



Investment Headlines & Comment

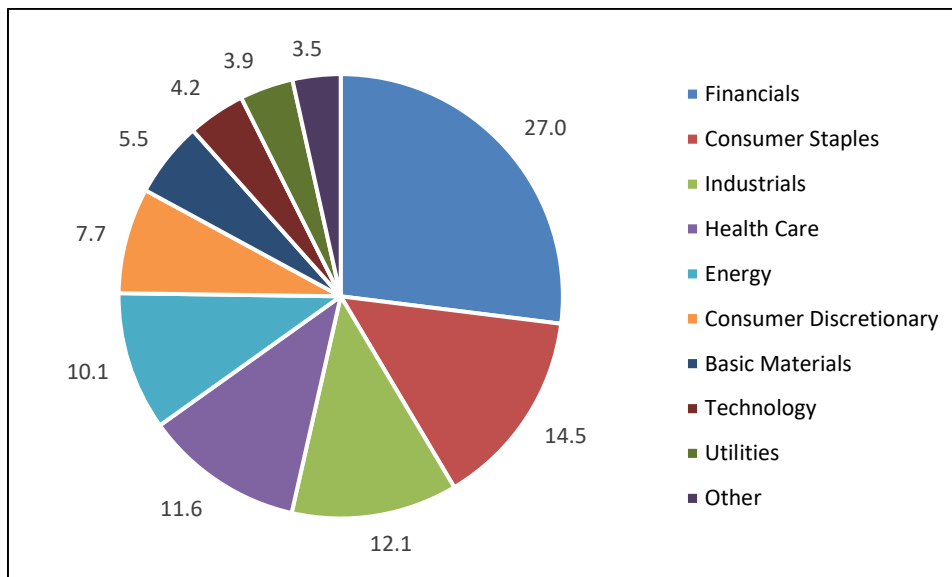
- More US tariff chaos this month and no resolution in sight.
- However, many equity markets rallied in the hope it would stop.
- Huge demand for the new 2056 conventional gilt.

Feature Section

This month we revisit the dispersion of UK Equity returns by sector relative to the overall All Share index. We last examined this in our [June 2021](#) edition.

For background, Figure 1a shows the March 2025 quarter end sector weightings within the All-Share index. The concentration within the index continues to be significant, with the weightings for the top 4 companies (Shell, AstraZeneca, HSBC and Unilever) accounting for 25% of the overall index. Figure 1b shows the cumulative total returns for the various sectors, relative to the All-Share index being fixed at 100. Although the Technology line is quite striking over the last decade, it is a relatively small part of the market.

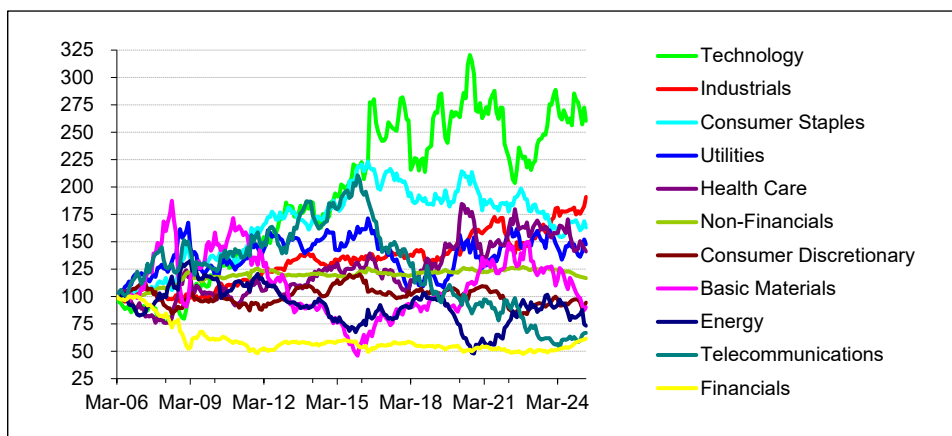
Figure 1a: All Share sector weightings at March 2025



The strongest long-term major sector has been Industrials, performing ahead of the overall index by over 3% p.a. whereas the weakest major sector has been Financials, lagging by nearly 3% p.a.

In terms of volatility of monthly returns *relative* to the All Share index, but excluding the Non-Financials group (as it is simply the majority of the market), Basic Materials has been the most volatile with annualized relative volatility of 21%, whereas Industrials has been the least volatile with an annualized figure of 8%.

Figure 1b: Dispersion of returns vs All Share



More generally, several sectors have exhibited similar levels of relative volatility around 15%, including Oil & Gas, Healthcare, Telecoms and Utilities.



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 May 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	4.1	3.1	9.4	8.2	11.1	6.1	7.1
Overseas Equities	5.0	-4.3	7.3	10.3	11.9	11.4	10.5
US Equities	5.4	-6.5	8.3	12.2	13.9	14.2	8.3
Europe ex UK Equities	3.7	2.5	4.5	10.1	10.1	8.4	12.2
Japan Equities	2.9	2.7	5.7	9.1	6.7	7.4	6.9
Pacific ex Japan Equities	6.5	-0.9	4.3	3.2	6.4	6.4	9.3
Emerging Markets	3.3	-0.6	7.3	3.3	5.7	5.6	8.3
UK Long-dated Gilts	-2.5	-3.6	-4.5	-11.7	-13.5	-2.6	2.2
UK Long-dated Corp. Bonds	-1.0	-2.9	-1.4	-4.9	-7.1	0.1	3.3
UK Over 5 Yrs Index-Linked Gilts	-2.3	-4.9	-9.8	-12.5	-11.3	-1.8	3.1
High Yield (Global)	0.6	-4.5	3.9	4.8	3.4	5.9	8.0
Overseas Bonds	-1.9	-4.0	0.3	-2.6	-4.5	1.7	3.4
Property *	0.6	1.9	8.6	-2.8	3.8	4.8	5.4
Cash	0.4	1.1	4.9	4.3	2.6	1.6	2.0
Commodities £-converted	0.6	-10.6	-8.1	-6.5	15.8	2.3	-0.9
Hedge Funds original \$ basis *	-0.3	-2.0	5.1	5.0	8.5	4.9	5.2
Illustrative £-converted version *	-3.6	-8.8	-1.5	2.8	7.3	6.3	7.1
Euro relative to Sterling	-1.1	1.9	-1.3	-0.3	-1.3	1.6	1.1
US \$ relative to Sterling	-0.9	-6.6	-5.6	-2.2	-1.7	1.2	1.5
Japanese Yen relative to Sterling	-2.1	-2.5	2.8	-5.9	-7.3	-0.3	0.0
Sterling trade weighted	0.9	2.0	3.5	2.4	2.3	-0.6	-0.8
Price Inflation (RPI) *	1.7	2.7	4.5	6.3	6.6	4.5	3.8
Price Inflation (CPI) *	1.2	2.1	3.5	4.8	5.0	3.3	2.9
Price Inflation (RPIX) *	1.8	2.7	4.2	5.6	6.2	4.4	3.8
Earnings Inflation **	12.0	12.6	5.6	5.8	6.5	4.3	3.6
All Share Capital Growth	3.6	1.5	5.4	4.2	7.2	2.3	3.3
Dividend Growth	0.4	2.7	1.6	6.5	0.8	3.0	3.7
Earnings Growth	-3.3	-5.6	-2.1	2.3	4.3	2.4	3.0

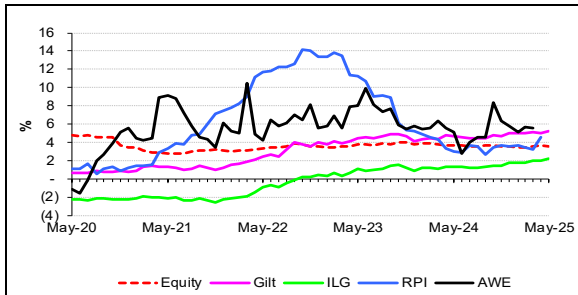
Note: All market returns are total returns for pension funds with income reinvested monthly. Indices used are as follows:

- 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.

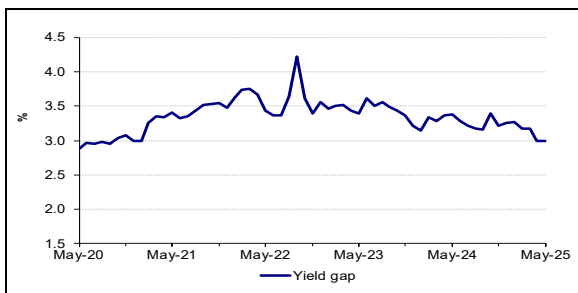


Yields and Yield Gaps

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.

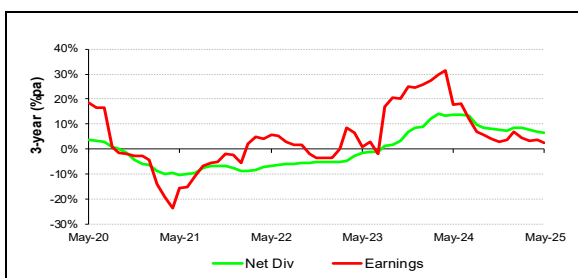
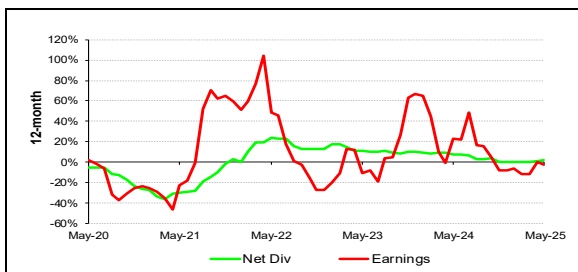


The gap gives a current expectation of around 3.0% p.a. for longer-term inflation including the (unknown) risk premium for gilts, relative to index-linked gilts.

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]

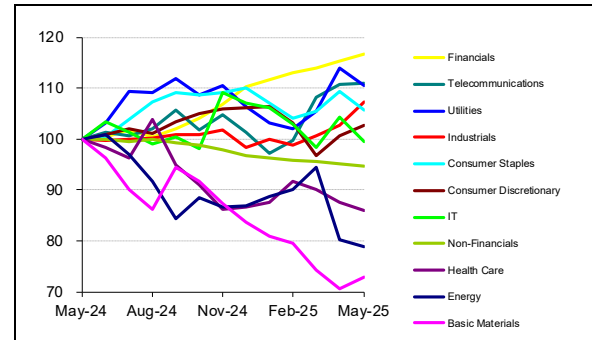
Figure 3: Dividend & Earnings Growth



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



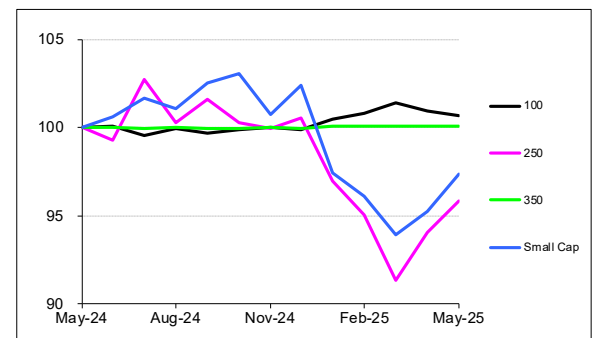
Note: Sector labels for relative lines are in end-value order

There was a fall this month in the rolling 12-month sector dispersion (down from 55% to 44%).

(% absolute return)	1 mth	3 mth	12 mth
Energy	2.4	-9.8	-13.8
Basic Materials	7.4	-5.6	-20.3
Industrials	8.8	12.0	17.3
Consumer Staples	0.6	4.7	15.5
Health Care	2.2	-3.4	-6.0
Consumer Discretionary	6.5	2.7	12.4
Telecommunications	4.3	14.8	21.3
Utilities	1.1	11.7	20.9
Non-Finan	3.7	1.9	3.6
Financials	5.4	6.3	27.5
IT	-0.5	-0.3	8.9
All Share	4.1	3.1	9.4

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

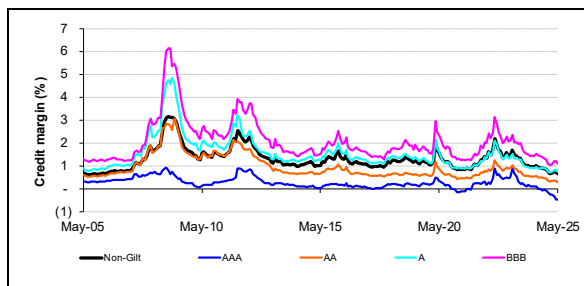


Table 2a: Over 15 Yr Corporate Yields & Margins

Month End	iBoxx Corp AA Y'ld (%)	FT 20 yr Gilt (%)	Margin (%)
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
Apr '25	5.57	5.03	0.54
May '25	5.70	5.22	0.48

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

Category	Mkt Val (£bn @ May 25 & 22, 19)			Weight (%)
Gilts (62)	1,557	1,576	1,372	73.4
Non-Gilts (1,241)	565	601	594	26.6
AAA (151)	121	127	122	5.7
AA (153)	66	78	85	3.1
A (436)	172	159	161	8.1
BBB (501)	207	237	225	9.7

Category	Mkt Val (£bn @ May 25 & 22)		W't (%)	Dur'n (yrs)
Gilts (62)	1,557	1,576	73.4	8.6
< 5 Yrs (15)	489	414	23.1	2.7
5-15 Yrs (20)	597	505	28.1	7.7
> 15 Yrs (27)	471	657	22.2	16.0
Non-Gilts (1,241)	565	601	26.6	5.4
< 5 Yrs (597)	309	254	14.6	2.6
5-15 Yrs (435)	181	232	8.5	7.0
> 15 Yrs (209)	75	116	3.5	12.8

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

Category	Mkt Val (£bn)	Weight (%)
Sovereigns (533)	7,883	56.4
Non-Sovereigns	6,084	43.6
AAA (1,390)	2,148	15.4
AA (819)	1,015	7.3
A (1,644)	1,353	9.7
BBB (2,170)	1,567	11.2

Category	Mkt Val (£bn)	Weight (%)
1 – 3 Yrs (1,905)	3,442	24.6
3 – 5 Yrs (1,706)	3,077	22.0
5 – 7 Yrs (1,171)	2,141	15.3
7 – 10 Yrs (996)	2,378	17.0
10+ Yrs (778)	2,928	21.0

Table 2f: Breakdown of £ Index-Linked Market

Category (Number of issues)	Mkt Val (£bn @ May 25 & 22)		W't (%)	Dur'n (yrs)
Gilts (34)	523	721	100.0	14.0
< 5 Yrs (4)	101	94	19.3	2.6
5 – 15 Yrs (11)	207	212	39.7	9.4
> 15 Yrs (19)	215	415	41.0	23.8

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

Month End	US (%)	Euro (%)	Sterling (%)
Feb '25	6.77	4.88	7.44
Mar '25	7.16	5.27	7.77
Apr '25	7.31	5.28	7.99
May '25	7.04	5.05	7.85

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

£ Gilt Market “main” & “Green” Issuance

- £2.00bn, 1/8% 2028 (3.52x, 3.77%, n/a, Apr '25)
- £5.62bn, 4 3/8% 2030 (3.23x, 3.98%, 25%, Apr '25)
- £1.25bn, 1/8% IL 2031 (2.57x, 0.83%, n/a, Dec '22)
- £4.77bn, 4% 2031 (2.74x, 4.40%, 12%, Mar '25)
- £2.75bn, 7/8% Gr 2033 (3.56x, 4.51%, n/a, Jan '25)
- £4.89bn, 4 1/2% 2035 (3.13x, 4.67%, 15%, Apr '25)
- £1.24bn, 5/8% IL 2045 (3.19x, 2.24%, 24%, Feb '25)
- £4.00bn, 5 3/8% 2056 (**18.3x**, 5.40%, n/a, new)

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.

