



## Investment Update July 2024

### Investment Headlines & Comment

- A fairly flat month for most equity markets.
- A strong month for the Yen offsetting some recent losses.
- Huge demand for the 30-year Index-Linked Gilt.

### Feature Section

This month we consider Commodities, with reference to the S&P Goldman Sachs Commodities Index (GSCI). We last looked at this asset in our [May 2011](#) edition so it is high time for an update. Data is courtesy of S&P. The main reminder needed here is that there are two ways of getting Commodities returns— one is based on investing in them at current market prices (“spot”), and the other is based on using futures to make the investments (“total return”).<sup>1</sup>

**Figure 1a: Sector allocation**

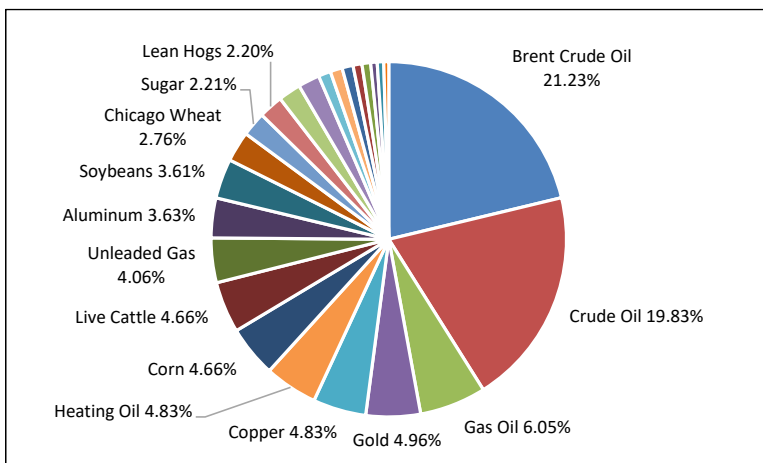
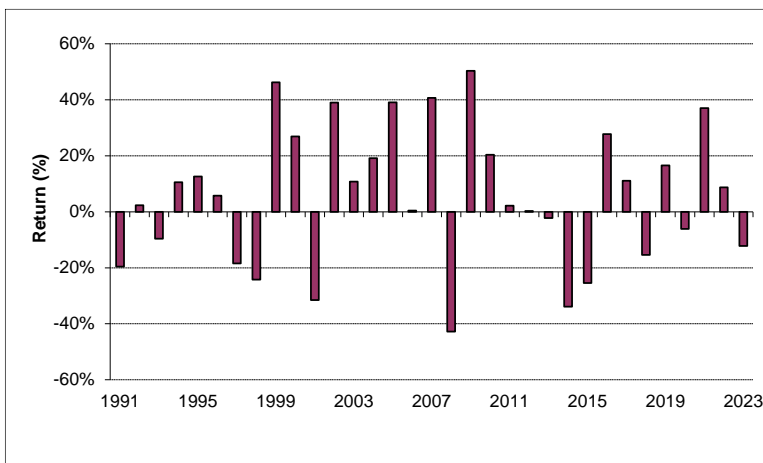


Figure 1a shows the GSCI allocation by sector as at 31 January 2024. It is clear that Energy continues to dominate the index with a 58% weighting, followed by 26% in Agriculture, and then 16% in Metals. It will be interesting to see how much this profile changes as global carbon reduction or offset strategies take effect.

*Note: The small unlabelled slices after Lean Hogs are Natural Gas 2.05%, Feeder Cattle 1.96%, Kansas Wheat 1.12%, Cotton 1.10%, Coffee 1.00%, Nickel 0.81%, Zinc 0.79%, Cocoa 0.59%, Lead 0.59% and Silver 0.45%.*

As shown in Table 1 on page 2, long-term total returns on Commodities have been disappointing, but there has been considerable short-term variation. Figure 1b shows this via the history of the annual spot returns.

**Figure 1b: Spot Price annual returns series**



The main thing noticeable from this chart is the sheer scale on the vertical axis. The annual sequence of Spot price returns has produced volatility of 25% p.a. which is pretty high. (The volatility of the Total returns is slightly lower at around 21% p.a., but this is still high.)

If looked at cumulatively, then the long-run 33-year spot return has been pretty modest at just under 3% p.a. (in USD terms), with the Total return at 1.0% p.a. This would appear to be an asset class where you need to time when to hold it!

<sup>1</sup> For example, heavy current demand for a commodity would mean an investor commits to higher prices at fairly short terms, but through futures they might be able to pay lower prices at longer terms (“backwardation”). The return from such an investment is the total of (a) the return on the cash committed for the future purchase (because you retain them until then), (b) the return from moving along the price curve (usually it is a gain because of backwardation), and (c) the effect of any change in the level of the price curve.



**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 July 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	3.1	4.4	13.5	8.3	5.8	6.3	7.5
Overseas Equities	0.0	5.5	18.1	9.1	10.7	12.7	11.0
US Equities	-0.2	<b>7.1</b>	<b>22.1</b>	<b>11.6</b>	<b>13.7</b>	<b>16.1</b>	8.9
Europe ex UK Equities	0.1	<b>-0.6</b>	8.0	4.3	6.9	8.6	<b>12.6</b>
Japan Equities	<b>4.5</b>	3.7	16.2	7.6	7.0	9.4	7.0
Pacific ex Japan Equities	<b>-2.0</b>	4.4	10.3	2.2	4.7	7.4	10.7
Emerging Markets	<b>-1.2</b>	2.4	6.9	0.3	2.8	5.9	9.6
UK Long-dated Gilts	2.6	5.7	3.8	<b>-17.1</b>	<b>-9.1</b>	<b>-0.1</b>	3.2
UK Long-dated Corp. Bonds	1.7	4.0	8.1	<b>-11.8</b>	<b>-4.7</b>	1.7	4.1
UK Over 5 Yrs Index-Linked Gilts	2.2	4.1	<b>1.0</b>	<b>-15.3</b>	<b>-7.7</b>	1.1	4.2
High Yield (Global)	0.4	1.6	11.2	3.4	2.2	6.6	8.2
Overseas Bonds	1.5	1.4	1.3	<b>-3.6</b>	<b>-3.4</b>	2.2	3.9
Property *	0.7	1.7	<b>1.0</b>	1.2	1.9	5.5	5.7
Cash	0.4	1.3	5.5	3.4	2.2	1.4	<b>2.1</b>
Commodities £-converted	<b>-5.1</b>	<b>-6.4</b>	<b>-0.1</b>	13.7	6.5	<b>-0.3</b>	<b>-0.4</b>
Hedge Funds original \$ basis *	0.0	0.7	10.0	2.9	6.7	4.8	5.3
Illustrative £-converted version *	0.7	0.6	10.6	6.0	6.8	8.0	7.2
Euro relative to Sterling	<b>-0.6</b>	<b>-1.3</b>	<b>-1.7</b>	<b>-0.4</b>	<b>-1.5</b>	0.6	1.2
US \$ relative to Sterling	<b>-1.6</b>	<b>-2.5</b>	0.2	2.7	<b>-1.0</b>	2.8	1.8
Japanese Yen relative to Sterling	5.2	2.0	<b>-5.4</b>	<b>-7.6</b>	<b>-7.2</b>	<b>-1.1</b>	0.2
Sterling trade weighted	0.9	1.7	1.9	0.7	2.3	<b>-0.5</b>	<b>-1.0</b>
Price Inflation (RPI) *	0.2	1.1	2.9	8.4	6.0	4.2	3.7
Price Inflation (CPI) *	0.1	0.8	2.0	6.4	4.4	3.0	2.8
Price Inflation (RPIX) *	0.2	1.0	1.9	7.7	5.7	4.1	3.7
Earnings Inflation **	<b>-1.6</b>	<b>-1.2</b>	5.0	5.7	4.9	3.8	3.2
All Share Capital Growth	3.1	3.6	9.3	4.4	2.1	2.5	3.8
Dividend Growth	<b>-0.3</b>	0.5	6.9	13.2	<b>-0.4</b>	3.3	4.3
Earnings Growth	2.3	3.0	48.6	12.0	5.6	2.4	4.4

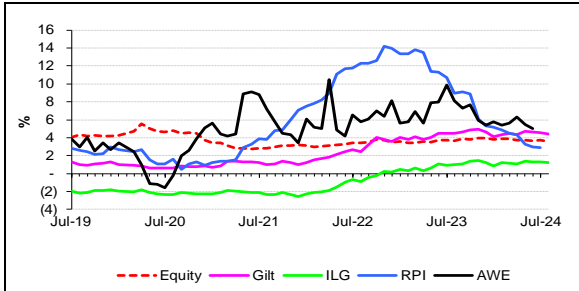
Note: All market returns are total returns for pension funds with income reinvested monthly. Indices used are as follows:

- 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.

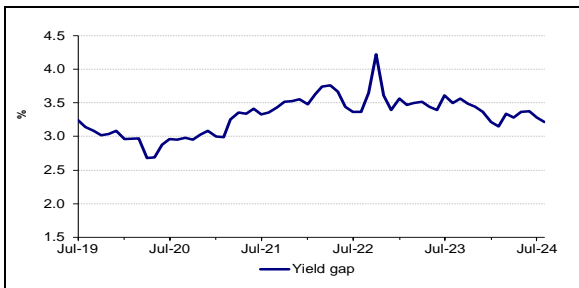


## Yields and Yield Gaps

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.

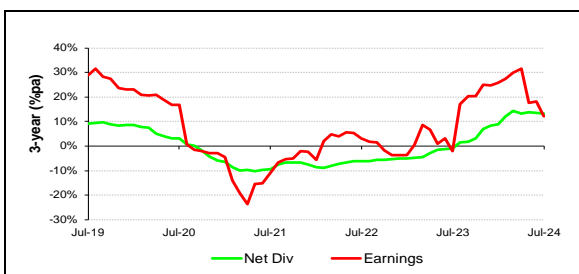
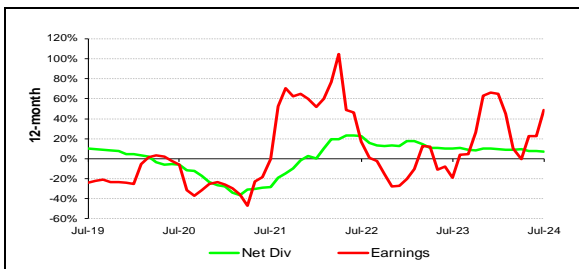


The gap gives a current expectation of around 3.2% p.a. for longer-term inflation including the (unknown) risk premium for gilts, relative to index-linked gilts.

## 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]

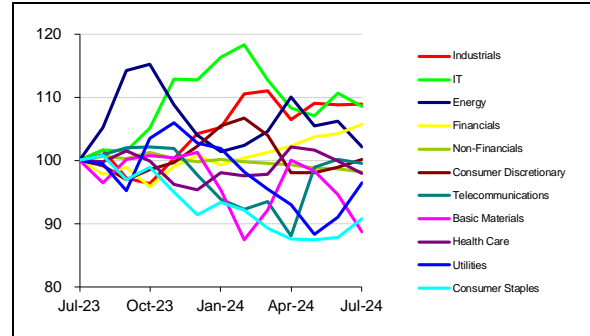
Figure 3: Dividend & Earnings Growth



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



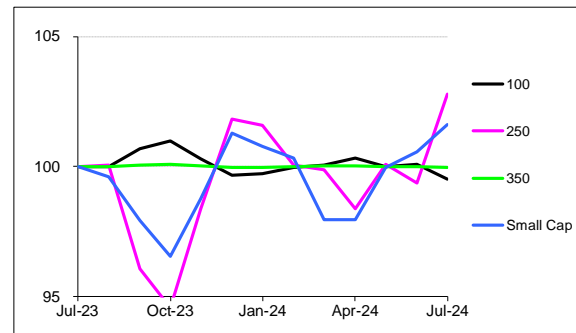
Note: Sector labels for relative lines are in end-value order

There was a fall this month in the rolling 12-month sector dispersion (down from 23% to 20%).

(% absolute return)	1 mth	3 mth	12 mth
Energy	-0.8	-3.1	16.0
Basic Materials	-3.4	-7.5	0.7
Industrials	3.2	6.8	23.7
Consumer Staples	6.5	8.3	3.1
Health Care	1.0	0.1	11.2
Consumer Discretionary	4.4	6.7	13.7
Telecommunications	2.4	18.0	13.0
Utilities	9.2	8.3	9.5
Non-Finan	2.7	3.3	11.6
Financials	4.6	7.9	20.0
IT	1.2	4.7	23.3
All Share	3.1	4.4	13.5

## UK Equity Size Returns

Figure 4b: Size groups relative to All Share



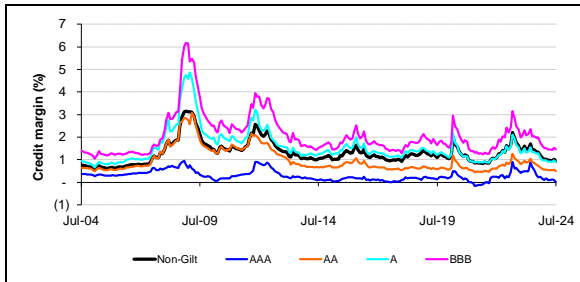
This month, Mid Cap and Small Cap both rose relative to the All Share.

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 (%)
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	5.05	4.58	0.47
Jul '24	<b>4.90</b>	<b>4.43</b>	<b>0.47</b>

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

Category	Mkt Val (£bn @ Jul 24 & 21, 18)			Weight (%)
Gilts (61)	1,484	1,838	1,350	71.8
Non-Gilts (1,267)	584	670	563	28.2
AAA (150)	122	127	112	5.9
AA (175)	80	78	79	3.9
A (437)	173	191	161	8.3
BBB (505)	210	275	212	10.1

Category	Mkt Val (£bn @ Jul 24 & 21)		W't (%)	Dur'n (yrs)
Gilts (61)	1,484	1,838	71.8	9.4
< 5 Yrs (14)	453	432	21.9	2.6
5-15 Yrs (19)	528	580	25.5	7.9
> 15 Yrs (28)	503	826	24.3	17.0
Non-Gilts (1,267)	584	670	28.2	5.6
< 5 Yrs (595)	310	222	15.0	2.6
5-15 Yrs (449)	189	292	9.1	7.0
> 15 Yrs (223)	85	1,838	4.1	13.4

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

Category	Mkt Val (£bn)	Weight (%)
Sovereigns (521)	7,548	56.7
Non-Sovereigns	5,763	43.3
AAA (1,317)	1,962	14.7
AA (882)	1,071	8.0
A (1,549)	1,248	9.4
BBB (2,099)	1,482	11.1

Category	Mkt Val (£bn)	Weight (%)
1 – 3 Yrs (1,788)	3,216	24.2
3 – 5 Yrs (1,662)	2,985	22.4
5 – 7 Yrs (1,140)	2,067	15.5
7 – 10 Yrs (993)	2,142	16.1
10+ Yrs (785)	2,901	21.8

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

Category (Number of issues)	Mkt Val (£bn @ Jul 24 & 21)		W't (%)	Dur'n (yrs)
Gilts (32)	551	858	100.0	15.8
< 5 Yrs (4)	99	89	18.0	3.5
5 – 15 Yrs (9)	183	191	33.2	9.7
> 15 Yrs (19)	269	578	48.8	24.5

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

Month End	US (%)	Euro (%)	Sterling (%)
Apr '24	7.49	5.97	8.68
May '24	7.30	5.90	8.89
Jun '24	7.20	5.78	8.78
Jul '24	<b>6.92</b>	<b>5.50</b>	<b>8.19</b>

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

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

- £4.11bn, 3¾% 2027 (3.26x, 4.44%, 3%, Jun '24)
- £4.00bn, 4¼% 2029 (3.10x, 4.02%, 0%, Jun '24)
- £3.75bn, 4% 2031 (3.29x, 4.07%, 0%, Apr '24)
- £4.25bn, 4¼% 2034 (2.93x, 4.08%, 13%, Jun '24)
- £1.24bn, 1¼% IL 2039 (3.08x, 1.05%, 24%, May '24)
- £2.81bn, 4¾% 2043 (3.29x, 4.52%, 25%, May '24)
- £4.50bn, 1¼% IL 2054 (**14.2x**, 1.42%, n/a, Mar '24)
- £2.58bn, 4¾% 2054 (3.35x, 4.64%, 14%, Apr '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.

