



Investment Update August 2024

Investment Headlines & Comment

- Sterling continued to rally against the US Dollar.
- A quiet month overall for most asset markets.
- The exception was commodities due to falling oil prices.

Feature Section

This month we revisit the maturity profile of the UK's gilt market and the forward profile of RPI inflation. We last considered this in our [August 2021](#) issue. Since then, there has been some controlled unwinding of the Quantitative Easing portfolio, but this seems set to accelerate due to various gilts maturing in the next few years.

Figure 1a: Gilt market profile (£bn, nominal)

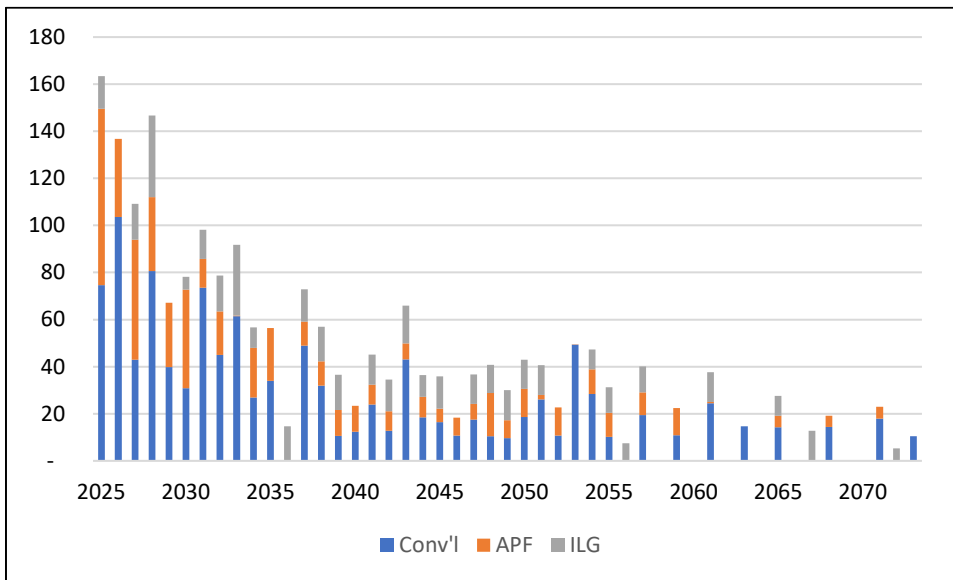


Figure 1a shows the current market profile. It is rather striking that over the next 5 financial years, over £620bn nominal will need to be reissued (unless there is a budget surplus, which seems unlikely).

Within this, £218bn is held in the Asset Purchase Facility (APF), so significant contraction of that facility seems likely.

Figure 1b: UK Forward RPI inflation rate (%)

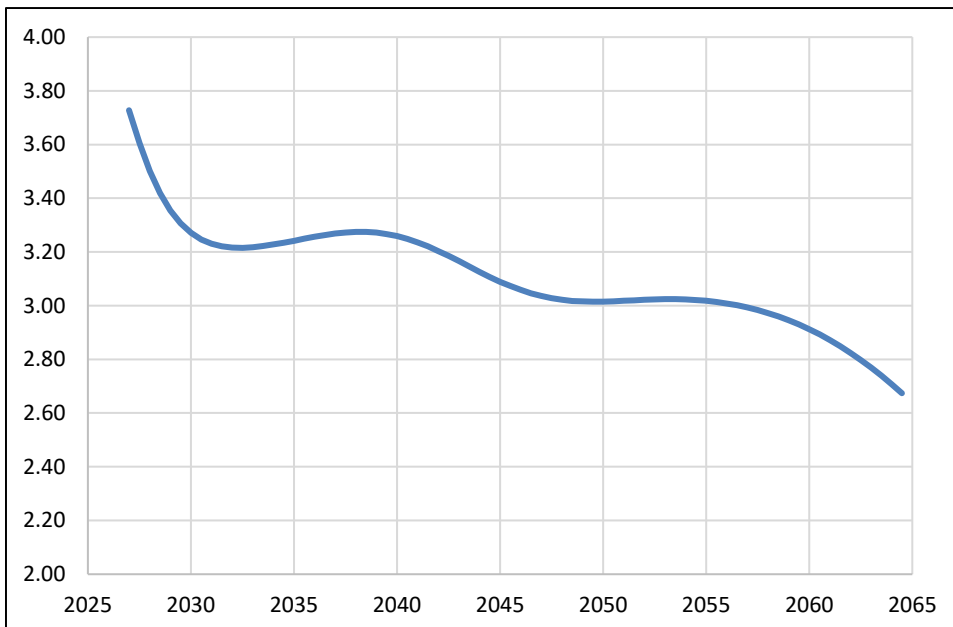


Figure 1b provides an update on the implied inflation rate from current gilt prices. Bearing in mind the 2% p.a. target for CPI, and a typical add-on of 0.5%-0.75% to reach RPI, it appears that investors do not expect the target to be met for some considerable time. However, the range of the vertical axis is at least relatively narrow, unlike the historical range shown in our [May 2024](#) edition.

Sources: Bank of England, DMO



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 August 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	0.5	2.4	17.0	7.5	6.6	6.1	7.5
Overseas Equities	0.4	3.2	19.9	8.0	11.2	12.3	10.9
US Equities	0.3	4.2	22.6	10.3	14.1	15.5	8.9
Europe ex UK Equities	1.8	-2.4	12.6	4.0	7.6	8.5	12.5
Japan Equities	-1.8	2.4	14.9	5.5	6.7	9.3	6.9
Pacific ex Japan Equities	0.8	4.5	16.1	1.3	5.7	7.2	10.4
Emerging Markets	-0.7	2.8	11.4	-1.2	3.6	5.4	9.3
UK Long-dated Gilts	0.8	5.3	6.7	-16.5	-10.1	-0.6	3.2
UK Long-dated Corp. Bonds	0.5	3.6	10.4	-11.4	-5.4	1.3	4.0
UK Over 5 Yrs Index-Linked Gilts	-0.2	2.1	2.3	-15.5	-8.7	0.5	4.1
High Yield (Global)	-0.3	1.4	9.5	2.7	2.0	6.3	8.0
Overseas Bonds	0.0	2.1	1.1	-3.8	-4.1	2.0	3.7
Property *	0.4	1.6	1.4	1.0	2.0	5.3	5.7
Cash	0.4	1.3	5.4	3.6	2.2	1.4	2.1
Commodities £-converted	-4.0	-6.8	-5.6	12.7	6.8	-0.7	-0.4
Hedge Funds original \$ basis *	1.3	2.7	9.4	3.7	6.9	5.0	5.4
Illustrative £-converted version *	-0.3	0.1	9.6	6.4	5.9	7.9	7.2
Euro relative to Sterling	0.0	-1.2	-1.7	-0.6	-1.4	0.6	1.1
US \$ relative to Sterling	-2.3	-3.1	-3.6	1.5	-1.5	2.4	1.6
Japanese Yen relative to Sterling	1.0	4.6	-3.6	-7.6	-7.5	-1.0	0.2
Sterling trade weighted	0.9	1.9	3.0	1.3	2.3	-0.3	-0.9
Price Inflation (RPI) *	0.1	0.6	3.6	8.2	6.0	4.2	3.7
Price Inflation (CPI) *	-0.2	0.2	2.2	6.3	4.4	3.0	2.8
Price Inflation (RPIX) *	0.0	0.5	2.7	7.6	5.7	4.1	3.7
Earnings Inflation **	1.9	-10.1	2.7	6.3	5.2	3.9	3.3
All Share Capital Growth	-0.3	1.3	12.7	3.7	3.0	2.3	3.7
Dividend Growth	-1.4	-0.9	3.1	9.8	-1.0	3.2	4.2
Earnings Growth	0.0	3.8	16.3	7.0	5.0	2.4	4.2

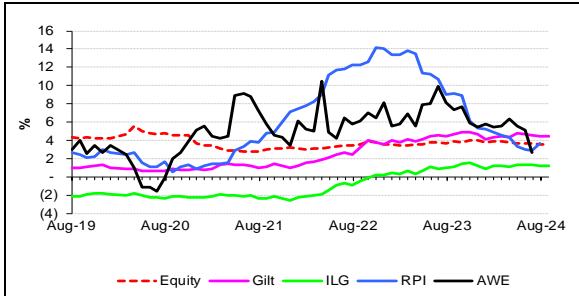
Note: All market returns are total returns for pension funds with income reinvested monthly. Indices used are as follows:

- 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.

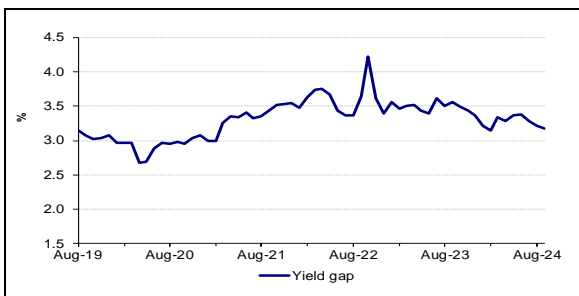


Yields and Yield Gaps

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.

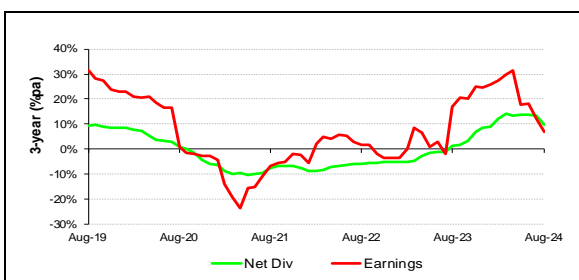
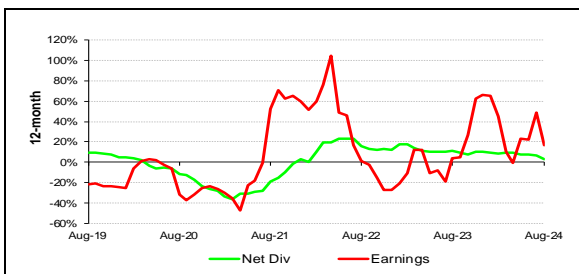


The gap gives a current expectation of around 3.2% p.a. for longer-term inflation including the (unknown) risk premium for gilts, relative to index-linked gilts.

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]

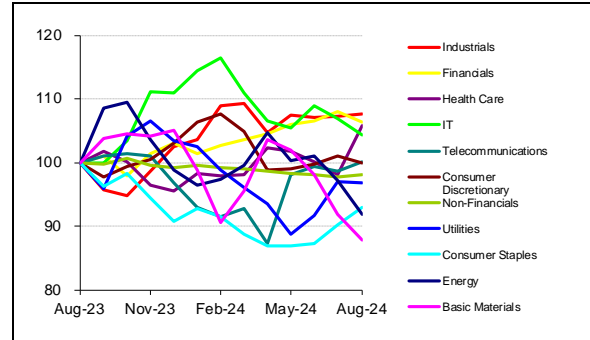
Figure 3: Dividend & Earnings Growth



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



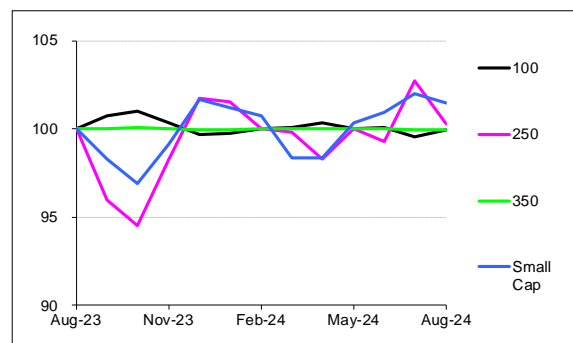
Note: Sector labels for relative lines are in end-value order

There was no change this month in the rolling 12-month sector dispersion (still 20%).

(% absolute return)	1 mth	3 mth	12 mth
Energy	-5.0	-6.1	7.5
Basic Materials	-4.1	-11.8	2.6
Industrials	0.8	2.6	25.8
Consumer Staples	3.7	9.7	8.8
Health Care	8.4	6.4	23.8
Consumer Discretionary	-0.6	3.4	16.9
Telecommunications	2.0	4.5	17.1
Utilities	0.3	11.7	13.3
Non-Finan	1.0	2.3	14.8
Financials	-1.1	2.7	24.4
IT	-1.9	1.4	22.0
All Share	0.5	2.4	17.0

UK Equity Size Returns

Figure 4b: Size groups relative to All Share



This month, Mid Cap and Small Cap both fell 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

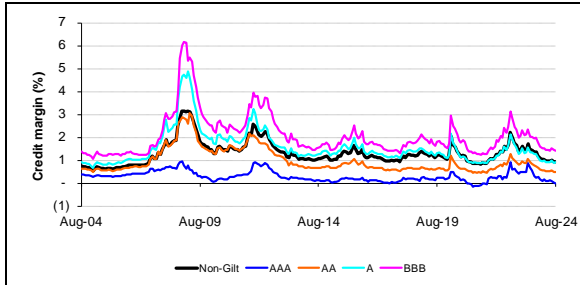


Table 2a: Over 15 Yr Corporate Yields & Margins

Month End	iBoxx Corp AA Y'ld (%)	FT 20 yr Gilt (%)	Margin (%)
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	4.90	4.43	0.47
Aug '24	4.90	4.40	0.50

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

Category	Mkt Val (£bn @ Aug 24 & 21, 18)			Weight (%)
Gilts (61)	1,523	1,815	1,324	72.5
Non-Gilts (1,250)	577	670	570	27.5
AAA (152)	121	128	114	5.8
AA (174)	80	78	81	3.8
A (435)	171	192	163	8.2
BBB (489)	205	271	212	9.8

Category	Mkt Val (£bn @ Aug 24 & 21)		W't (%)	Dur'n (yrs)
Gilts (61)	1,523	1,815	72.5	9.3
< 5 Yrs (15)	481	450	22.9	2.6
5-15 Yrs (18)	525	540	25.0	7.9
> 15 Yrs (28)	517	824	24.6	16.9
Non-Gilts (1,250)	577	670	27.5	5.6
< 5 Yrs (596)	307	228	14.6	2.6
5-15 Yrs (441)	188	287	9.0	7.1
> 15 Yrs (213)	82	155	3.9	13.5

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

Category	Mkt Val (£bn)	Weight (%)
Sovereigns (522)	7,587	56.8
Non-Sovereigns	5,762	43.2
AAA (1,317)	1,968	14.7
AA (887)	1,076	8.1
A (1,565)	1,259	9.4
BBB (2,062)	1,459	10.9

Category	Mkt Val (£bn)	Weight (%)
1 – 3 Yrs (1,788)	3,216	24.1
3 – 5 Yrs (1,654)	2,995	22.4
5 – 7 Yrs (1,153)	2,084	15.6
7 – 10 Yrs (981)	2,189	16.4
10+ Yrs (777)	2,865	21.5

Table 2f: Breakdown of £ Index-Linked Market

Category (Number of issues)	Mkt Val (£bn @ Aug 24 & 21)		W't (%)	Dur'n (yrs)
Gilts (32)	552	863	100.0	15.7
< 5 Yrs (4)	99	89	18.0	3.4
5 – 15 Yrs (9)	184	192	33.4	9.6
> 15 Yrs (19)	268	582	48.7	24.4

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

Month End	US (%)	Euro (%)	Sterling (%)
May '24	7.30	5.90	8.89
Jun '24	7.20	5.78	8.78
Jul '24	6.92	5.50	8.19
Aug '24	6.69	5.33	8.13

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

£ Gilt Market “main” & “Green” Issuance

- £4.00bn, 3¾% 2027 (3.33x, 4.07%, 7%, Jul '24)
- £4.02bn, 4¼% 2029 (2.87x, 3.85%, 1%, Jul '24)
- £1.55bn, ¾% IL 2033 (2.94x, 0.46%, 3%, Jun '24)
- £3.75bn, 3¾% 2038 (3.28x, 4.13%, 25%, Jun '24)
- £2.50bn, 4¾% 2043 (3.37x, 4.373%, 25%, Jul '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.

