

Investment Update March 2025



Investment Headlines & Comment

- Many equity markets struggled as trade tariffs loomed.
- The UK market was something of an exception.
- Strong demand for the new 24-year Index-Linked Gilt.

Feature Section

This month we look at the UK's finances in the light of the Chancellor's Spring statement. In our [October 2024](#) edition we noted the way that the definition of debt had been changed to provide some wriggle room. This time we find some apparent stability in the projections, but we fear that may be somewhat illusory, given the current actions over the pond.

The Office for Budget Responsibility (OBR) has done its analysis, and its commentary can be found [here](#). Figures 1a-1d show the usual metrics, including the OBR projections for the next five tax years.

Figure 1a: Public Sector Net Borrowing (%)

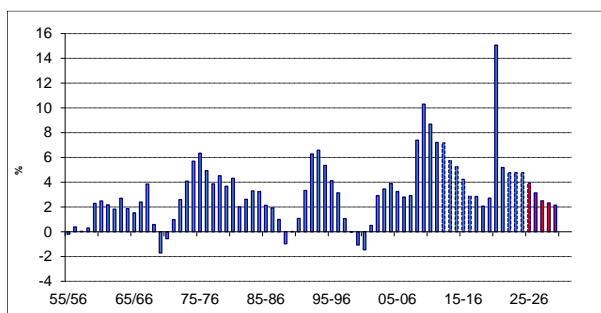


Figure 1b: Debt to GDP Ratio (%)

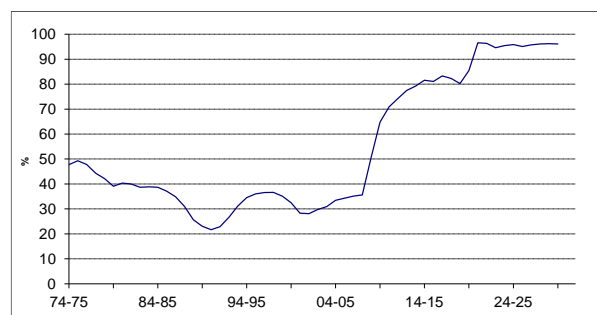


Figure 1c: Interest to GDP Ratio (%)

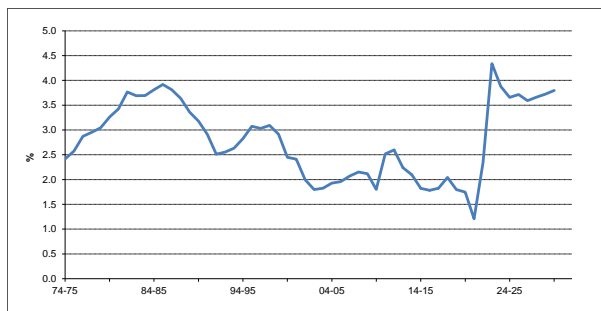
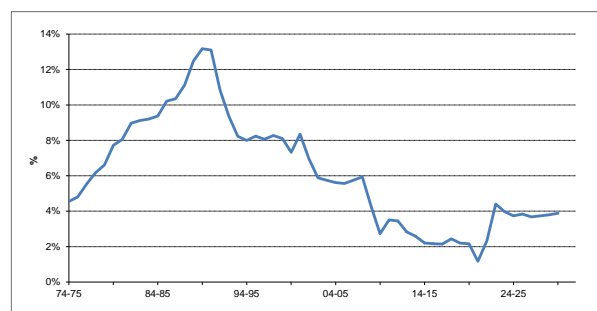


Figure 1d: Interest to Debt Ratio (%)



Source: Office for Budget Responsibility (OBR)

It is of course fair to ask how much better or worse we are doing compared to other countries in terms of our debt relative to our economy (i.e. Figure 1b). In the past, the general theory was that high levels of indebtedness were bad news, and therefore should be reduced where possible. Debate has gone on for years on this, with an interesting element now being who is the debt actually owed to – is it to domestic investors, or overseas, or a mixture? The more domestic the bias, the less of an issue it allegedly becomes (with Japan as the prime example).

The International Monetary Fund (IMF) is a useful data source here, on examining the global profile of debt to GDP, with a helpful [analysis](#). There is a bit of a time delay in terms of when comparable figures exist, but it seems that we currently rank 10th on the list, with 5 of our Euro cousins ahead of us in terms of being even more overdrawn.

So, not a disastrous position but not exactly comforting for the next generation either.



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 March 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	-0.8	4.5	10.5	7.2	12.0	6.2	6.9
Overseas Equities	-6.7	-4.8	4.1	8.0	14.8	11.1	10.6
US Equities	-7.9	-6.9	6.3	9.7	17.6	14.0	8.1
Europe ex UK Equities	-2.7	7.7	0.7	7.6	11.8	7.8	12.4
Japan Equities	-1.8	-2.0	-3.3	6.4	8.3	7.1	6.6
Pacific ex Japan Equities	-7.3	-7.0	-3.3	0.7	7.2	5.7	9.2
Emerging Markets	-1.8	-0.1	6.6	2.6	7.5	5.6	8.5
UK Long-dated Gilts	-2.9	-0.9	-8.2	-14.9	-12.5	-2.8	2.5
UK Long-dated Corp. Bonds	-3.5	-1.4	-5.2	-8.5	-5.1	-0.3	3.5
UK Over 5 Yrs Index-Linked Gilts	-2.7	-2.0	-10.4	-16.6	-9.0	-1.7	3.3
High Yield (Global)	-2.6	-1.0	5.7	5.4	5.7	6.1	8.3
Overseas Bonds	-1.8	-0.2	-0.2	-2.2	-3.9	1.5	3.7
Property *	0.6	2.4	8.1	-1.8	2.8	4.9	5.4
Cash	0.4	1.1	5.0	4.1	2.5	1.5	2.0
Commodities £-converted	0.4	1.8	1.6	1.9	19.8	4.0	-0.7
Hedge Funds original \$ basis *	-0.6	0.3	8.0	5.4	7.7	5.1	5.1
Illustrative £-converted version *	-1.9	1.3	8.5	7.7	8.0	7.3	7.4
Euro relative to Sterling	1.3	1.2	-2.1	-0.3	-1.1	1.5	1.0
US \$ relative to Sterling	-2.5	-3.0	-2.1	0.7	-0.8	1.4	1.9
Japanese Yen relative to Sterling	-1.7	2.0	-0.9	-6.1	-7.1	-0.8	0.2
Sterling trade weighted	0.6	0.7	2.7	1.5	1.8	-0.5	-0.9
Price Inflation (RPI) *	0.6	0.8	3.4	7.2	6.2	4.4	3.7
Price Inflation (CPI) *	0.4	0.7	2.8	5.5	4.6	3.2	2.9
Price Inflation (RPIX) *	0.6	0.8	3.0	6.4	5.8	4.2	3.7
Earnings Inflation **	-1.7	1.1	5.4	5.5	5.2	4.1	3.0
All Share Capital Growth	-1.4	3.5	6.6	3.4	8.3	2.4	3.2
Dividend Growth	0.6	1.5	0.0	7.7	-1.1	2.9	3.9
Earnings Growth	-2.7	-5.4	-11.5	3.2	4.6	3.1	3.4

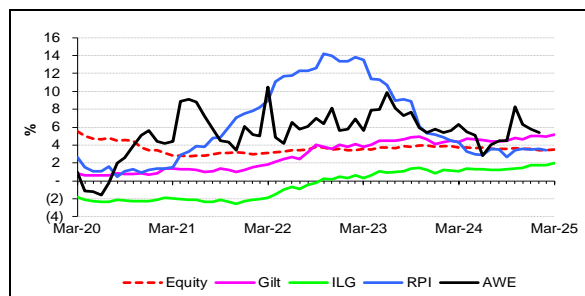
Note: All market returns are total returns for pension funds with income reinvested monthly. Indices used are as follows:

- 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, 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.

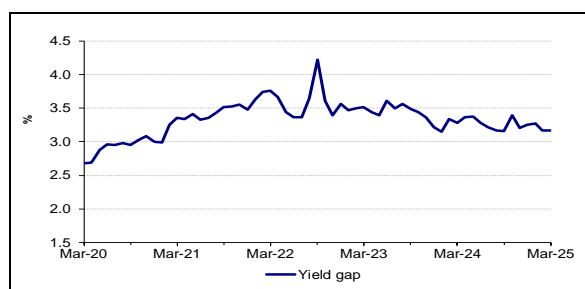


Yields and Yield Gaps

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.

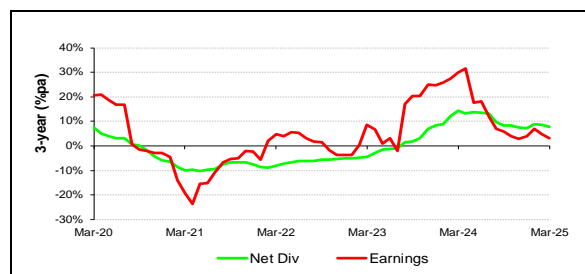
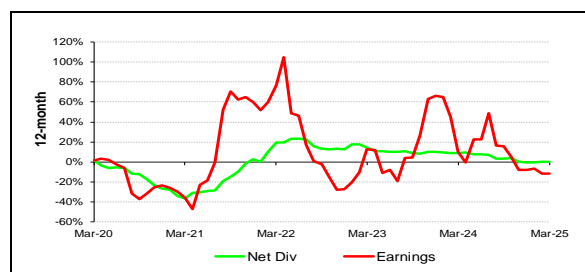


The gap gives a current expectation of around 3.2% p.a. for longer-term inflation including the (unknown) risk premium for gilts, relative to index-linked gilts.

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]

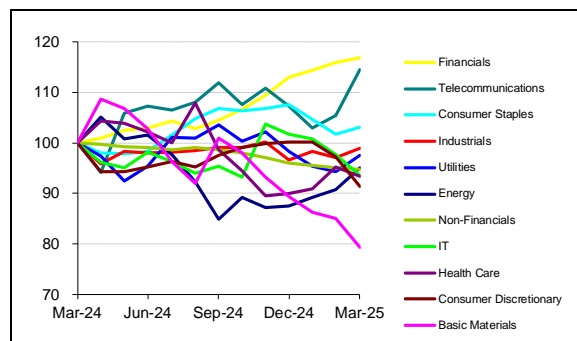
Figure 3: Dividend & Earnings Growth



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



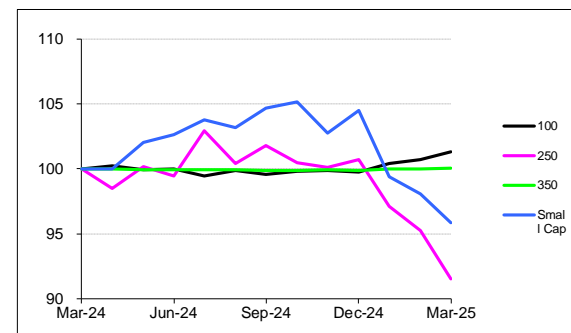
Note: Sector labels for relative lines are in end-value order

There was a sharp rise this month in the rolling 12-month sector dispersion (up from 27% to 38%).

(% absolute return)	1 mth	3 mth	12 mth
Energy	4.1	13.7	5.1
Basic Materials	-7.4	-7.3	-12.5
Industrials	1.1	7.0	9.2
Consumer Staples	0.5	0.1	13.9
Health Care	-2.7	8.5	3.2
Consumer Discretionary	-6.9	-4.7	0.8
Telecommunications	7.8	11.7	26.5
Utilities	2.6	3.8	7.7
Non-Finan	-1.1	3.2	4.7
Financials	0.0	8.1	29.0
IT	-5.2	-4.0	3.2
All Share	-0.8	4.5	10.5

UK Equity Size Returns

Figure 4b: Size groups relative to All Share

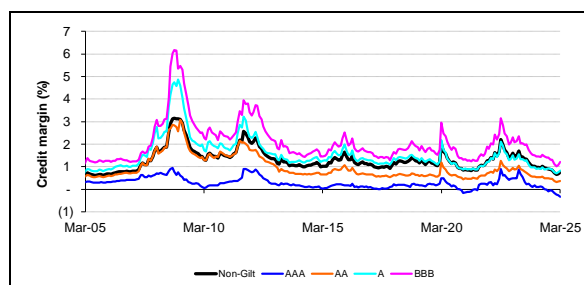


This month, Mid Cap and Small Cap both fell relative to the All Share.

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 (%)
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
Feb '25	5.33	4.94	0.39
Mar '25	5.66	5.14	0.52

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

Category	Mkt Val (£bn @ Mar 25 & 22, 19)			Weight (%)
Gilts (62)	1,490	1,650	1,376	72.7
Non-Gilts (1,245)	561	615	588	27.3
AAA (153)	119	128	121	5.8
AA (156)	66	76	84	3.2
A (433)	169	164	158	8.3
BBB (503)	206	248	225	10.1

Category	Mkt Val (£bn @ Mar 25 & 22)		W't (%)	Dur'n (yrs)
Gilts (62)	1,490	1,650	72.7	8.9
< 5 Yrs (14)	454	406	22.1	2.7
5-15 Yrs (21)	575	514	28.0	7.8
> 15 Yrs (27)	462	730	22.5	16.2
Non-Gilts (1,245)	561	615	27.3	5.4
< 5 Yrs (606)	309	247	15.1	2.6
5-15 Yrs (424)	175	240	8.5	7.0
> 15 Yrs (215)	77	129	3.8	12.8

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

Category	Mkt Val (£bn)	Weight (%)
Sovereigns (532)	7,694	56.1
Non-Sovereigns	6,017	43.9
AAA (1,384)	2,120	15.5
AA (823)	1,007	7.3
A (1,666)	1,356	9.9
BBB (2,144)	1,535	11.2

Category	Mkt Val (£bn)	Weight (%)
1 – 3 Yrs (1,892)	3,490	25.5
3 – 5 Yrs (1,702)	3,020	22.0
5 – 7 Yrs (1,169)	2,109	15.4
7 – 10 Yrs (1,007)	2,248	16.4
10+ Yrs (779)	2,845	20.8

Table 2f: Breakdown of £ Index-Linked Market

Category (Number of issues)	Mkt Val (£bn @ Mar 25 & 22)		W't (%)	Dur'n (yrs)
Gilts (34)	528	829	100.0	14.4
< 5 Yrs (4)	100	93	19.0	2.8
5 – 15 Yrs (11)	206	223	39.1	9.6
> 15 Yrs (19)	221	513	41.9	24.1

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

Month End	US (%)	Euro (%)	Sterling (%)
Dec '24	7.03	5.05	7.79
Jan '25	6.82	5.06	7.61
Feb '25	6.77	4.88	7.44
Mar '25	7.16	5.27	7.77

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

£ Gilt Market “main” & “Green” Issuance

- £5.31bn, 4³/₈% 2028 (3.27x, 4.26%, 25%, Feb '25)
- £4.25bn, 4³/₈% 2030 (3.39x, 4.31%, 0%, Feb '25)
- £3.75bn, 4% 2031 (3.10x, 4.52%, 25%, Dec '24)
- £4.00bn, 4¹/₂% 2035 (2.92x, 4.68%, 0%, Feb '25)
- £2.00bn, 4³/₄% 2043 (2.97x, 5.23%, 0%, Nov '24)
- £5.00bn, 1⁷/₈% IL 2049 (**13.6x**, 2.02%, n/a, new)
- £2.81bn, 4³/₈% 2054 (2.85x, 5.10%, 25%, Jan '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.

