



Investment Update December 2024

Investment Headlines & Comment

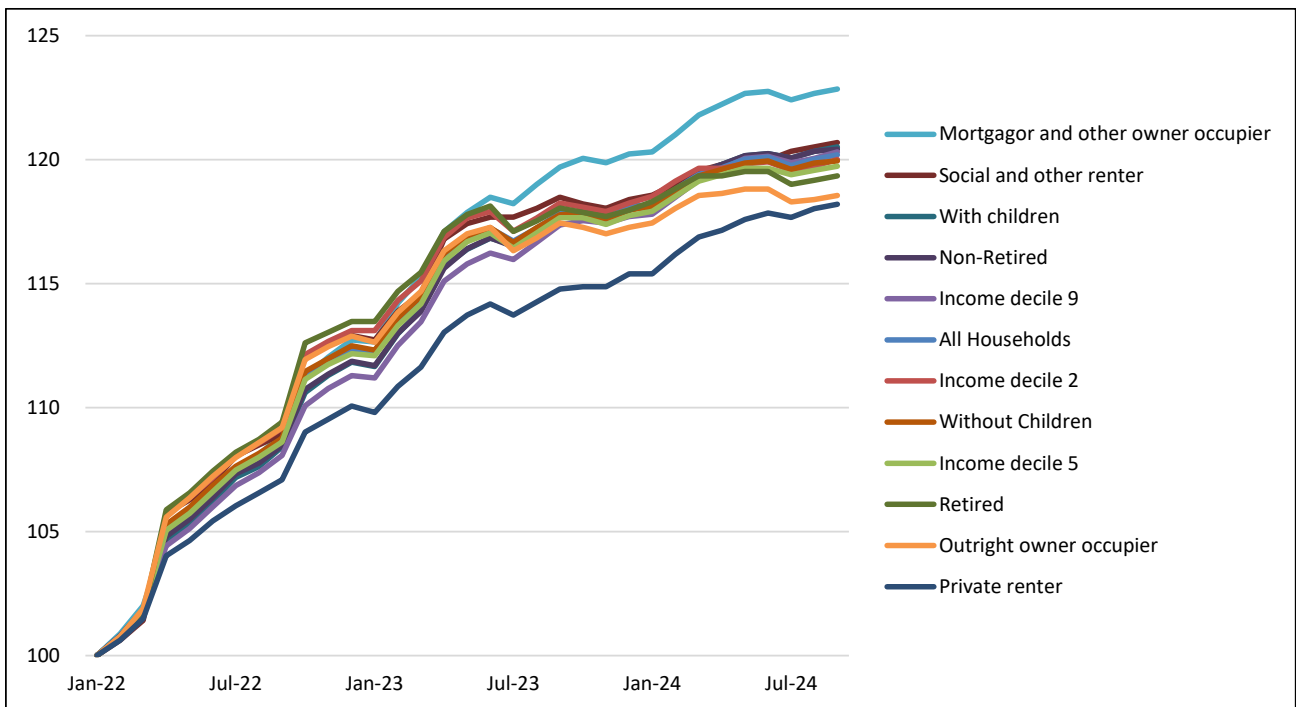
- A poor month for UK government bonds.
- Long-dated gilts end the year yielding just over 5% p.a.
- Relatively muted returns across most equity markets.

Feature Section

This month we consider the different versions of UK inflation as measured by the Office for National Statistics (ONS) in their Household Costs Indices (HCI). These are released on a quarterly basis, so the latest edition covers data to the end of September 2024. The indices started being developed in 2022. We are grateful to Jacob Buffett for suggesting this subject.

Figure 1 shows the various sub-indices, rebased to 100 as of January 2022. The chart legend is in end index value order. The data period includes the post pandemic surge in inflation, and the impact of Russia's invasion of Ukraine.

Figure 1: Household Costs Indices



Source: ONS

After the first 12 months, the dispersion in inflation was 3.7% with the Retired category having experienced 13.5% inflation whereas Private Renters had experienced “only” 9.8%. Roll on another 12 months and the cumulative (unannualized) dispersion in inflation was 4.9% with the Mortgage category having experienced cumulative 20.3% (unannualized) inflation whereas Private Renters had experienced 15.4%.

Over the full period to 30 September 2024, the cumulative (unannualized) dispersion in inflation was 4.6% with the Mortgage category having experienced 22.8% cumulative (unannualized) inflation whereas Private Renters had experienced 18.2%. This suggests that the category impact can diminish over time, but there again it is a relatively short dataset so far.

For reference, over the full period to 30 September 2024, the cumulative (unannualized) RPI inflation was 22.3% and for CPI it was 16.8%. So, RPI appears currently a slightly better guide as to what inflation many household categories are experiencing.



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 December 2024

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	-1.2	-0.4	9.5	5.8	4.8	6.2	6.9
Overseas Equities	-1.0	6.7	20.0	8.8	12.1	12.5	10.9
US Equities	-1.2	9.9	26.9	11.4	15.7	15.5	7.8
Europe ex UK Equities	-0.8	-4.1	-0.3	1.6	5.8	8.1	12.8
Japan Equities	1.0	2.7	10.1	5.9	6.2	9.0	6.7
Pacific ex Japan Equities	-1.0	-1.0	7.6	2.4	5.1	7.5	9.8
Emerging Markets	1.4	-1.3	10.0	1.1	3.3	6.3	8.7
UK Long-dated Gilts	-5.2	-7.1	-10.6	-18.3	-10.5	-2.3	2.5
UK Long-dated Corp. Bonds	-2.7	-3.3	-5.6	-11.8	-5.8	0.3	3.5
UK Over 5 Yrs Index-Linked Gilts	-5.2	-7.3	-10.8	-17.9	-8.3	-1.1	3.4
High Yield (Global)	0.9	5.9	9.4	4.6	4.1	6.7	8.3
Overseas Bonds	-1.1	1.0	-1.8	-3.2	-1.9	1.8	3.6
Property *	0.9	2.4	5.4	-0.4	2.5	5.0	5.5
Cash	0.4	1.2	5.2	3.7	2.3	1.4	2.0
Commodities £-converted	4.8	11.2	11.2	12.5	8.3	3.5	0.3
Hedge Funds original \$ basis *	2.4	3.3	13.7	4.9	7.5	5.3	5.3
Illustrative £-converted version *	3.6	6.8	13.2	6.3	7.9	7.5	7.5
Euro relative to Sterling	-0.5	-0.6	-4.6	-0.5	-0.5	0.6	0.8
US \$ relative to Sterling	1.5	7.1	1.8	2.6	1.1	2.2	2.2
Japanese Yen relative to Sterling	-3.0	-2.5	-8.7	-7.5	-6.1	-0.5	0.0
Sterling trade weighted	0.1	-1.5	3.4	0.8	0.9	-0.4	-0.8
Price Inflation (RPI) *	0.1	0.3	3.6	7.5	6.1	4.3	3.7
Price Inflation (CPI) *	0.1	0.6	2.6	5.7	4.5	3.0	2.9
Price Inflation (RPIX) *	0.0	0.1	3.0	6.8	5.7	4.1	3.7
Earnings Inflation **	1.6	2.3	7.6	6.7	5.6	4.2	3.3
All Share Capital Growth	-1.3	-1.0	5.6	2.0	1.3	2.4	3.1
Dividend Growth	-0.1	-1.2	-0.3	7.2	-1.3	3.0	4.0
Earnings Growth	1.3	1.7	-7.8	3.8	6.5	3.9	3.8

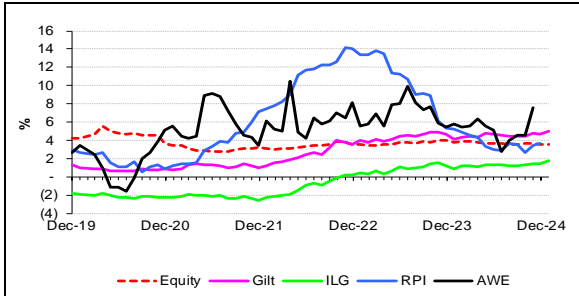
Note: All market returns are total returns for pension funds with income reinvested monthly. Indices used are as follows:

- 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, and SONIA since March 2021, 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.

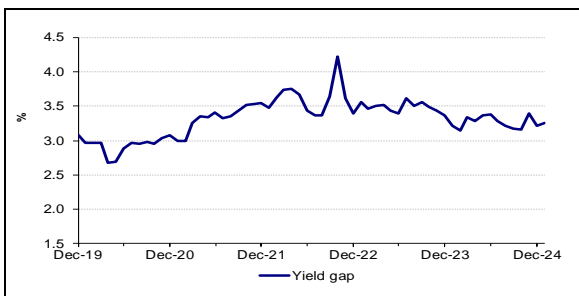


Yields and Yield Gaps

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.

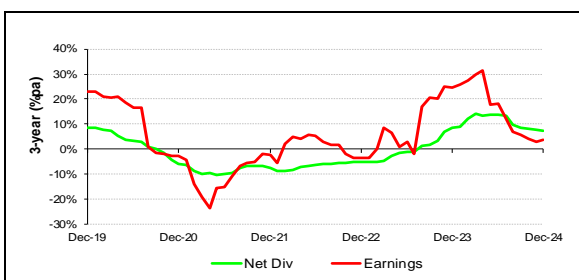
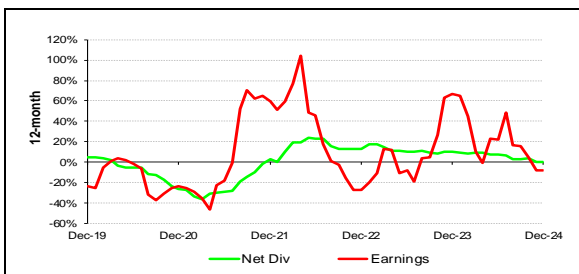


The gap gives a current expectation of around 3.3% p.a. for longer-term inflation including the (unknown) risk premium for gilts, relative to index-linked gilts.

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]

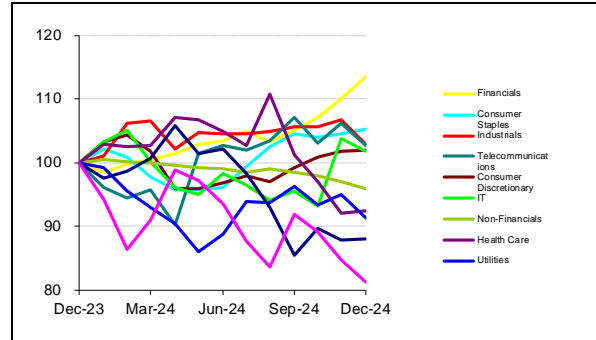
Figure 3: Dividend & Earnings Growth



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



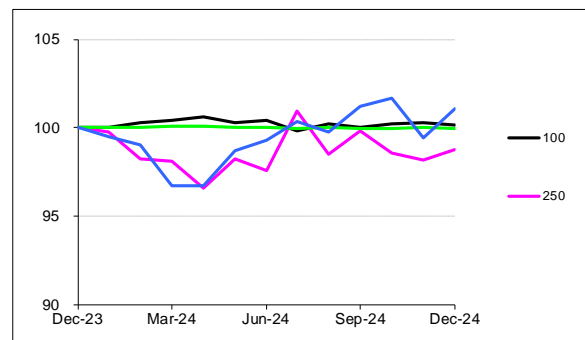
Note: Sector labels for relative lines are in end-value order

There was a small rise this month in the rolling 12-month sector dispersion (up from 28% to 32%).

(% absolute return)	1 mth	3 mth	12 mth
Energy	-0.8	2.7	-3.6
Basic Materials	-5.2	-11.8	-11.1
Industrials	-4.6	-2.8	12.6
Consumer Staples	-0.4	0.4	15.2
Health Care	-0.7	-9.1	1.1
Consumer Discretionary	-0.9	2.3	11.5
Telecommunications	-4.4	-4.5	12.3
Utilities	-5.0	-5.4	-0.1
Non-Finan	-2.2	-3.0	4.9
Financials	2.0	7.6	24.2
IT	-3.0	6.3	11.4
All Share	-1.2	-0.4	9.5

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

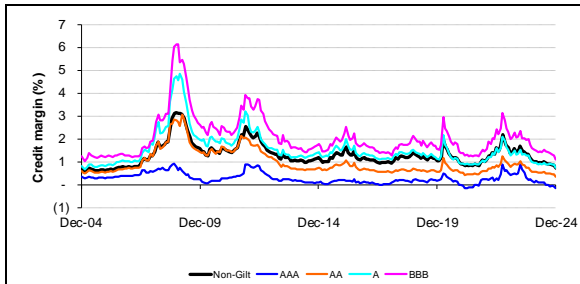


Table 2a: Over 15 Yr Corporate Yields & Margins

Month End	iBoxx Corp AA Y'ld (%)	FT 20 yr Gilt (%)	Margin (%)
Jul '24	4.90	4.43	0.47
Aug '24	4.90	4.40	0.50
Sep '24	5.00	4.45	0.55
Oct '24	5.26	4.79	0.47
Nov '24	5.11	4.65	0.46
Dec '24	5.41	5.01	0.40

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

Category	Mkt Val (£bn @ Dec 24 & 21, 18)			Weight (%)
Gilts (61)	1,469	1,812	1,323	71.9
Non-Gilts (1,257)	574	662	569	28.1
AAA (151)	121	129	119	5.9
AA (179)	80	80	83	3.9
A (441)	171	189	153	8.4
BBB (486)	202	265	215	9.9

Category	Mkt Val (£bn @ Dec 24 & 21)		W't (%)	Dur'n (yrs)
Gilts (61)	1,469	1,812	71.9	9.0
< 5 Yrs (15)	475	447	23.2	2.8
5-15 Yrs (18)	523	535	25.6	7.9
> 15 Yrs (28)	471	831	23.0	16.3
Non-Gilts (1,257)	574	662	28.1	5.4
< 5 Yrs (609)	314	242	15.4	2.5
5-15 Yrs (429)	179	271	8.8	7.1
> 15 Yrs (219)	81	149	3.9	13.1

Tables 2d, 2e: € Market Size and Maturity (Dec 24)

Category	Mkt Val (£bn)	Weight (%)
Sovereigns (521)	7,749	56.6
Non-Sovereigns	5,947	43.4
AAA (1,326)	2,026	14.8
AA (894)	1,092	8.0
A (1,589)	1,294	9.4
BBB (2,144)	1,535	11.2

Category	Mkt Val (£bn)	Weight (%)
1 – 3 Yrs (1,869)	3,421	25.0
3 – 5 Yrs (1,684)	3,000	21.9
5 – 7 Yrs (1,159)	2,150	15.7
7 – 10 Yrs (998)	2,248	16.4
10+ Yrs (764)	2,877	21.0

Table 2f: Breakdown of £ Index-Linked Market

Category (Number of issues)	Mkt Val (£bn @ Dec 24 & 21)		W't (%)	Dur'n (yrs)
Gilts (32)	526	875	100.0	14.8
< 5 Yrs (4)	99	91	18.9	3.0
5 – 15 Yrs (9)	182	223	34.6	9.3
> 15 Yrs (19)	245	561	46.5	23.6

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

Month End	US (%)	Euro (%)	Sterling (%)
Sep '24	6.52	5.18	7.82
Oct '24	6.86	5.18	7.86
Nov '24	6.75	5.09	7.81
Dec '24	7.03	5.05	7.79

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

£ Gilt Market “main” & “Green” Issuance

- £3.75bn, 4¹/₈% 2029 (2.90x, 4.35%, 0%, Oct '24)
- £4.00bn, 4% 2031 (2.91x, 4.16%, 0%, Oct '24)
- £1.50bn, ¾% IL 2033 (3.39x, 0.75%, 0%, Sep '24)
- £4.00bn, 4¼% 2034 (2.87x, 4.33%, 0%, Nov '24)
- £2.81bn, 4³/₈% 2054 (3.00x, 4.75%, 25%, Oct '24)
- £0.35bn, 1/8% IL 2073 (2.71x, 1.18%, n/a, Sep '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.

