



Investment Update May 2024

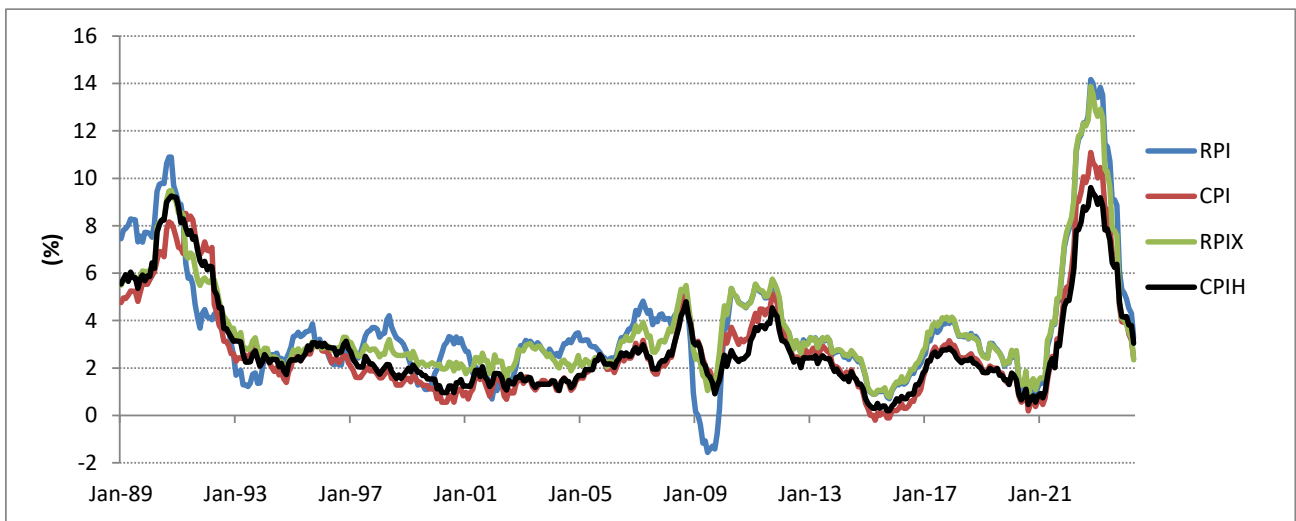
Investment Headlines & Comment

- A good month for most equity markets.
- Bond yields were (for once) relatively stable.
- Sterling continued to rally against most currencies.

Feature Section

This month we revisit the various measures of UK inflation. The 12-month rates are now back down at levels seen three years ago, but, as Figure 1a below shows, the scale of the recent spike was pretty severe.

Figure 1a: Rolling 12-month inflation measures

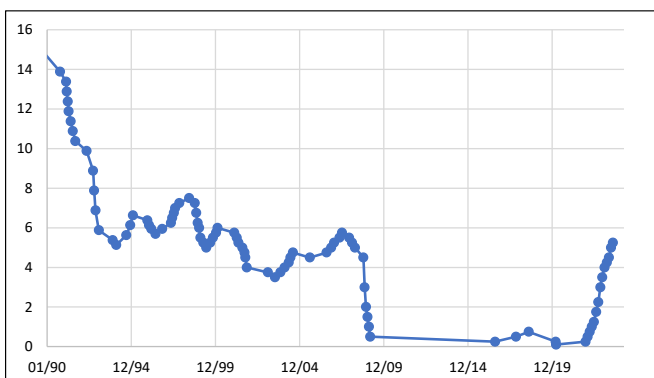


Source: ONS

Food and energy prices rose markedly, particularly gas prices, partly in response to the conflict in Ukraine. Global recovery from the COVID-19 pandemic was also a factor, as was the reduction in the UK workforce after the pandemic.

We last looked at the gap between RPI and CPIH in our [February 2020](#) edition. During the recent spike, the gap between RPI and CPIH became quite pronounced, but the gap has now reverted to a very low level, at just 0.2% over the 12 months to April 2024.

Figure 1b: Bank Base Rate



Source: Bank of England

One interesting point is that in combatting inflation, Figure 1b shows that the Bank of England has been far more muted in its recent use of rate rises than the then Government was in the early 1990s when it faced a spike in inflation as shown in Figure 1a. (Remember that prior to 1997, the Government used to set the rate, until the task was delegated to the Bank of England.) It is expected that the base rate will start to be cut later this year and into next year, but this is by no means guaranteed, nor what ongoing level would be homed in on after the decade of ultra low rates.



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 May 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	2.4	9.9	15.4	7.9	6.5	5.9	7.4
Overseas Equities	2.6	2.9	21.4	9.7	12.3	12.4	10.8
US Equities	3.0	2.9	24.7	12.9	15.4	15.7	9.1
Europe ex UK Equities	3.6	5.3	17.6	7.0	9.5	8.4	12.3
Japan Equities	-0.5	-1.0	15.2	6.3	7.5	9.5	6.8
Pacific ex Japan Equities	0.7	3.1	11.9	-0.5	5.5	7.5	10.4
Emerging Markets	-1.1	2.9	9.9	-2.3	3.7	5.9	9.4
UK Long-dated Gilts	1.2	-1.9	0.9	-16.5	-9.3	-0.3	3.1
UK Long-dated Corp. Bonds	1.0	-0.9	7.5	-11.0	-4.3	1.5	4.1
UK Over 5 Yrs Index-Linked Gilts	1.7	-0.3	1.7	-14.2	-7.6	0.8	4.1
High Yield (Global)	-0.1	1.0	9.2	3.6	3.1	6.3	8.3
Overseas Bonds	-0.7	-2.2	-4.8	-3.4	-2.9	1.9	3.8
Property *	0.5	0.9	0.2	1.8	1.8	5.7	5.9
Cash	0.4	1.3	5.5	3.1	2.0	1.3	2.1
Commodities £-converted	-3.5	3.3	15.2	18.0	8.7	-0.3	0.0
Hedge Funds original \$ basis *	-0.7	3.5	10.6	3.1	6.5	4.9	5.2
Illustrative £-converted version *	0.2	5.3	11.0	6.9	7.3	8.1	7.1
Euro relative to Sterling	-0.1	-0.3	-0.9	-0.3	-0.7	0.5	1.2
US \$ relative to Sterling	-1.7	-0.7	-2.7	3.7	-0.2	2.8	1.8
Japanese Yen relative to Sterling	-1.5	-5.4	-13.5	-8.1	-7.3	-1.6	0.1
Sterling trade weighted	0.7	1.0	3.2	0.4	1.5	-0.4	-1.1
Price Inflation (RPI) *	0.5	1.9	3.3	8.5	6.0	4.2	3.7
Price Inflation (CPI) *	0.4	1.5	2.4	6.6	4.4	2.9	2.8
Price Inflation (RPIX) *	0.5	1.7	2.3	7.9	5.7	4.1	3.7
Earnings Inflation **	11.3	11.9	5.5	7.2	5.3	4.1	3.5
All Share Capital Growth	2.0	8.5	11.1	4.0	2.9	2.1	3.7
Dividend Growth	0.0	1.2	7.5	13.7	-0.7	3.0	4.3
Earnings Growth	-0.8	-14.6	22.8	17.7	5.2	2.3	4.4

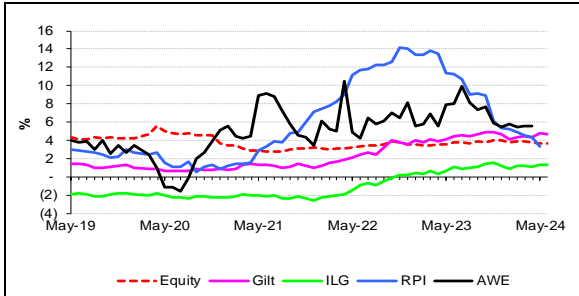
Note: All market returns are total returns for pension funds with income reinvested monthly. Indices used are as follows:

- 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.

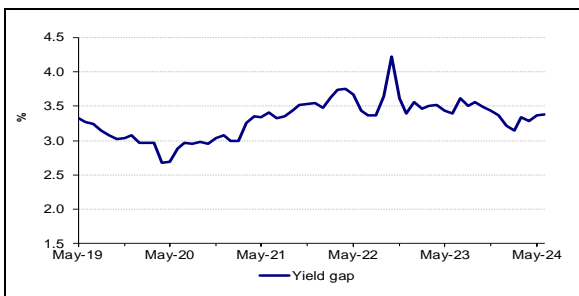


Yields and Yield Gaps

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.

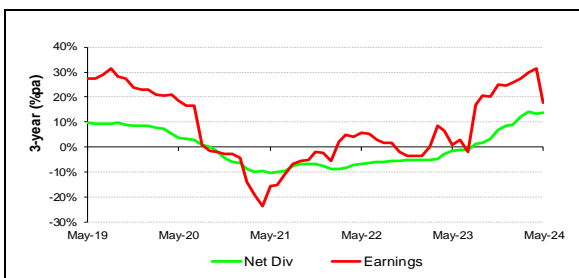
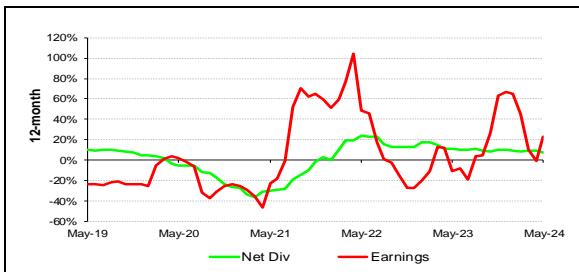


The gap gives a current expectation of around 3.4% p.a. for longer-term inflation including the (unknown) risk premium for gilts, relative to index-linked gilts.

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]

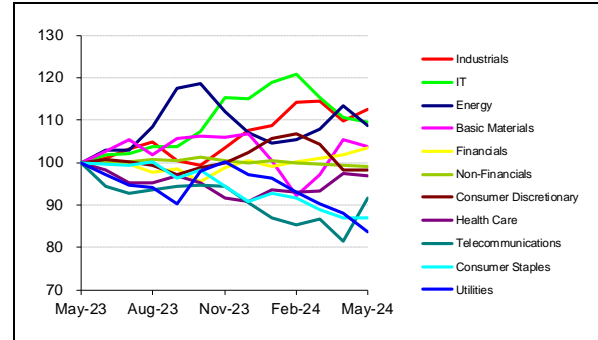
Figure 3: Dividend & Earnings Growth



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



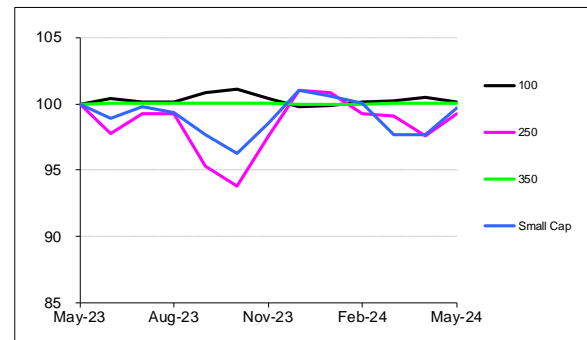
Note: Sector labels for relative lines are in end-value order

There was a marked fall this month in the rolling 12-month sector dispersion (down from 46% to 29%).

(% absolute return)	1 mth	3 mth	12 mth
Energy	-1.9	13.1	25.3
Basic Materials	0.7	23.7	19.6
Industrials	5.0	8.5	29.9
Consumer Staples	2.3	4.2	0.3
Health Care	1.9	14.4	11.8
Consumer Discretionary	2.5	1.1	13.4
Telecommunications	15.1	18.0	5.8
Utilities	-2.7	-1.2	-3.6
Non-Finan	1.9	8.8	14.2
Financials	3.9	13.6	19.4
IT	1.3	-0.5	26.3
All Share	2.4	9.9	15.4

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

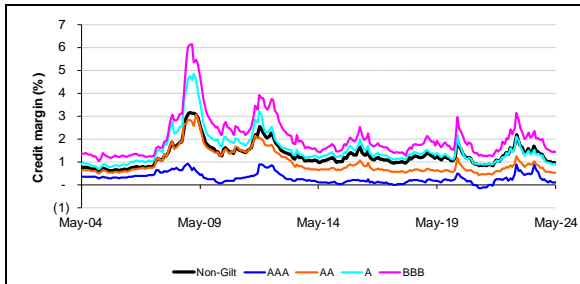


Table 2a: Over 15 Yr Corporate Yields & Margins

Month End	iBoxx Corp AA Y'ld (%)	FT 20 yr Gilt (%)	Margin (%)
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	5.15	4.72	0.43
May '24	5.11	4.67	0.44

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

Category	Mkt Val (£bn @ May 24 & 21, 18)			Weight (%)
Gilts (60)	1,450	1,746	1,356	71.4
Non-Gilts (1,271)	580	658	567	28.6
AAA (155)	123	123	110	6.1
AA (175)	79	79	76	3.9
A (433)	168	187	163	8.3
BBB (508)	209	269	217	10.3

Category	Mkt Val (£bn @ May 24 & 21)		W't (%)	Dur'n (yrs)
Gilts (60)	1,450	1,746	71.4	9.2
< 5 Yrs (15)	486	428	24.0	2.6
5-15 Yrs (17)	482	551	23.8	8.1
> 15 Yrs (28)	482	767	23.7	16.8
Non-Gilts (1,271)	580	658	28.6	5.6
< 5 Yrs (602)	310	225	15.3	2.6
5-15 Yrs (447)	185	284	9.1	7.0
> 15 Yrs (222)	84	149	4.1	13.3

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

Category	Mkt Val (£bn)	Weight (%)
Sovereigns (518)	7,346	57.0
Non-Sovereigns	5,552	43.0
AAA (1,286)	1,871	14.5
AA (866)	1,029	8.0
A (1,543)	1,223	9.5
BBB (2,063)	1,429	11.1

Category	Mkt Val (£bn)	Weight (%)
1 – 3 Yrs (1,740)	3,143	24.4
3 – 5 Yrs (1,650)	2,868	22.2
5 – 7 Yrs (1,126)	1,998	15.5
7 – 10 Yrs (978)	2,093	16.2
10+ Yrs (782)	2,797	21.7

Table 2f: Breakdown of £ Index-Linked Market

Category (Number of issues)	Mkt Val (£bn @ May 24 & 21)		W't (%)	Dur'n (yrs)
Gilts (33)	558	805	100.0	15.0
< 5 Yrs (5)	125	88	22.3	2.9
5 – 15 Yrs (9)	177	184	31.7	9.8
> 15 Yrs (19)	256	533	46.0	24.6

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

Month End	US (%)	Euro (%)	Sterling (%)
Feb '24	7.33	5.95	8.26
Mar '24	7.15	5.91	8.41
Apr '24	7.49	5.97	8.68
May '24	7.30	5.90	8.89

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

£ Gilt Market “main” & “Green” Issuance

- £4.57bn, 4¹/₈% 2029 (3.20x, 4.20%, 14%, Apr '24)
- £3.00bn, 7⁷/₈% Gr 2033 (3.52x, 4.07%, n/a, Dec '23)
- £3.75bn, 4³/₈% 2034 (3.10x, 4.37%, 0%, Mar '24)
- £1.00bn, 1¹/₈% IL 2039 (3.16x, 1.05%, 0%, Feb '24)
- £2.81bn, 4³/₄% 2043 (3.67x, 4.58%, 25%, Apr '24)
- £2.50bn, 1¹/₂% Gr 2053 (3.26x, 4.55%, n/a, Feb '24)
- £0.62bn, 1¹/₈% IL 2073 (3.29x, 0.99%, 4%, Nov '22)

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.

