



Investment Update January 2025

Investment Headlines & Comment

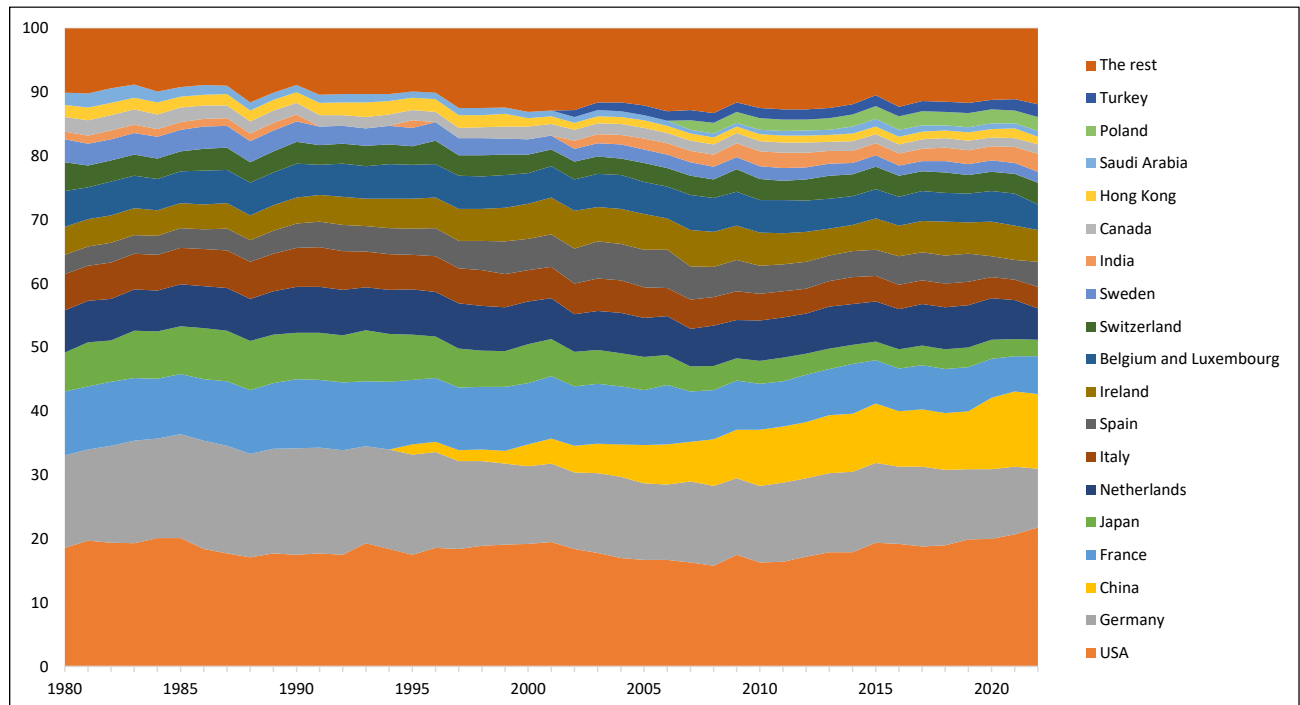
- A remarkable month for European equities.
- UK equities also had a good start to the year.
- £119bn of offers for the latest tranche of the 2040 gilt.

Feature Section

This month we look at the way the constituents of the Bank of England’s Sterling trade-weighted index have varied over time. We originally wrote about this index in our [May 2014](#) edition. We will focus on the “narrow index” version – as a reminder, countries are included in the narrow index if their share of either UK imports or exports on average over the latest three-year period exceeds 1%.

Figure 1 shows the country profile weights from 1980 through to 2022 (the latest year for which data has been published). The countries are ordered in descending order of their greatest weighting during the period, not their end value order. We have grouped countries that have never been over 2% weighted as “the rest” (there are 22 such cases).

Figure 1: Sterling trade-weighted index constituents



Source: Bank of England

The largest component is the USA, currently at its maximum weighting of just under 22%. Its lowest weighting was just under 16% back in 2008. Also noticeable is the fairly steady decline of the weighting for Germany, from a peak of 17% to its current level of just over 9%.

We should also note China’s gradual emergence to reach its current high of just under 12%. Conversely, Japan’s weighting has dropped from a high of 8% to be now below 3%.

In terms of the overall Euro area, its peak weighting was 53.5% back in 2003, but that has declined pretty steadily since then to its current level of just under 41%, even though countries have been added to the Euro area over time.



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 January 2025

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	5.5	6.9	17.1	7.9	6.6	6.5	7.1
Overseas Equities	4.4	8.9	23.8	11.9	13.1	12.8	11.1
US Equities	3.9	10.4	29.7	14.7	16.4	15.9	8.3
Europe ex UK Equities	8.3	5.8	7.8	6.2	7.9	8.6	13.1
Japan Equities	2.4	5.3	8.1	8.1	7.0	8.6	6.9
Pacific ex Japan Equities	4.0	2.5	17.0	4.8	6.6	7.3	9.9
Emerging Markets	2.6	1.5	18.2	2.3	4.7	6.2	8.7
UK Long-dated Gilts	0.8	-2.1	-5.3	-16.2	-11.4	-3.1	2.6
UK Long-dated Corp. Bonds	1.6	1.1	-0.7	-9.5	-6.6	-0.3	3.6
UK Over 5 Yrs Index-Linked Gilts	1.2	-3.8	-4.3	-16.7	-8.9	-1.5	3.5
High Yield (Global)	2.0	4.5	11.4	5.9	4.4	6.7	8.3
Overseas Bonds	1.3	1.7	1.0	-2.5	-2.1	1.5	3.7
Property *	1.1	2.8	7.0	-1.3	2.7	5.0	5.5
Cash	0.4	1.2	5.1	3.8	2.4	1.5	2.0
Commodities £-converted	4.1	10.5	10.7	9.6	11.6	4.3	0.1
Hedge Funds original \$ basis *	-0.4	1.4	9.8	4.4	7.0	5.3	5.2
Illustrative £-converted version *	1.1	8.6	11.7	7.1	8.2	7.6	7.5
Euro relative to Sterling	1.2	-0.9	-1.9	0.0	-0.1	1.1	1.0
US \$ relative to Sterling	0.8	3.5	2.5	2.6	1.2	1.9	2.1
Japanese Yen relative to Sterling	2.3	1.8	-3.3	-7.0	-5.8	-0.9	0.1
Sterling trade weighted	-1.1	-0.6	1.1	0.4	0.5	-0.6	-0.9
Price Inflation (RPI) *	0.3	0.9	3.5	7.3	6.1	4.3	3.7
Price Inflation (CPI) *	0.4	1.0	2.6	5.6	4.6	3.1	2.8
Price Inflation (RPIX) *	0.3	0.8	2.9	6.5	5.7	4.2	3.7
Earnings Inflation **	-0.5	3.1	6.3	6.6	5.7	4.3	3.3
All Share Capital Growth	5.4	6.3	12.9	4.0	3.0	2.7	3.3
Dividend Growth	0.1	-1.2	-0.3	8.7	-1.4	3.0	4.0
Earnings Growth	0.9	5.4	-6.6	7.1	6.7	4.1	4.1

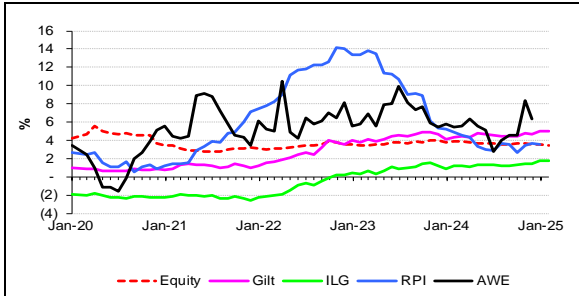
Note: All market returns are total returns for pension funds with income reinvested monthly. Indices used are as follows:

- 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, and SONIA since March 2021, 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.

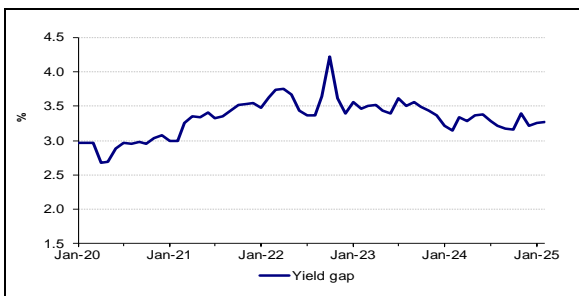


Yields and Yield Gaps

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.

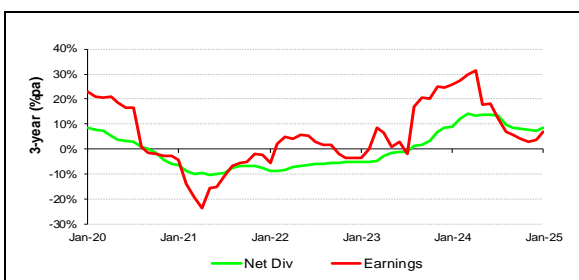
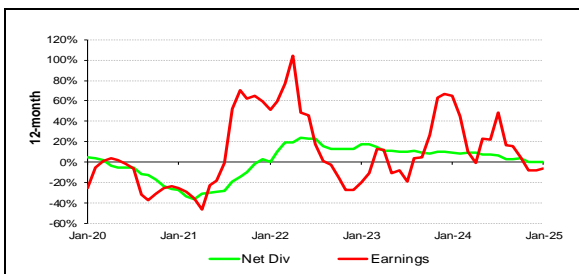


The gap gives a current expectation of around 3.3% p.a. for longer-term inflation including the (unknown) risk premium for gilts, relative to index-linked gilts.

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]

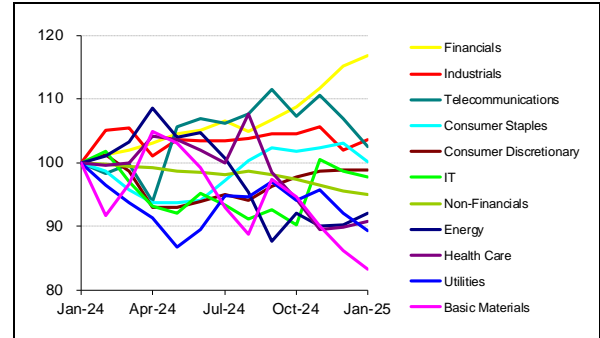
Figure 3: Dividend & Earnings Growth



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



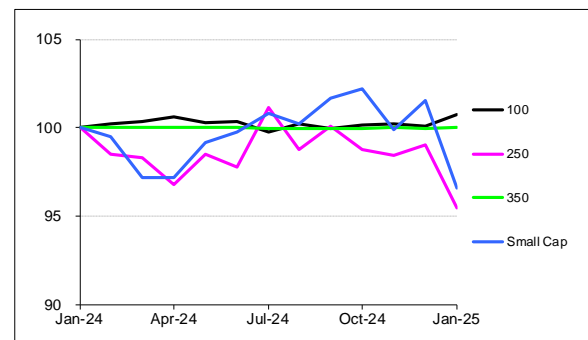
Note: Sector labels for relative lines are in end-value order

There was a small rise this month in the rolling 12-month sector dispersion (up from 32% to 33%).

(% absolute return)	1 mth	3 mth	12 mth
Energy	7.7	7.1	7.8
Basic Materials	1.9	-5.8	-2.5
Industrials	7.4	6.0	21.3
Consumer Staples	2.6	5.2	17.2
Health Care	6.5	2.8	6.1
Consumer Discretionary	5.6	8.2	15.7
Telecommunications	1.3	2.2	20.0
Utilities	2.4	1.6	4.6
Non-Finan	5.0	4.3	11.2
Financials	6.9	14.7	36.6
IT	4.5	15.6	14.3
All Share	5.5	6.9	17.1

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

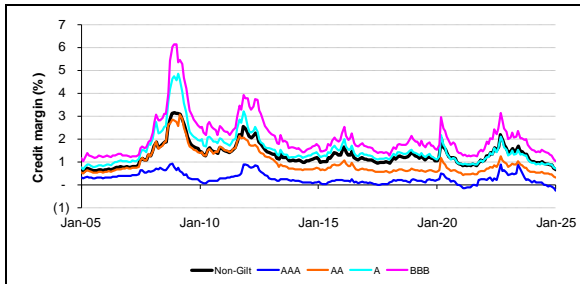


Table 2a: Over 15 Yr Corporate Yields & Margins

Month End	iBoxx Corp AA Y'ld (%)	FT 20 yr Gilt (%)	Margin (%)
Aug '24	4.90	4.40	0.50
Sep '24	5.00	4.45	0.55
Oct '24	5.26	4.79	0.47
Nov '24	5.11	4.65	0.46
Dec '24	5.41	5.01	0.40
Jan '25	5.33	5.00	0.33

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

Category	Mkt Val (£bn @ Jan 25 & 22, 19)			Weight (%)
	Jan 25	Jan 22	Jan 19	
Gilts (61)	1,484	1,741	1,339	72.8
Non-Gilts (1,227)	555	625	563	27.2
AAA (143)	112	120	111	5.5
AA (157)	66	75	81	3.2
A (444)	175	179	152	8.6
BBB (483)	203	250	219	9.9

Category	Mkt Val (£bn @ Jan 25 & 22)	W't (%)	Dur'n (yrs)
Gilts (61)	1,484	1,741	72.8
< 5 Yrs (15)	480	442	23.5
5-15 Yrs (18)	532	523	26.1
> 15 Yrs (28)	472	776	23.2
Non-Gilts (1,227)	555	625	27.2
< 5 Yrs (587)	299	241	14.7
5-15 Yrs (424)	175	246	8.6
> 15 Yrs (216)	81	138	4.0

Tables 2d, 2e: € Market Size and Maturity (Jan 25)

Category	Mkt Val (£bn)	Weight (%)
Sovereigns (519)	7,720	56.6
Non-Sovereigns	5,924	43.4
AAA (1,362)	2,055	15.1
AA (804)	996	7.3
A (1,628)	1,339	9.8
BBB (2,138)	1,533	11.2

Category	Mkt Val (£bn)	Weight (%)
1 – 3 Yrs (1,875)	3,429	25.1
3 – 5 Yrs (1,674)	3,008	22.0
5 – 7 Yrs (1,156)	2,125	15.6
7 – 10 Yrs (984)	2,235	16.4
10+ Yrs (762)	2,846	20.9

Table 2f: Breakdown of £ Index-Linked Market

Category (Number of issues)	Mkt Val (£bn @ Jan 25 & 22)	W't (%)	Dur'n (yrs)
Gilts (33)	535	852	100.0
< 5 Yrs (4)	101	91	18.8
5 – 15 Yrs (10)	186	222	34.7
> 15 Yrs (19)	249	540	46.5

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

Month End	US (%)	Euro (%)	Sterling (%)
Oct '24	6.86	5.18	7.86
Nov '24	6.75	5.09	7.81
Dec '24	7.03	5.05	7.79
Jan '25	6.82	5.06	7.61

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

£ Gilt Market “main” & “Green” Issuance

- £1.50bn, 1/8% 2026 (5.34x, 3.89%, n/a, Nov '24)
- £5.31bn, 4 3/8% 2028 (3.20x, 4.38%, 25%, Nov '24)
- £4.25bn, 4 3/8% 2030 (3.00x, 4.49%, 0%, new)
- £3.00bn, 7/8% Gr 2033 (3.10x, 4.47%, n/a, Sep '24)
- £5.00bn, 4 1/4% 2034 (2.80x, 4.81%, 25%, Dec '24)
- £1.50bn, 1 1/8% IL 2035 (3.12x, 1.13%, 0%, new)
- £8.50bn, 4 3/8% 2040 (**14.0x**, 5.01%, n/a, Sep '24)
- £1.18bn, 1 1/4% IL 2054 (3.06x, 2.13%, 18%, Nov '24)
- £2.27bn, 4 3/8% 2054 (2.75x, 5.20%, 1%, Dec '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.

