



### Investment Headlines & Comment

- A marked dispersion in equity market returns this month.
- European equities fell back but Far East markets rose.
- There was huge demand for the UK's new 10-year gilt.

### Feature Section

This month we consider the profile of the MSCI Emerging Markets Index, by country, sector and membership concentration. The overall index has over 1,300 constituents but the top 4 stocks account for around 18% (with the largest being Taiwan Semiconductor at around 8%). This skew is in contrast to the rather more diversified MSCI Developed Markets World index.

**Figure 1a: Country allocation**

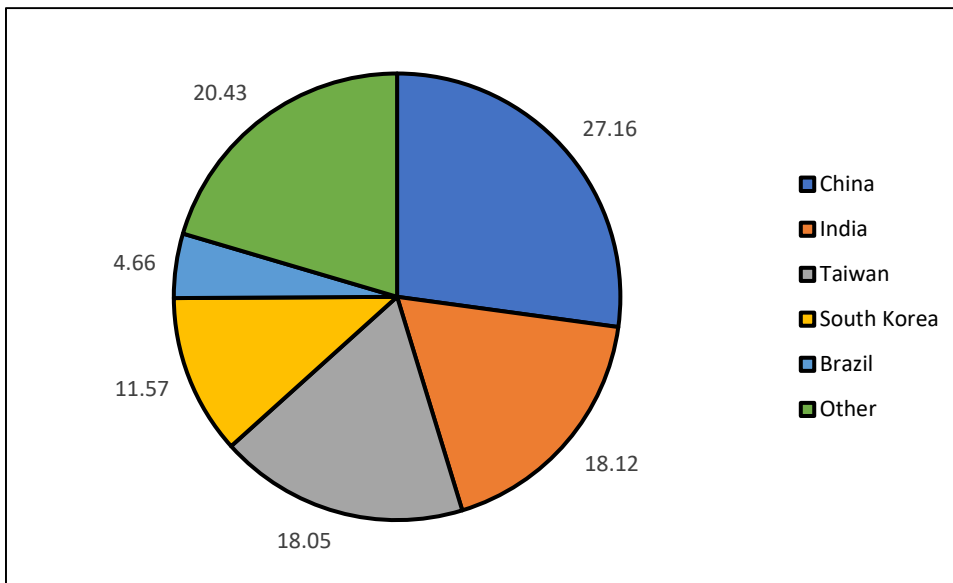


Figure 1a shows the Emerging Markets Index allocation by country and Figure 1b shows the allocation by sector, both as at 31 May 2024.

The Emerging Markets country allocation is very concentrated, with around 75% in just the main four countries.

Things look *slightly* more diversified from a sector viewpoint, but two-thirds of the index lies in just four sectors.

**Figure 1b: Sector allocation**

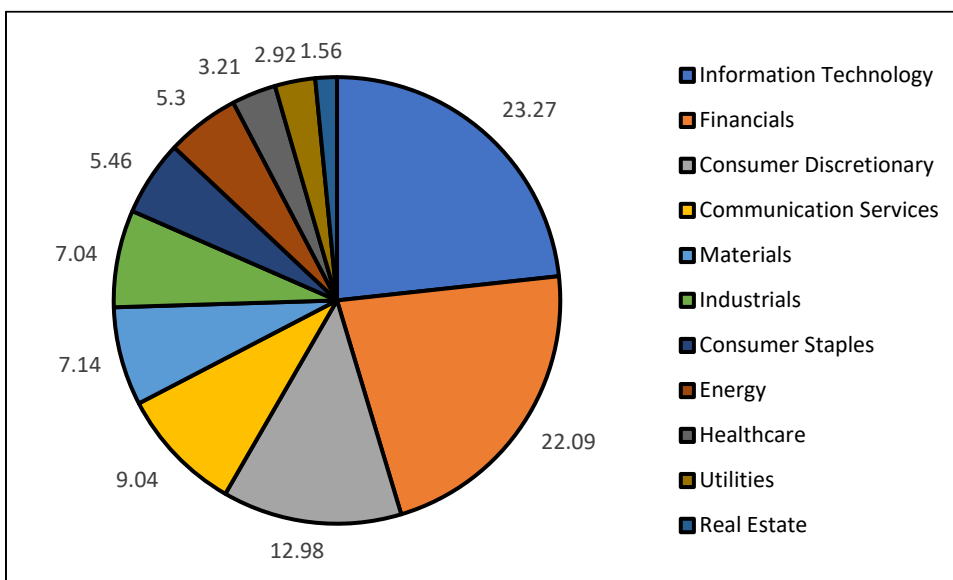


Table 1 (on page 2) shows that over the last decade, Emerging Markets have rather lagged Developed Markets (particularly the US market), but the reverse is true for the previous decade, so there seems to be a case for timing when to have exposure. Emerging Markets have also been rather more volatile, so investors' risk tolerances are also clearly relevant.

Source: MSCI



**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 June 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	3.7	13.0	7.4	5.5	5.9	7.3
Overseas Equities	2.8	2.3	21.0	9.1	11.7	12.7	10.8
US Equities	4.1	3.8	<b>24.9</b>	<b>12.3</b>	<b>15.0</b>	<b>16.1</b>	8.6
Europe ex UK Equities	<b>-4.2</b>	<b>-2.7</b>	10.1	4.9	7.3	8.1	<b>12.4</b>
Japan Equities	<b>-0.3</b>	<b>-4.6</b>	13.4	5.3	6.9	9.1	6.5
Pacific ex Japan Equities	<b>5.7</b>	4.7	17.6	0.5	5.6	8.1	10.7
Emerging Markets	4.8	<b>5.3</b>	13.6	<b>-1.8</b>	3.6	6.3	9.6
UK Long-dated Gilts	1.9	<b>-2.8</b>	1.1	<b>-16.3</b>	<b>-9.0</b>	<b>-0.1</b>	3.1
UK Long-dated Corp. Bonds	1.4	<b>-2.0</b>	8.4	<b>-11.2</b>	<b>-4.4</b>	1.7	4.1
UK Over 5 Yrs Index-Linked Gilts	0.2	<b>-2.9</b>	<b>-1.9</b>	<b>-14.0</b>	<b>-7.4</b>	0.9	4.1
High Yield (Global)	1.3	1.2	11.3	3.0	3.0	6.5	8.3
Overseas Bonds	0.6	<b>-2.1</b>	<b>-1.3</b>	<b>-3.9</b>	<b>-3.0</b>	2.1	3.8
Property *	0.5	1.4	0.3	1.6	1.8	5.6	5.8
Cash	0.4	1.3	5.5	3.3	2.1	1.3	<b>2.1</b>
Commodities £-converted	2.2	0.6	15.7	16.1	8.4	<b>-0.2</b>	0.3
Hedge Funds original \$ basis *	1.4	2.7	12.4	3.1	7.2	4.9	5.3
Illustrative £-converted version *	<b>-0.3</b>	2.1	9.4	7.0	7.0	7.9	7.3
Euro relative to Sterling	<b>-0.6</b>	<b>-0.8</b>	<b>-1.2</b>	<b>-0.4</b>	<b>-1.1</b>	0.6	1.2
US \$ relative to Sterling	0.7	<b>-0.1</b>	0.6	3.0	0.1	3.1	1.8
Japanese Yen relative to Sterling	<b>-1.6</b>	<b>-6.0</b>	<b>-9.6</b>	<b>-9.0</b>	<b>-7.6</b>	<b>-1.6</b>	<b>-0.1</b>
Sterling trade weighted	0.1	0.7	1.2	0.6	1.6	<b>-0.6</b>	<b>-1.0</b>
Price Inflation (RPI) *	0.4	1.4	3.0	8.6	6.0	4.2	3.7
Price Inflation (CPI) *	0.3	1.2	2.0	6.5	4.4	3.0	2.8
Price Inflation (RPIX) *	0.3	1.2	1.9	7.9	5.6	4.1	3.7
Earnings Inflation **	<b>-10.6</b>	2.0	5.3	6.0	5.1	3.9	3.3
All Share Capital Growth	<b>-1.4</b>	2.6	8.7	3.5	1.9	2.1	3.5
Dividend Growth	0.7	1.3	7.5	13.6	<b>-0.3</b>	3.4	4.3
Earnings Growth	1.5	<b>-11.1</b>	22.4	18.0	5.6	2.4	4.4

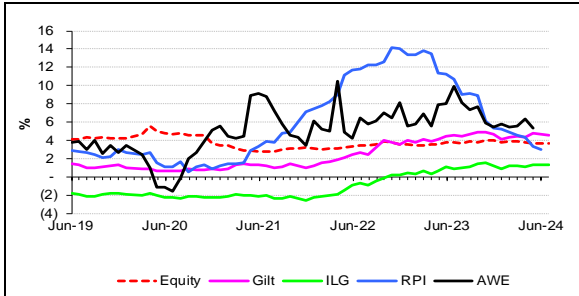
Note: All market returns are total returns for pension funds with income reinvested monthly. Indices used are as follows:

- 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.

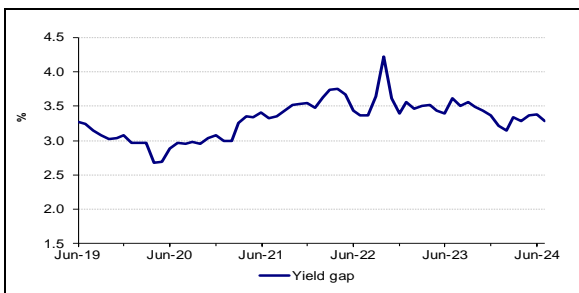


## Yields and Yield Gaps

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.

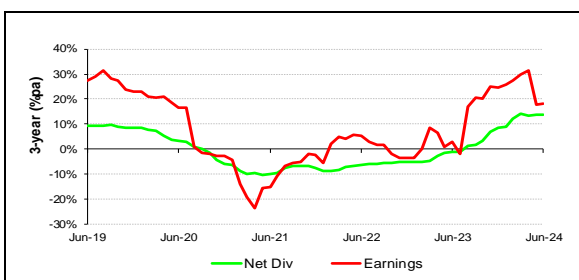
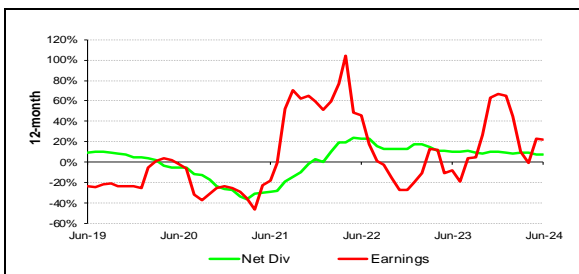


The gap gives a current expectation of around 3.3% p.a. for longer-term inflation including the (unknown) risk premium for gilts, relative to index-linked gilts.

## 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]

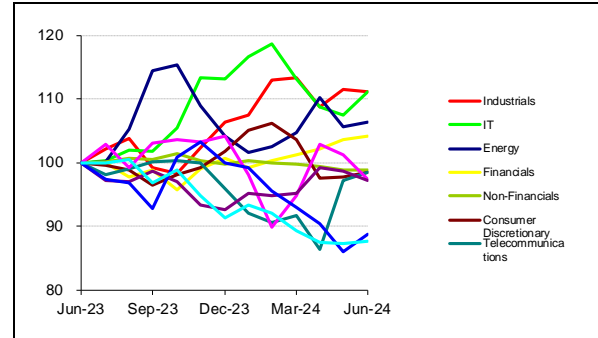
Figure 3: Dividend & Earnings Growth



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



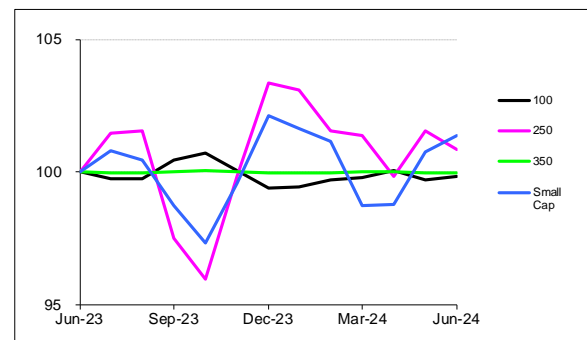
Note: Sector labels for relative lines are in end-value order

There was a fall this month in the rolling 12-month sector dispersion (down from 29% to 23%).

(% absolute return)	1 mth	3 mth	12 mth
Energy	-0.4	5.3	20.1
Basic Materials	-4.9	6.6	10.0
Industrials	-1.4	1.7	25.5
Consumer Staples	-0.7	2.0	-0.9
Health Care	-2.7	6.0	9.7
Consumer Discretionary	-0.3	-1.3	11.3
Telecommunications	0.1	11.2	11.1
Utilities	2.0	-1.1	0.1
Non-Finan	-1.3	2.8	11.6
Financials	-0.7	6.8	17.6
IT	2.1	1.8	25.4
All Share	-1.2	3.7	13.0

## 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 rose.

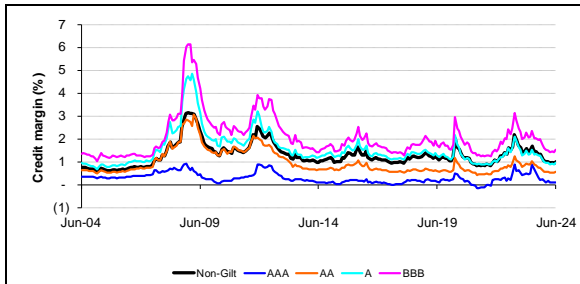
Sources for charts on this page:

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 (%)
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
Jun '24	<b>5.05</b>	<b>4.58</b>	<b>0.47</b>

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

Category	Mkt Val (£bn @ Jun 24 & 21, 18)			Weight (%)
	Jun 24	Jun 21	Jun 18	
Gilts (61)	1,488	1,771	1,354	71.9
Non-Gilts (1,272)	582	665	563	28.1
AAA (157)	125	125	111	6.0
AA (178)	81	81	77	3.9
A (432)	168	188	161	8.1
BBB (505)	208	271	214	10.0

Category	Mkt Val (£bn @ Jun 24 & 21)		W't (%)	Dur'n (yrs)
Gilts (61)	1,488	1,771	71.9	9.2
< 5 Yrs (15)	488	431	23.6	2.6
5-15 Yrs (18)	503	560	24.3	8.0
> 15 Yrs (28)	497	780	24.0	16.9
Non-Gilts (1,272)	582	665	28.1	5.6
< 5 Yrs (603)	312	228	15.1	2.6
5-15 Yrs (445)	185	285	8.9	7.1
> 15 Yrs (224)	85	151	4.1	13.4

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

Category	Mkt Val (£bn)	Weight (%)
Sovereigns (521)	7,397	56.7
Non-Sovereigns	5,646	43.3
AAA (1,305)	1,910	14.6
AA (879)	1,051	8.1
A (1,557)	1,235	9.5
BBB (2,086)	1,450	11.1

Category	Mkt Val (£bn)	Weight (%)
1 – 3 Yrs (1,760)	3,182	24.4
3 – 5 Yrs (1,668)	2,920	22.4
5 – 7 Yrs (1,145)	2,066	15.8
7 – 10 Yrs (991)	2,095	16.1
10+ Yrs (784)	2,779	21.3

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

Category (Number of issues)	Mkt Val (£bn @ Jun 24 & 21)		W't (%)	Dur'n (yrs)
Gilts (33)	561	806	100.0	15.0
< 5 Yrs (5)	125	88	22.2	2.8
5 – 15 Yrs (9)	179	186	31.8	9.7
> 15 Yrs (19)	258	532	45.9	24.5

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

Month End	US (%)	Euro (%)	Sterling (%)
Mar '24	7.15	5.91	8.41
Apr '24	7.49	5.97	8.68
May '24	7.30	5.90	8.89
Jun '24	<b>7.20</b>	<b>5.78</b>	<b>8.78</b>

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

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

- £5.00bn, 3¾% 2027 (3.27x, 4.51%, 25%, Apr '24)
- £5.00bn, 4¼% 2029 (3.59x, 4.08%, 25%, May '24)
- £1.80bn, ¾% IL 2033 (2.89x, 0.52%, 20%, Apr '24)
- **£11.00bn**, 4¼% 2034 (**10.0x**, 4.34%, n/a, new)
- £3.00bn, 3¾% 2038 (3.42x, 4.31%, 0%, Jan '24)
- £1.07bn, 5/8% IL 2045 (3.88x, 1.30%, 19%, Apr '23)
- £2.00bn, 4% 2063 (3.10x, 4.56%, 0%, Feb '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.

