



Investment Update February 2024

Investment Headlines & Comment

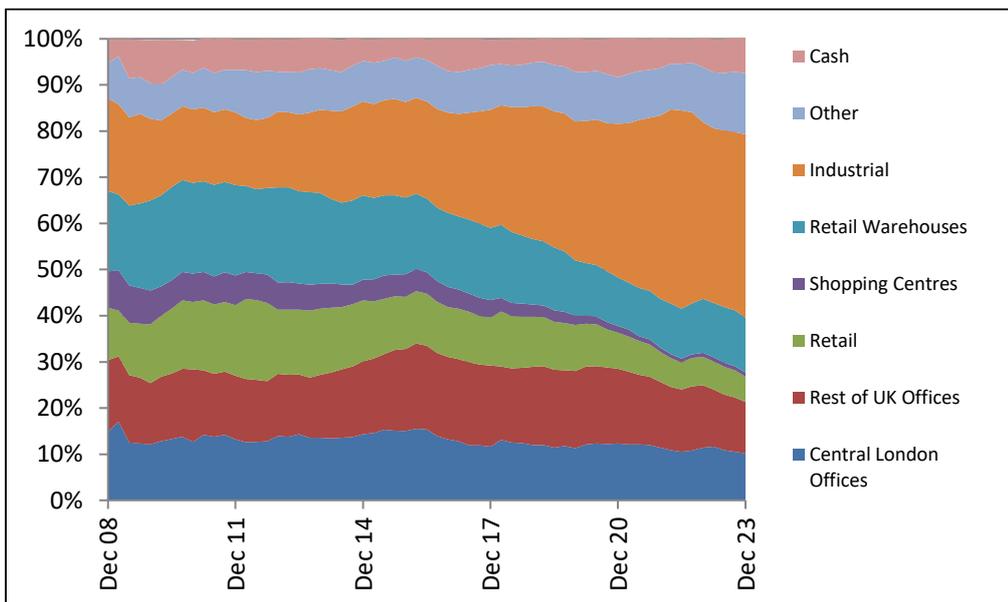
- Another strong month for US Equities. They are now the top performing asset class over periods up to 10 years.
- In stark contrast, you would have earned next to nothing from holding long-dated gilts over the last 10 years.
- Retail investors are now able to buy “new issue” gilts (they were previously limited to just the secondary market).

Feature Section

This month we revisit the profile of the institutional pooled funds in UK commercial property, last examined in our [February 2021](#) edition. The dataset is from MSCI AREF, and now totals £40bn in size. This is down from £48bn as at the end of 2020, partly due to falls in capital values but also due to those pension schemes able to move to buyout. Within the £40bn, £23bn is held in multi-sector (“All Balanced”), as opposed to specialist funds, across 22 funds. This is down from 27 funds as at the end of 2020.

Figure 1 shows the evolution of the All Balanced Funds asset allocation over the last 15 years. The most striking change has been the relative growth of the Industrial sector, up by almost 20%, most of this occurring in the last few years. This has been offset by a corresponding decline in the combined Retail sectors, reflecting the drastic increase in online shopping.

Figure 1: All Balanced Funds asset allocation



Source: MSCI AREF

Within the index’s constituent funds, Legal & General and Royal London are currently the largest, both just over £3bn in size. After that, BlackRock have a £2bn fund, and then there are seven funds in the £1bn-£2bn bracket, with two funds nearly at £1bn.

We still think there are grounds to expect the weighting for “Other” to increase in future, through the increased use of Build To Rent (BTR), Purpose-Built Student Accommodation (PBSA), and leases on hotels and other leisure facilities. This increase seems most likely to be counter-balanced by pandemic-led reductions in future Office weightings, not least through “change of use” planning applications. For example, this could be through a process of converting upper floors to residential, retaining mid floors as traditional offices (although possibly with associated reconfiguration), and converting the lowest floors to retail.



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 29 February 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	0.2	3.3	0.6	7.8	5.0	5.0	6.9
Overseas Equities	5.0	10.7	19.7	11.2	12.6	12.5	10.6
US Equities	5.9	11.9	25.0	14.8	15.8	15.8	8.7
Europe ex UK Equities	2.7	7.4	10.7	9.0	9.5	8.1	12.1
Japan Equities	3.4	11.8	20.6	6.7	8.4	9.7	7.1
Pacific ex Japan Equities	3.9	5.9	4.8	-1.2	5.3	7.9	9.8
Emerging Markets	5.5	4.0	4.5	-2.7	3.3	6.3	8.8
UK Long-dated Gilts	-1.3	3.1	-2.3	-15.4	-7.6	0.1	3.1
UK Long-dated Corp. Bonds	-0.7	4.4	5.4	-10.3	-3.0	1.9	4.0
UK Over 5 Yrs Index-Linked Gilts	0.6	2.4	-3.0	-12.4	-5.9	1.2	4.1
High Yield (Global)	1.0	4.2	6.4	3.3	4.1	6.4	8.2
Overseas Bonds	-0.8	1.1	-3.3	-3.3	-0.9	2.2	3.9
Property *	0.2	-0.8	0.3	2.4	1.7	6.0	6.0
Cash	0.4	1.3	5.3	2.7	1.8	1.2	2.1
Commodities £-converted	1.5	2.0	0.5	19.3	8.3	-0.6	0.3
Hedge Funds original \$ basis *	0.2	6.1	5.5	4.2	6.4	4.7	5.1
Illustrative £-converted version *	0.3	1.1	2.0	6.8	7.1	7.4	7.0
Euro relative to Sterling	0.3	-0.7	-2.3	-0.5	0.0	0.4	1.2
US \$ relative to Sterling	0.7	0.1	-4.3	3.4	1.0	2.9	1.9
Japanese Yen relative to Sterling	-1.7	-1.1	-12.9	-7.7	-4.8	-1.0	0.3
Sterling trade weighted	-0.2	0.7	5.0	0.4	0.5	-0.5	-1.1
Price Inflation (RPI) *	-0.3	0.1	4.9	8.7	6.0	4.1	3.7
Price Inflation (CPI) *	-0.5	-0.4	4.0	6.5	4.3	2.9	2.8
Price Inflation (RPIX) *	-0.4	-0.2	3.8	8.1	5.7	4.0	3.7
Earnings Inflation **	3.7	3.7	5.6	5.8	5.1	3.8	3.3
All Share Capital Growth	-0.2	2.7	-3.3	4.0	1.4	1.3	3.1
Dividend Growth	0.3	0.6	8.8	12.2	-0.6	2.9	4.3
Earnings Growth	1.7	2.5	44.8	27.5	6.6	3.5	5.6

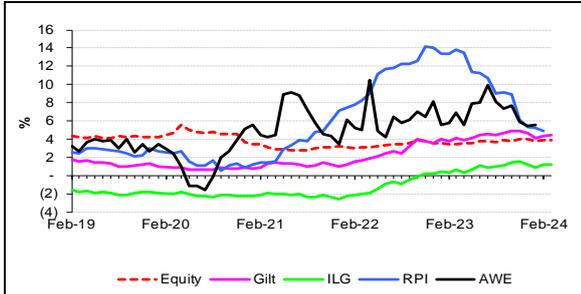
Note: All market returns are total returns for pension funds with income reinvested monthly. Indices used are as follows:

- 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.

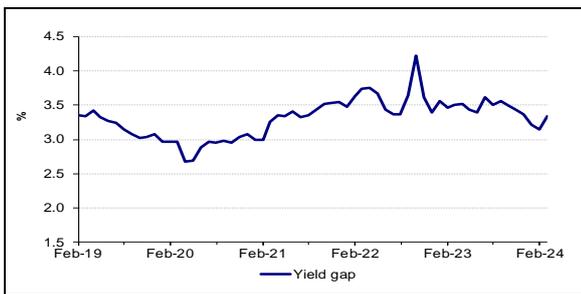


Yields and Yield Gaps

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.

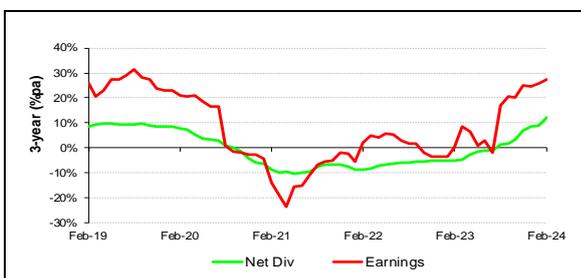
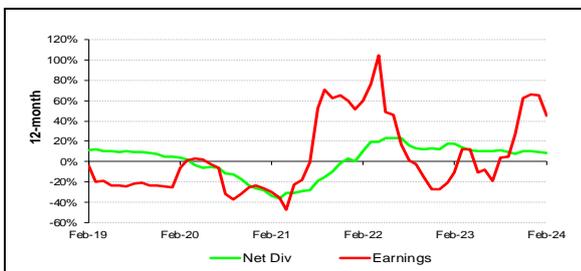


The gap gives a current expectation of around 3.3% p.a. for longer-term inflation including the (unknown) risk premium for gilts, relative to index-linked gilts.

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]

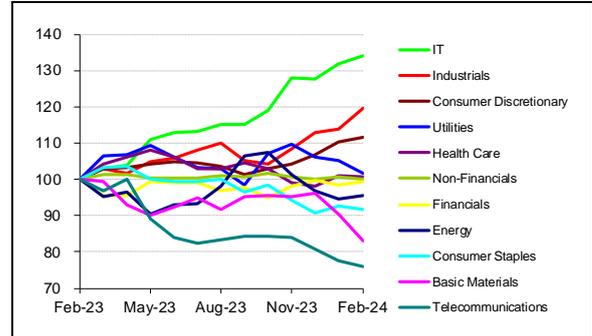
Figure 3: Dividend & Earnings Growth



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



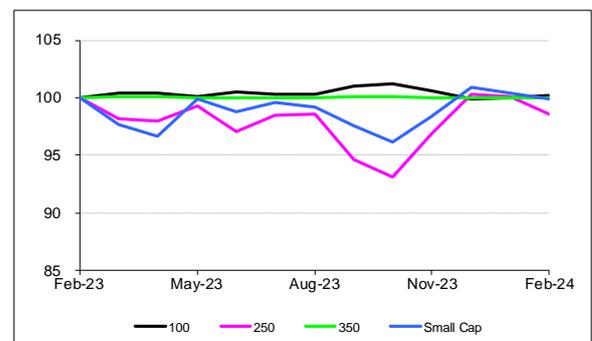
Note: Sector labels for relative lines are in end-value order

There was a rise this month in the rolling 12-month sector dispersion (up from 46% to 58%).

(% absolute return)	1 mth	3 mth	12 mth
Energy	1.2	-2.8	-4.0
Basic Materials	-8.2	-10.1	-16.6
Industrials	5.2	14.0	20.3
Consumer Staples	-1.1	0.3	-7.9
Health Care	-0.2	4.9	1.1
Consumer Discretionary	1.4	10.6	12.1
Telecommunications	-1.5	-6.5	-23.5
Utilities	-3.4	-4.2	2.1
Non-Finan	-0.2	2.9	0.7
Financials	1.4	4.7	0.0
IT	1.9	8.3	34.8
All Share	0.2	3.3	0.6

UK Equity Size Returns

Figure 4b: Size groups relative to All Share



This month, Mid Cap and Small Cap both fell slightly 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

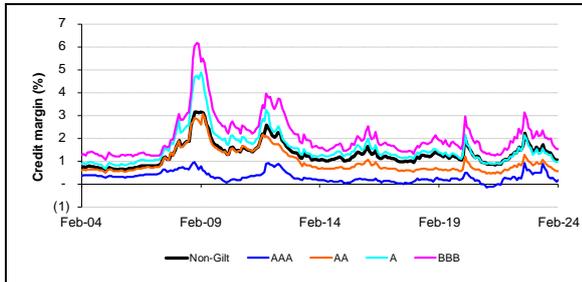


Table 2a: Over 15 Yr Corporate Yields & Margins

Month End	iBoxx Corp AA Y'ld (%)	FT 20 yr Gilt (%)	Margin (%)
Sep '23	5.37	4.90	0.47
Oct '23	5.52	4.92	0.60
Nov '23	5.06	4.62	0.44
Dec '23	4.46	4.08	0.38
Jan '24	4.77	4.37	0.40
Feb '24	4.87	4.49	0.38

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

Category	Mkt Val (£bn @ Feb 24 & 21, 18)			Weight (%)
Gilts (61)	1,481	1,714	1,346	72.0
Non-Gilts (1,262)	577	656	565	28.0
AAA (149)	120	125	110	5.8
AA (164)	75	81	76	3.6
A (435)	170	187	165	8.3
BBB (514)	212	263	213	10.3

Category	Mkt Val (£bn @ Feb 24 & 21)		W't (%)	Dur'n (yrs)
Gilts (61)	1,481	1,714	72.0	9.1
< 5 Yrs (16)	512	456	24.9	2.5
5-15 Yrs (16)	474	483	23.1	8.0
> 15 Yrs (29)	495	775	24.0	17.1
Non-Gilts (1,262)	577	656	28.0	5.7
< 5 Yrs (584)	301	229	14.6	2.7
5-15 Yrs (456)	188	278	9.1	7.0
> 15 Yrs (222)	88	150	4.3	13.4

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

Category	Mkt Val (£bn)	Weight (%)
Sovereigns (511)	7,311	57.1
Non-Sovereigns	5,486	42.9
AAA (1,247)	1,812	14.2
AA (855)	1,037	8.1
A (1,562)	1,239	9.7
BBB (2,020)	1,398	10.9

Category	Mkt Val (£bn)	Weight (%)
1 – 3 Yrs (1,711)	3,177	24.8
3 – 5 Yrs (1,687)	2,821	22.0
5 – 7 Yrs (1,078)	2,015	15.7
7 – 10 Yrs (971)	2,068	16.2
10+ Yrs (748)	2,716	21.2

Table 2f: Breakdown of £ Index-Linked Market

Category (Number of issues)	Mkt Val (£bn @ Feb 24 & 21)		W't (%)	Dur'n (yrs)
Gilts (33)	574	752	100.0	14.7
< 5 Yrs (5)	122	70	21.3	2.1
5 – 15 Yrs (9)	184	196	32.1	9.0
> 15 Yrs (19)	268	487	46.7	24.4

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

Month End	US (%)	Euro (%)	Sterling (%)
Nov '23	7.81	6.60	9.61
Dec '23	7.12	5.95	8.80
Jan '24	7.24	5.94	8.49
Feb '24	7.33	5.95	8.26

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

£ Gilt Market “main” & “Green” Issuance

- £4.00bn, 3¾% 2027 (3.04x, 4.13%, 0%, Apr '23)
- £5.00bn, 4½% 2028 (3.34x, 4.10%, 25%, Jan '24)
- £4.00bn, 4% 2031 (3.00x, 4.09%, 0%, new)
- £1.81bn, ¾% IL 2033 (2.97x, 0.63%, 21%, Dec '23)
- £3.75bn, 4⅝% 2034 (3.09x, 4.13%, 0%, Jan '24)
- £0.90bn, ⅛% IL 2039 (3.48x, 1.08%, 0%, Oct '23)
- £2.50bn, 1½% Gr 2053 (3.05x, 4.57%, n/a, Oct '23)
- £2.14bn, 4% 2063 (2.92x, 4.52%, 22%, 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.

