JAGGER & ASSOCIATES

Investment Update
October 2025

Investment Headlines & Comment

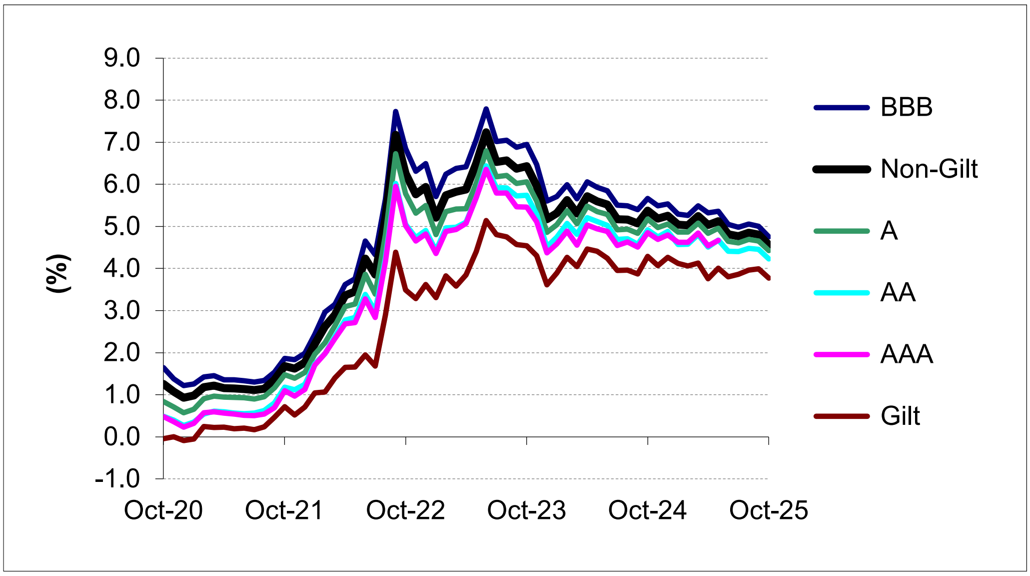
- Global bond yields fell slightly this month but the UK remains an outlier at the long end.
- A remarkable month for Far East equities (notably Taiwan) and for Emerging Markets.
- Huge demand for the new gilt maturing in 2041, but it was issued on a yield of over 5%.

Feature Section

This month we consider how investors might look for a low-risk alternative to Cash. Unfortunately, an alternative cannot involve no risk, so the question is how far an individual institution is willing to go.

Figure 1 shows the last 5 years' yield data for short-dated corporate bonds and gilts. In periods of market stress, such as in the autumn of 2022, holding short-dated bonds can introduce capital losses, unlike Cash (in the absence of any issuer defaults). However, if the underlying income is reinvested rather than spent, then that can spread the investor's short-dated corporate bond purchases across a range of market conditions.

Figure 1: Short-dated yields



Source: iBoxx Markit

If an investor is not looking at needing to disinvest at short notice, then they can currently look to aim for around 0.8% p.a. of additional return relative to the no risk alternative if they go at the overall index level, but if willing to go as far as restricting to just BBB-rated bonds, then the target is an extra 1% p.a. Arguably, the overall level is a better bet simply because of involving a wider range of issuers. The 0.8% p.a. figure feels "normal", whereas the average credit spread over the last 5 years has been 1.4% p.a. which is on the high side. However, that reflects the two "panic points" shown in Figure 1 and the subsequent time it took for markets to revert to more usual valuations.

Given the hope is that the Bank of England base rate will fall from its current 4% level, there is the potential for some modest capital gains from this asset class. Conversely, if there is an equity market retreat then there is the risk of credit spreads widening for a time.

Interestingly, the last AAA-rated bond dropped out of the index in June 2025. However, in due course as other AAA-rated bonds approach maturity, this unusual situation is likely to fall away (unless the bonds get redeemed early).

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 October 2025

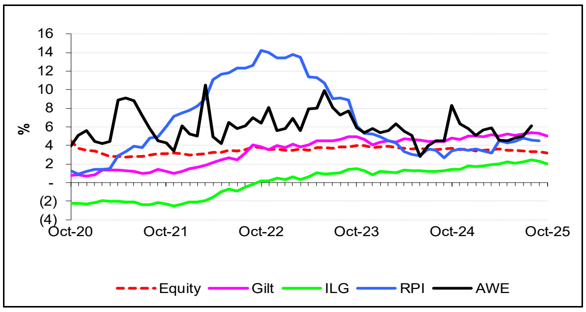
Asset Class	1 month (%)	3 months (%)	12 months (%)	3 years (% p.a.)	5 years (% p.a.)	10 years (% p.a.)	20 years (% p.a.)
UK Equities	3.7	6.6	22.5	14.7	14.7	8.0	7.2
Overseas Equities	4.9	9.6	20.7	17.0	14.7	14.0	11.0
US Equities	4.8	9.0	19.7	17.7	**17.0**	**16.5**	8.2
Europe ex UK Equities	3.0	6.9	20.0	15.1	12.0	9.9	**12.9**
Japan Equities	5.1	13.5	22.8	16.3	9.9	9.6	6.7
Pacific ex Japan Equities	**10.3**	**15.6**	**28.2**	**18.2**	9.0	11.0	10.3
Emerging Markets	6.7	14.1	25.9	16.5	7.6	9.9	8.7
UK Long-dated Gilts	5.5	4.7	0.5	-3.4	**-11.8**	**-2.0**	2.4
UK Long-dated Corp. Bonds	4.7	4.5	5.5	4.0	-6.2	1.1	3.5
UK Over 5 Yrs Index-Linked Gilts	4.4	3.7	**-4.0**	**-4.0**	-10.1	-1.2	3.2
High Yield (Global)	2.3	2.9	6.7	7.0	4.3	7.1	8.1
Overseas Bonds	1.9	2.2	1.9	-0.8	-3.4	2.0	3.6
Property *	0.6	1.8	8.6	-1.2	4.4	4.5	5.1
Cash	**0.3**	**1.0**	4.4	4.7	3.0	1.7	**2.0**
Commodities £-converted	3.8	2.5	8.7	-1.5	18.4	5.9	-1.2
Hedge Funds original $ basis *	2.2	5.4	11.1	10.0	8.8	6.4	5.3
Illustrative £-converted version *	2.5	7.3	10.6	3.3	7.9	7.7	6.8
Euro relative to Sterling	0.6	1.5	3.9	0.7	-0.5	2.1	1.3
US $ relative to Sterling	2.4	0.7	-2.2	-4.3	-0.3	1.6	1.5
Japanese Yen relative to Sterling	-1.8	-1.6	-3.3	-5.4	-7.8	-0.8	0.1
Sterling trade weighted	-1.4	-1.1	-0.5	2.1	1.4	-1.1	-0.9
Price Inflation (RPI) *	-0.4	0.4	4.5	5.3	6.7	4.6	3.8
Price Inflation (CPI) *	0.0	0.3	3.8	4.0	5.0	3.3	2.9
Price Inflation (RPIX) *	-0.4	0.4	4.4	4.6	6.2	4.4	3.8
Earnings Inflation **	0.4	1.1	6.1	6.0	6.0	4.3	3.3
All Share Capital Growth	3.5	5.7	18.2	10.6	10.7	4.2	3.4
Dividend Growth	0.1	0.1	2.8	5.0	3.3	3.0	3.6
Earnings Growth	3.0	-11.2	-14.8	4.2	9.3	2.7	1.9

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

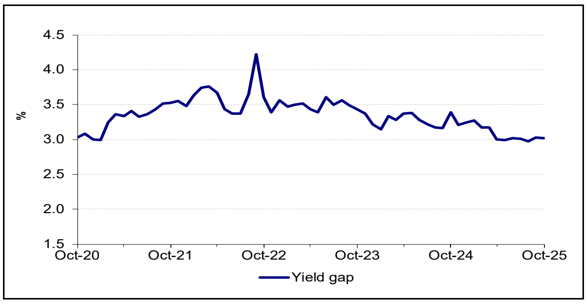
- *UK Equities (incl. dividends and earnings) – FT-A All Share.*
- *Overseas Equities (incl. regions) – blend of FT All-World / World sub-indices*
- *Emerging Markets from MSCI US $ based total return index (overall Index to 31 Oct 2001, Free Index from 1 Nov 2001 to take account of foreign investment 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.

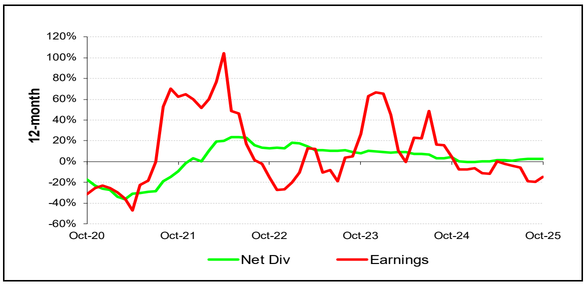


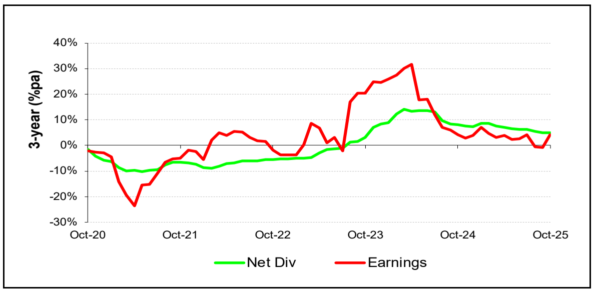
The gap gives a current expectation of around 3.0% p.a. for longer-term inflation including the (unknown) risk premium for gilts, relative to index-linked gilts.

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

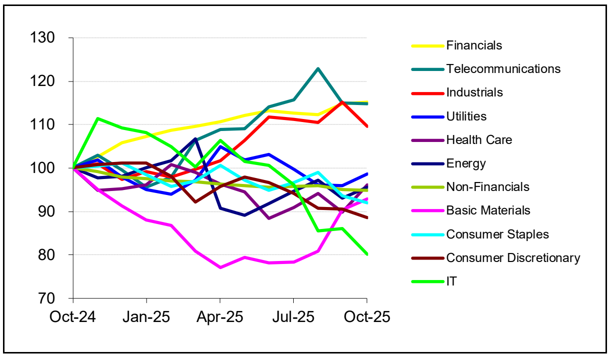




Note: Earnings data from mid-2015 onwards is no longer reliable as one-off events may be affecting the prospective P/E ratios

UK Equity Sector Returns

Figure 4a: Sectors relative to All Share



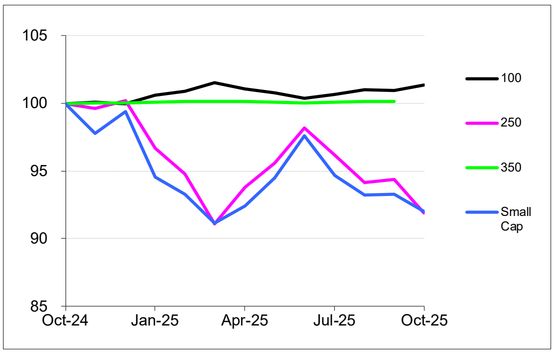
Note: Sector labels for relative lines are in end-value order

There was a small rise this month in the rolling 12-month sector dispersion (up from 33% to 35%).

(% absolute return)	1 mth	3 mth	12 mth
Energy	6.5	7.5	17.0
Basic Materials	6.6	26.6	13.8
Industrials	-1.2	5.0	34.3
Consumer Staples	2.1	1.5	12.8
Health Care	10.9	12.8	17.7
Consumer Discretionary	1.4	0.1	8.4
Telecommunications	3.5	5.7	40.6
Utilities	6.6	5.4	20.9
Non-Finan	3.6	5.7	16.3
Financials	4.0	9.0	41.1
IT	-3.6	-11.2	-2.0
All Share	3.7	6.6	22.5

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. The 350 index data has not been published.

Sources for charts on this page:
Financial Times, Office for National Statistics, J&A

Bond market information

Figure 5: £ Non-Gilt Credit Margins

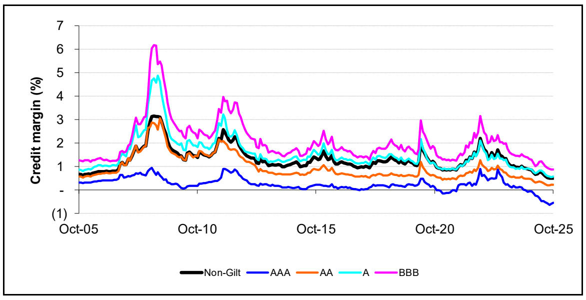


Table 2a: Over 15 Yr Corporate Yields & Margins

Month End	iBoxx Corp AA Y'ld (%)	FT 20 yr Gilt (%)	Margin (%)
May '25	5.70	5.22	0.48
Jun '25	5.53	5.10	0.43
Jul '25	5.62	5.22	0.40
Aug '25	5.83	5.39	0.44
Sep '25	5.74	5.33	0.41
Oct '25	**5.43**	**5.02**	0.41

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

Category	Mkt Val (£bn @ Oct 25 & 22, 19)			Weight (%)
	Oct 25	22	19	
Gilts (63)	1,673	1,350	1,404	74.8
Non-Gilts (1,211)	563	538	640	25.2
AAA (132)	114	119	132	5.1
AA (155)	68	72	87	3.1
A (426)	171	145	180	7.7
BBB (498)	210	202	241	9.4

Category	Mkt Val (£bn @ Oct 25 & 22)		W't (%)	Dur'n (yrs)
	Oct 25	22		
Gilts (63)	1,673	1,350	74.8	8.5
< 5 Yrs (14)	508	381	22.7	2.5
5–15 Yrs (21)	670	457	29.9	7.5
> 15 Yrs (28)	495	512	22.1	16.0
Non-Gilts (1,211)	563	538	25.2	5.4
< 5 Yrs (552)	292	251	13.0	2.5
5–15 Yrs (461)	201	197	9.0	6.9
> 15 Yrs (198)	71	90	3.2	13.2

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

Category	Mkt Val (€bn)	Weight (%)
Sovereigns (534)	7,991	55.8
Non-Sovereigns	6,340	44.2
AAA (1,434)	2,252	15.7
AA (785)	943	6.6
A (1,787)	1,529	10.7
BBB (2,205)	1,616	11.3

Category	Mkt Val (€bn)	Weight (%)
1 – 3 Yrs (1,932)	3,505	24.5
3 – 5 Yrs (1,750)	3,108	21.7
5 – 7 Yrs (1,265)	2,310	16.1
7 – 10 Yrs (1,014)	2,474	17.3
10+ Yrs (784)	2,934	20.5

Table 2f: Breakdown of £ Index-Linked Market

Category (Number of issues)	Mkt Val (£bn @ Oct 25 & 22)		W't (%)	Dur'n (yrs)
	Oct 25	22		
Gilts (35)	566	602	100.0	13.7
< 5 Yrs (5)	120	94	21.2	2.5
5 – 15 Yrs (11)	214	191	37.8	9.4
> 15 Yrs (19)	232	318	41.0	23.5

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

Month End	US (%)	Euro (%)	Sterling (%)
Aug '25	6.57	4.99	7.35
Sep '25	6.47	4.97	7.42
Oct '25	**6.53**	**5.02**	**7.53**

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

£ Gilt Market "main" & "Green" Issuance

- £1.25bn, $^{1}/_{8}$% 2028 (3.84x, 3.78%, n/a, May '25)
- £5.37bn, 4% 2029 (2.92x, 4.10%, 7%, Sep '25)
- £1.50bn, $^{3}/_{8}$% 2030 (2.97x, 3.80%, n/a, Oct '20)
- £5.46bn, 4$^{1}/_{8}$% 2031 (2.83x, 4.00%, 15%, Dec '24)
- £1.50bn, $^{1}/_{8}$% IL 2031 (3.49x, 0.89%, 0%, May '25)
- £4.69bn, 4$^{1}/_{8}$% 2033 (3.04x, 4.19%, 25%, new)
- £1.72bn, 1$^{1}/_{8}$% IL 2035 (3.09x, 1.67%, 7%, Aug '25)
- £1.88bn, 1$^{1}/_{8}$% IL 2035 (2.94x, 1.57%, 25%, Oct '25)
- £4.50bn, 4¾% 2035 (2.78x, 4.77%, 0%, Sep '25)
- £9.00bn, 5¼% 2041 (***14.2x***, 5.10%, n/a, new)
- £1.50bn, 1½% Gr 2053 (3.17x, 5.29%, n/a, Jul '25)

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.

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