



## Investment Update April 2024

### Investment Headlines & Comment

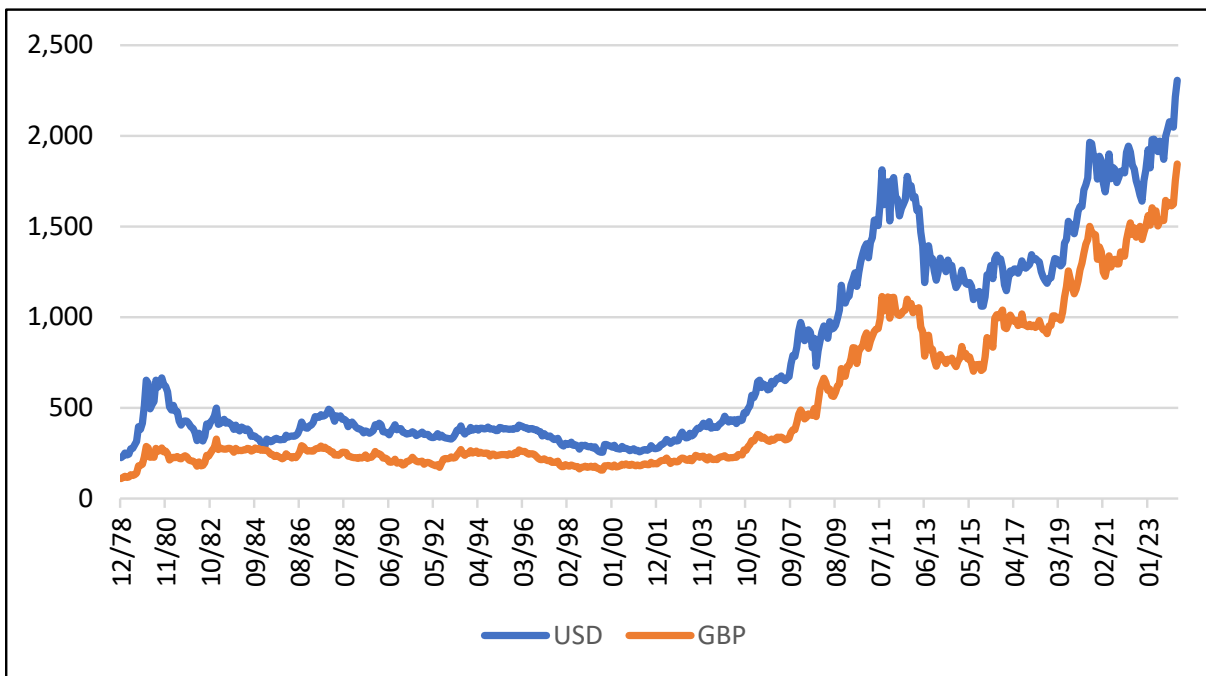
- A negative month for many overseas assets.
- Nominal and real gilt yields rose this month.
- Huge demand for the latest tranche of the new 30-year gilt.

### Feature Section

This month we return to the subject of Gold, last examined in our [January 2013](#) and [February 2016](#) editions. It is an unusual asset in that it provides no income, and in many cases just “sits there” with relatively little actual use being made of it.

Figure 1 shows the Gold price per troy ounce from the end of 1978 through to today in both US Dollars and Sterling. The early US Dollar peak in January 1980 was followed by quite a slump and that price was only reached again in early 2006. There was then a strong run, peaking at just over \$1,800 in August 2011, only for there to be another slump down to just over \$1,000 in December 2015. There has then been a pretty marked rally since then with the April 2024 month-end data series seeing record highs in both US Dollars and Sterling. In April alone, the price rose by over 4% in US Dollars and over 5% in Sterling.

Figure 1: Gold price per troy ounce



Source: World Gold Council

The 20-year returns for Gold are 9.3% p.a. in US Dollars, and 11.2% p.a. in Sterling. These are strong returns, particularly when compared with Sterling inflation of around 3.7% p.a. over the period.

One possible reason for the recent price surge is the geopolitical tension due to the ongoing situation in the Middle East, and another is investors lining up for the possibility of US short-term interest rates starting to be trimmed. Further afield, China is another factor, both in terms of their consumers’ increasing desire for jewelry, and also current strong demand from investors and the central bank, although whether any of these will be enough to sustain further price rises is open to question.

So, it does seem fair to ask whether the price is now in proverbial bubble territory. As Figure 1 shows, there have been severe falls after previous price spikes, and there is clearly a risk that this happens once again.



**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 April 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                        | <b>2.5</b>   | 7.5          | 7.5           | 7.5              | 5.4              | 5.8               | 7.2               |
| Overseas Equities                  | <b>-3.0</b>  | 5.3          | 19.1          | 8.3              | 11.1             | 12.5              | 10.5              |
| US Equities                        | <b>-3.2</b>  | 5.8          | <b>23.5</b>   | <b>10.9</b>      | <b>14.0</b>      | <b>15.7</b>       | 8.8               |
| Europe ex UK Equities              | <b>-2.1</b>  | 4.3          | 9.0           | 6.4              | 8.5              | 8.2               | <b>12.0</b>       |
| Japan Equities                     | <b>-3.9</b>  | 2.9          | 19.1          | 6.1              | 7.4              | 10.1              | 6.5               |
| Pacific ex Japan Equities          | <b>-1.6</b>  | 6.4          | 10.2          | <b>-1.1</b>      | 4.6              | 7.9               | 10.1              |
| Emerging Markets                   | 1.6          | <b>9.8</b>   | 10.8          | <b>-1.8</b>      | 3.1              | 6.5               | 9.1               |
| UK Long-dated Gilts                | <b>-5.7</b>  | <b>-4.4</b>  | <b>-6.8</b>   | <b>-16.5</b>     | <b>-8.7</b>      | <b>-0.3</b>       | 3.0               |
| UK Long-dated Corp. Bonds          | <b>-4.2</b>  | <b>-2.6</b>  | 1.4           | <b>-11.3</b>     | <b>-4.2</b>      | 1.6               | 4.0               |
| UK Over 5 Yrs Index-Linked Gilts   | <b>-4.7</b>  | <b>-1.4</b>  | <b>-6.9</b>   | <b>-13.6</b>     | <b>-7.1</b>      | 0.8               | 4.0               |
| High Yield (Global)                | <b>-0.1</b>  | 2.1          | 9.3           | 3.0              | 3.5              | 6.5               | 8.1               |
| Overseas Bonds                     | <b>-2.0</b>  | <b>-2.3</b>  | <b>-4.6</b>   | <b>-3.8</b>      | <b>-1.7</b>      | 2.1               | 3.7               |
| Property *                         | 0.3          | 0.6          | 0.3           | 2.0              | 1.7              | 5.8               | 5.9               |
| Cash                               | 0.4          | 1.3          | 5.4           | 3.0              | 1.9              | 1.2               | <b>2.1</b>        |
| Commodities £-converted            | 2.1          | 8.7          | 13.7          | 19.6             | 8.3              | 0.1               | 0.2               |
| Hedge Funds original \$ basis *    | 2.0          | 4.4          | 11.6          | 4.1              | 6.9              | 4.9               | 5.2               |
| Illustrative £-converted version * | 2.1          | 5.4          | 9.4           | 7.2              | 7.6              | 7.9               | 7.2               |
| Euro relative to Sterling          | <b>-0.1</b>  | 0.1          | <b>-2.8</b>   | <b>-0.6</b>      | <b>-0.1</b>      | 0.4               | 1.2               |
| US \$ relative to Sterling         | 0.9          | 1.7          | 0.4           | 3.7              | 0.8              | 3.0               | 1.8               |
| Japanese Yen relative to Sterling  | <b>-3.0</b>  | <b>-5.5</b>  | <b>-13.1</b>  | <b>-8.3</b>      | <b>-5.9</b>      | <b>-1.3</b>       | 0.0               |
| Sterling trade weighted            | <b>-0.1</b>  | 0.1          | 3.5           | 0.7              | 0.7              | <b>-0.5</b>       | <b>-1.0</b>       |
| Price Inflation (RPI) *            | 0.5          | 1.1          | 4.3           | 8.9              | 6.1              | 4.2               | 3.7               |
| Price Inflation (CPI) *            | 0.5          | 0.6          | 3.2           | 6.7              | 4.4              | 2.9               | 2.8               |
| Price Inflation (RPIX) *           | 0.5          | 0.8          | 3.3           | 8.2              | 5.8              | 4.0               | 3.7               |
| Earnings Inflation **              | 1.5          | 4.1          | 5.3           | 5.8              | 4.8              | 3.3               | 3.1               |
| All Share Capital Growth           | 2.1          | 6.2          | 3.4           | 3.7              | 1.7              | 2.0               | 3.5               |
| Dividend Growth                    | 0.5          | 1.5          | 9.3           | 13.2             | <b>-0.6</b>      | 3.0               | 4.4               |
| Earnings Growth                    | <b>-11.6</b> | <b>-12.4</b> | <b>-0.3</b>   | 31.6             | 4.6              | 2.1               | 4.6               |

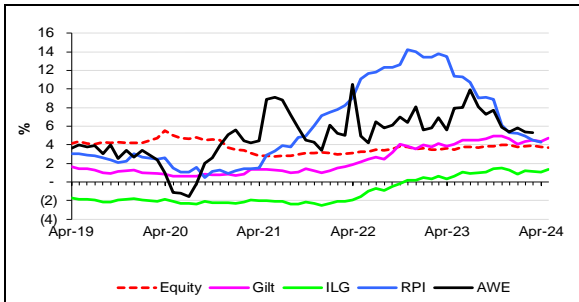
Note: All market returns are total returns for pension funds with income reinvested monthly. Indices used are as follows:

- 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.

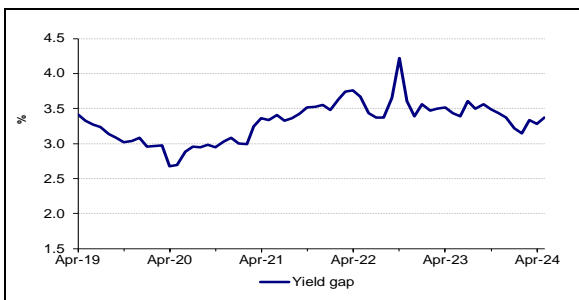


## Yields and Yield Gaps

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.

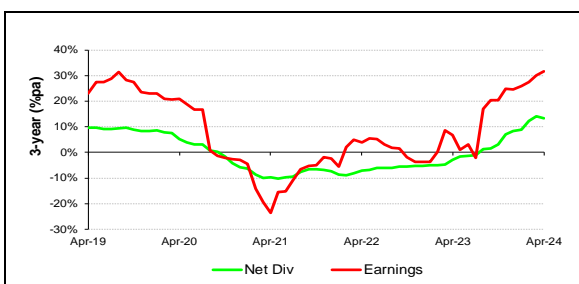
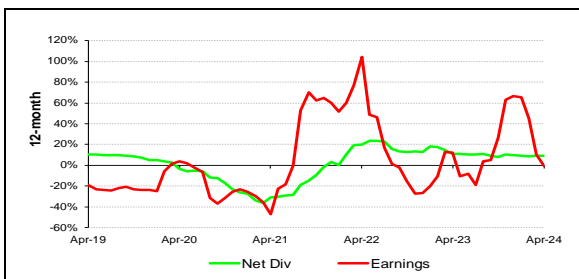


The gap gives a current expectation of around 3.4% p.a. for longer-term inflation including the (unknown) risk premium for gilts, relative to index-linked gilts.

## 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]

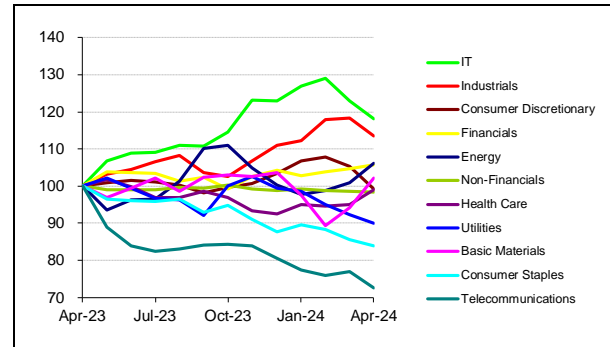
Figure 3: Dividend & Earnings Growth



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



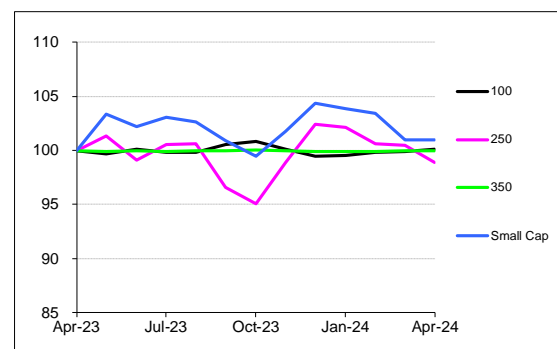
Note: Sector labels for relative lines are in end-value order

There was a small rise this month in the rolling 12-month sector dispersion (up from 44% to 46%).

| (% absolute return)    | 1 mth | 3 mth | 12 mth |
|------------------------|-------|-------|--------|
| Energy                 | 7.7   | 16.6  | 14.0   |
| Basic Materials        | 11.3  | 12.7  | 9.9    |
| Industrials            | -1.8  | 8.7   | 21.9   |
| Consumer Staples       | 0.4   | 0.8   | -9.8   |
| Health Care            | 6.9   | 12.0  | 6.5    |
| Consumer Discretionary | -3.4  | 0.0   | 6.6    |
| Telecommunications     | -3.5  | 0.9   | -22.0  |
| Utilities              | -0.3  | -1.9  | -3.4   |
| Non-Finan              | 2.2   | 6.6   | 5.7    |
| Financials             | 3.5   | 10.7  | 13.7   |
| IT                     | -1.6  | 0.1   | 27.1   |
| All Share              | 2.5   | 7.5   | 7.5    |

## UK Equity Size Returns

Figure 4b: Size groups relative to All Share



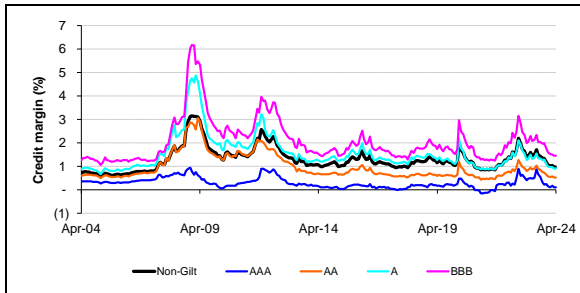
This month, Mid Cap fell relative to the All Share but Small Cap was neutral.

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 (%)  |
|-----------|------------------------|-------------------|-------------|
| 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        |
| Mar '24   | 4.74                   | 4.34              | 0.40        |
| Apr '24   | <b>5.15</b>            | <b>4.72</b>       | <b>0.43</b> |

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

| Category          | Mkt Val (£bn @ Apr 24 & 21, 18) |       |       | Weight (%) |
|-------------------|---------------------------------|-------|-------|------------|
| Gilts (60)        | 1,414                           | 1,715 | 1,325 | 71.2       |
| Non-Gilts (1,259) | 572                             | 656   | 565   | 28.8       |
| AAA (152)         | 122                             | 122   | 108   | 6.1        |
| AA (170)          | 76                              | 79    | 75    | 3.8        |
| A (431)           | 167                             | 186   | 163   | 8.4        |
| BBB (506)         | 207                             | 268   | 219   | 10.4       |

| Category          | Mkt Val (£bn @ Apr 24 & 21) |       | W't (%) | Dur'n (yrs) |
|-------------------|-----------------------------|-------|---------|-------------|
| Gilts (60)        | 1,414                       | 1,715 | 71.2    | 9.2         |
| < 5 Yrs (15)      | 476                         | 423   | 23.9    | 2.7         |
| 5-15 Yrs (17)     | 471                         | 539   | 23.7    | 8.1         |
| > 15 Yrs (28)     | 468                         | 753   | 23.5    | 16.8        |
| Non-Gilts (1,259) | 572                         | 656   | 28.8    | 5.6         |
| < 5 Yrs (593)     | 305                         | 225   | 15.4    | 2.7         |
| 5-15 Yrs (443)    | 181                         | 281   | 9.1     | 7.0         |
| > 15 Yrs (223)    | 85                          | 150   | 4.3     | 13.3        |

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

| Category         | Mkt Val (£bn) | Weight (%) |
|------------------|---------------|------------|
| Sovereigns (515) | 7,292         | 56.7       |
| Non-Sovereigns   | 5,566         | 43.3       |
| AAA (1,285)      | 1,860         | 14.5       |
| AA (875)         | 1,043         | 8.1        |
| A (1,554)        | 1,237         | 9.6        |
| BBB (2,059)      | 1,425         | 11.1       |

| Category          | Mkt Val (£bn) | Weight (%) |
|-------------------|---------------|------------|
| 1 – 3 Yrs (1,742) | 3,107         | 24.2       |
| 3 – 5 Yrs (1,675) | 2,880         | 22.4       |
| 5 – 7 Yrs (1,115) | 1,991         | 15.5       |
| 7 – 10 Yrs (977)  | 2,102         | 16.3       |
| 10+ Yrs (779)     | 2,778         | 21.6       |

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

| Category (Number of issues) | Mkt Val (£bn @ Apr 24 & 21) |     | W't (%) | Dur'n (yrs) |
|-----------------------------|-----------------------------|-----|---------|-------------|
| Gilts (33)                  | 549                         | 778 | 100.0   | 15.0        |
| < 5 Yrs (5)                 | 124                         | 87  | 22.6    | 3.0         |
| 5 – 15 Yrs (9)              | 174                         | 181 | 31.7    | 9.8         |
| > 15 Yrs (19)               | 251                         | 509 | 45.7    | 24.5        |

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

| Month End | US (%)      | Euro (%)    | Sterling (%) |
|-----------|-------------|-------------|--------------|
| Jan '24   | 7.24        | 5.94        | 8.49         |
| Feb '24   | 7.33        | 5.95        | 8.26         |
| Mar '24   | 7.15        | 5.91        | 8.41         |
| Apr '24   | <b>7.49</b> | <b>5.97</b> | <b>8.68</b>  |

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

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

- £5.00bn, 3¾% 2027 (3.68x, 4.20%, 25%, Mar '24)
- £4.00bn, 4¼% 2029 (3.21x, 4.25%, 0%, Apr '23)
- £3.75bn, 4% 2031 (2.97x, 4.22%, 0%, Feb '24)
- £1.62bn, ¾% IL 2033 (3.40x, 0.44%, 12%, Feb '24)
- £3.75bn, 4½% 2034 (3.33x, 4.02%, 0%, Mar '24)
- £2.78bn, 4¾% 2043 (3.67x, 4.50%, 24%, Mar '24)
- £6.75bn, 4¾% 2054 (**13.6x**, 4.78%, n/a, Jan '24)

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.

