	4.3	-1.9	-12.7	-15.5	-5.8	1.0	4.2
High Yield (Global)	0.5	2.6	3.5	1.2	3.3	6.1	7.8
Overseas Bonds	0.2	0.1	-6.1	-6.0	-1.4	2.0	3.7
Property *	-0.2	-0.4	-7.9	3.4	2.0	6.6	6.2
Cash	0.4	1.4	4.9	2.2	1.6	1.0	2.0
Commodities £-converted	-7.6	-3.8	-8.1	25.1	7.9	-0.6	0.5
Hedge Funds original \$ basis *	-1.6	-2.9	3.1	6.1	5.3	4.2	5.0
Illustrative £-converted version *	-1.1	2.9	-2.2	8.4	6.4	7.2	6.8
Euro relative to Sterling	-1.1	0.6	-0.3	-1.3	-0.6	0.4	1.1
US \$ relative to Sterling	-4.2	0.1	-5.9	1.8	0.2	2.6	1.5
Japanese Yen relative to Sterling	-1.8	-1.4	-11.2	-9.4	-5.0	-1.1	0.0
Sterling trade weighted	1.9	-0.6	4.1	1.4	1.1	-0.3	-0.9
Price Inflation (RPI) *	-0.2	1.0	6.1	8.7	5.8	4.1	3.7
Price Inflation (CPI) *	0.0	0.8	4.6	6.6	4.3	2.9	2.8
Price Inflation (RPIX) *	-0.3	0.6	4.8	8.2	5.6	4.1	3.7
Earnings Inflation **	1.1	-2.7	7.4	6.3	5.1	3.7	3.2
All Share Capital Growth	2.5	-0.1	-2.1	4.6	1.2	1.3	3.2
Dividend Growth	2.8	2.2	10.2	7.0	0.2	3.1	4.4
Earnings Growth	17.6	28.0	62.8	24.9	2.2	3.7	5.7

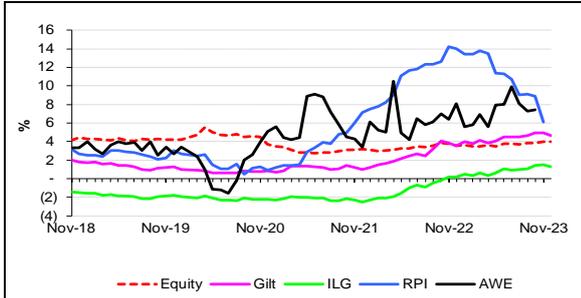
Note: All market returns are total returns for pension funds with income reinvested monthly. Indices used are as follows:

- 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.

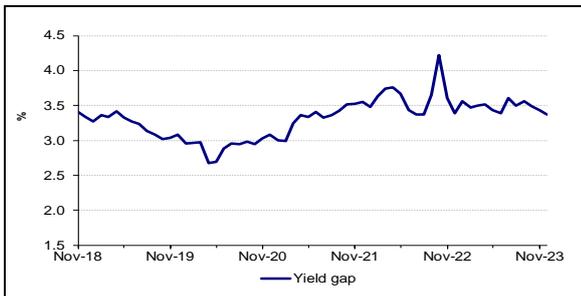


Yields and Yield Gaps

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.

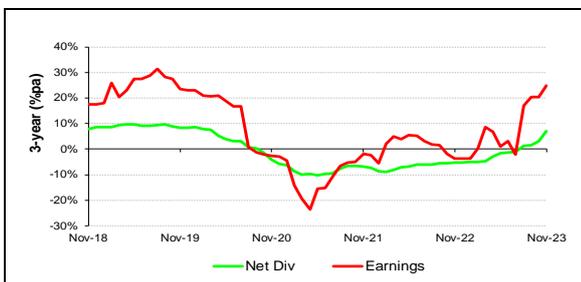
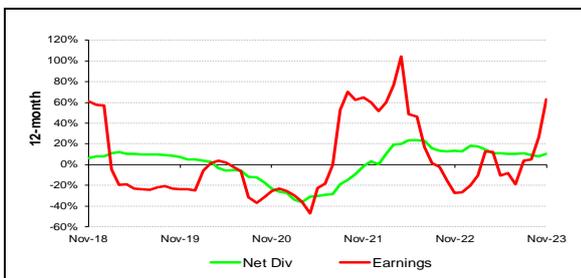


The gap gives a current expectation of around 3.4% p.a. for longer-term inflation including the (unknown) risk premium for gilts, relative to index-linked gilts.

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]

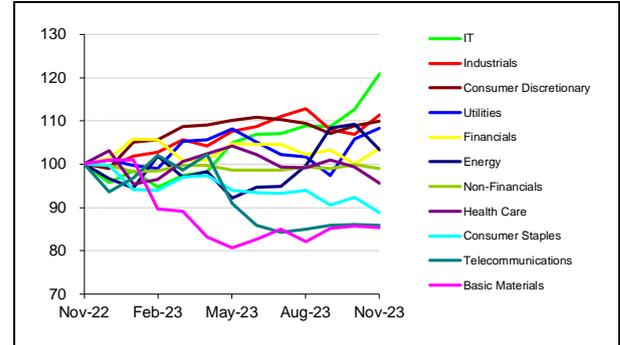
Figure 3: Dividend & Earnings Growth



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



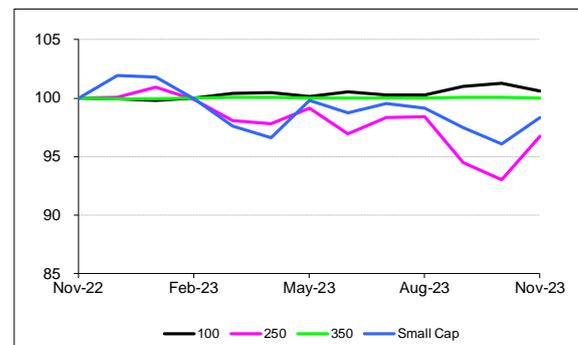
Note: Sector labels for relative lines are in end-value order

There was a slight fall this month in the rolling 12-month sector dispersion (down from 37% to 36%).

(% absolute return)	1 mth	3 mth	12 mth
Energy	-2.7	4.1	5.1
Basic Materials	2.6	4.7	-13.1
Industrials	7.2	-0.8	13.4
Consumer Staples	-1.1	-5.1	-9.8
Health Care	-0.9	-3.1	-2.8
Consumer Discretionary	4.1	1.0	12.0
Telecommunications	2.7	1.6	-12.7
Utilities	5.4	7.2	10.3
Non-Finan	2.0	0.2	0.7
Financials	6.5	1.9	5.5
IT	10.7	11.7	23.2
All Share	3.0	0.6	1.8

UK Equity Size Returns

Figure 4b: Size groups relative to All Share



This month, Mid Cap and Small Cap both rose 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

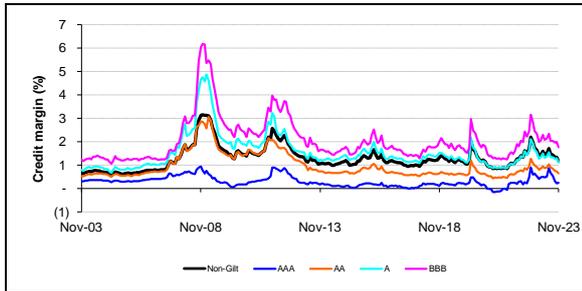


Table 2a: Over 15 Yr Corporate Yields & Margins

Month End	iBoxx Corp AA Y'ld (%)	FT 20 yr Gilt (%)	Margin (%)
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	5.52	4.92	0.60
Nov '23	5.06	4.62	0.44

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

Category	Mkt Val (£bn @ Nov 23 & 20, 17)			Weight (%)
	Nov 23	20	17	
Gilts (58)	1,406	1,762	1,344	71.2
Non-Gilts (1,260)	570	679	575	28.8
AAA (155)	125	134	113	6.3
AA (164)	76	86	88	3.8
A (434)	166	191	161	8.4
BBB (507)	203	268	213	10.3

Category	Mkt Val (£bn @ Nov 23 & 20)		W't (%)	Dur'n (yrs)
	Nov 23	20		
Gilts (58)	1,406	1,762	71.2	9.2
< 5 Yrs (14)	464	417	23.5	2.6
5-15 Yrs (16)	447	501	22.7	7.8
> 15 Yrs (28)	494	843	25.0	16.8
Non-Gilts (1,260)	570	679	28.8	5.6
< 5 Yrs (572)	293	231	14.8	2.6
5-15 Yrs (469)	194	283	9.8	6.8
> 15 Yrs (219)	83	164	4.2	13.3

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

Category	Mkt Val (£bn)	Weight (%)
Sovereigns (485)	7,015	57.0
Non-Sovereigns	5,298	43.0
AAA (1,235)	1,750	14.2
AA (832)	1,000	8.1
A (1,547)	1,212	9.8
BBB (1,980)	1,336	10.8

Category	Mkt Val (£bn)	Weight (%)
1 – 3 Yrs (1,659)	3,101	25.2
3 – 5 Yrs (1,669)	2,738	22.2
5 – 7 Yrs (1,063)	1,916	15.6
7 – 10 Yrs (952)	2,040	16.6
10+ Yrs (736)	2,519	20.5

Table 2f: Breakdown of £ Index-Linked Market

Category (Number of issues)	Mkt Val (£bn @ Nov 23 & 20)		W't (%)	Dur'n (yrs)
	Nov 23	20		
Gilts (33)	557	805	100.0	14.9
< 5 Yrs (5)	122	70	21.8	2.4
5 – 15 Yrs (9)	177	200	31.7	9.2
> 15 Yrs (19)	259	535	46.4	24.6

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

Month End	US (%)	Euro (%)	Sterling (%)
Aug '23	7.84	6.87	10.45
Sep '23	8.32	7.06	10.31
Oct '23	8.76	7.28	10.45
Nov '23	7.81	6.60	9.61

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

£ Gilt Market “main” & “Green” Issuance

- £4.68bn, 3½% 2025 (2.36x, 4.55%, 10%, Oct '23)
- £4.60bn, 4½% 2028 (2.30x, 4.47%, 15%, Sep '23)
- £4.39bn, 4¾% 2034 (2.90x, 4.41%, 17%, Oct '23)
- £7.00bn, 4¾% 2043 (**13.4x**, 4.64%, n/a, new)
- £1.04bn, ¼% IL 2051 (3.18x, 1.31%, 16%, Sep '23)
- £2.75bn, 3¾% 2053 (2.34x, 4.66%, 0%, Oct '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.

