JAGGER & ASSOCIATES

Investment Update
August 2025

Investment Headlines & Comment

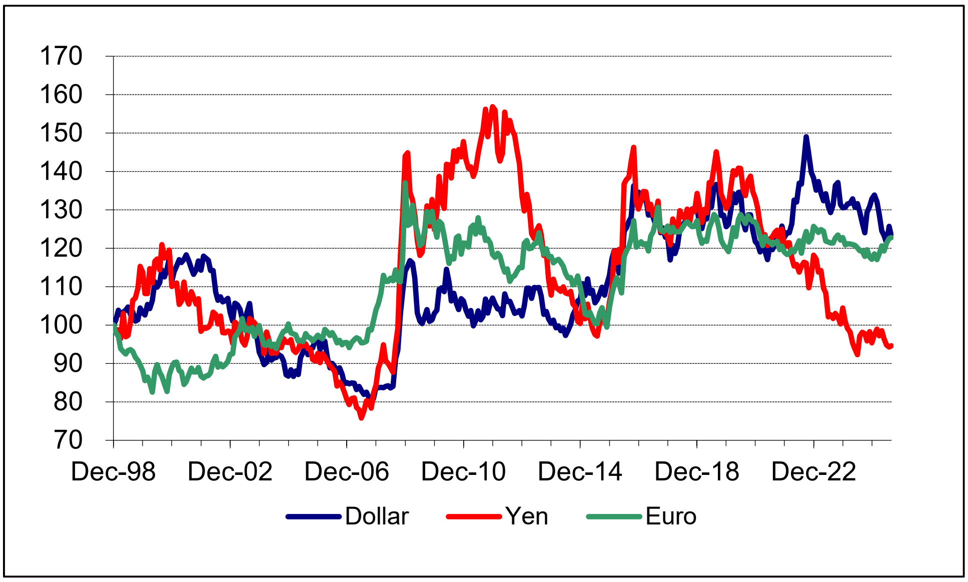
- A relatively muted month for equity markets, with Japan being a notable exception.
- Long-term nominal and real gilt yields continued to drift further upwards.
- The £850m Hermes property fund has moved into Legal & General's existing £3.8bn fund.

Feature Section

This month we examine movements in Sterling relative to major currencies. In past issues we have focused on the trade-weighted index, but it is interesting to see how certain individual currencies have behaved.

Figure 1 shows the history of Sterling against the US Dollar, Japanese Yen and Euro since the Euro's inception. The Yen has clearly experienced significant short-term swings up and down in the past, but in recent years it has experienced a prolonged steady downturn. To a lesser extent, the Dollar has also fallen in recent years after a short spell of surging upwards in 2022. In contrast, the Euro has traded in a relatively narrow band for around a decade.

Figure 1: Currency movements



Source: FT

The most likely explanation for much of the Yen's movements is the scale of positions taken by hedge funds and investment banks, which were facilitated historically by accessing low Japanese interest rates. However, the current weakening may be more down to the country's political instability, most recently following elections in July 2025.

For the US Dollar, its recent decline cannot reflect interest rate cuts as the Federal Reserve has not made any (yet), so the explanation must lie in some combination of expectations of slower U.S. growth, rising budget deficits, general policy uncertainty (particularly due to tariffs) and potentially broader changes in global capital flows.

Interestingly, page 10 of the Bank of England's latest monetary policy report shows they do not expect any significant movement in Sterling at the trade-weighted level over the next couple of years. However, on page 87, they do note that future tariff-related developments could have an effect and similarly there could be an impact from the extent of any retaliation by those on the receiving end.

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 2025

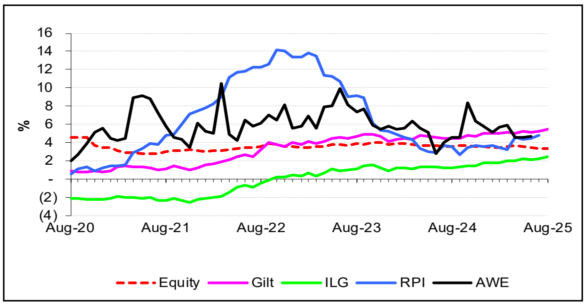
Asset Class	1 month (%)	3 months (%)	12 months (%)	3 years (% p.a.)	5 years (% p.a.)	10 years (% p.a.)	20 years (% p.a.)
UK Equities	0.9	5.4	12.6	11.5	12.2	7.6	6.9
Overseas Equities	0.5	8.6	13.0	12.5	12.3	13.4	10.6
US Equities	0.0	9.4	13.6	**14.0**	**14.3**	**16.1**	8.0
Europe ex UK Equities	1.2	2.5	9.7	12.7	9.5	9.5	**12.5**
Japan Equities	**5.0**	7.8	11.3	10.7	8.9	9.0	6.8
Pacific ex Japan Equities	-0.8	**12.4**	12.2	6.5	6.5	9.8	9.5
Emerging Markets	-0.6	9.7	**14.5**	6.0	5.0	8.8	8.2
UK Long-dated Gilts	-2.2	**-1.8**	-10.9	-8.5	**-12.7**	**-2.7**	**2.0**
UK Long-dated Corp. Bonds	-2.0	0.2	-4.6	-1.1	-7.2	0.5	3.1
UK Over 5 Yrs Index-Linked Gilts	**-2.6**	-0.9	**-12.4**	**-10.2**	-10.8	-1.9	2.9
High Yield (Global)	-0.6	3.8	6.4	5.1	4.1	6.7	7.9
Overseas Bonds	-0.6	1.0	-0.8	-3.2	-3.4	1.8	3.4
Property *	0.6	1.7	8.7	-2.7	4.3	4.6	5.2
Cash	0.3	1.0	4.6	4.5	2.8	1.7	**2.0**
Commodities £-converted	-2.3	7.8	6.4	-3.3	16.2	4.7	-1.8
Hedge Funds original $ basis *	1.0	5.6	8.1	7.7	8.1	5.6	5.2
Illustrative £-converted version *	4.6	6.6	4.9	4.7	8.0	7.3	6.7
Euro relative to Sterling	0.2	2.9	2.9	0.1	-0.6	1.8	1.2
US $ relative to Sterling	-2.1	-0.2	-2.7	-4.9	-0.3	1.3	1.5
Japanese Yen relative to Sterling	0.4	-1.9	-3.5	-6.7	-6.7	-0.6	0.0
Sterling trade weighted	0.7	-1.2	0.3	3.2	1.5	-0.8	-0.8
Price Inflation (RPI) *	0.4	1.0	4.8	5.8	6.7	4.6	3.8
Price Inflation (CPI) *	0.1	0.6	3.9	4.3	5.0	3.3	2.9
Price Inflation (RPIX) *	0.4	1.0	4.7	5.1	6.2	4.5	3.8
Earnings Inflation **	1.8	-11.1	4.7	5.8	6.6	4.2	3.3
All Share Capital Growth	0.3	4.5	8.7	7.5	8.3	3.8	3.2
Dividend Growth	-0.3	0.3	2.8	5.6	2.0	3.0	3.6
Earnings Growth	-14.2	-14.1	-19.0	-0.6	8.6	3.1	1.8

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

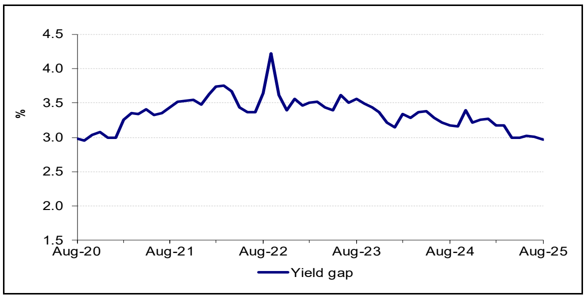
- *UK Equities (incl. dividends and earnings) – FT-A All Share.*
- *Overseas Equities (incl. regions) – blend of FT All-World / World sub-indices*
- *Emerging Markets from MSCI US $ based total return index (overall Index to 31 Oct 2001, Free Index from 1 Nov 2001 to take account of foreign investment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

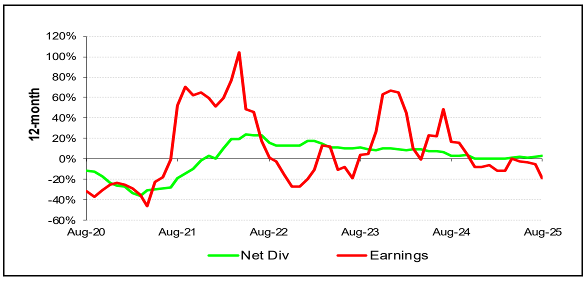


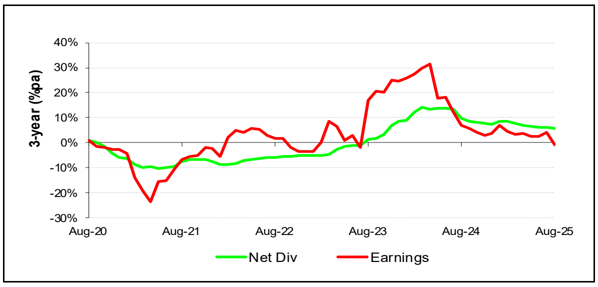
The gap gives a current expectation of around 3.0% p.a. for longer-term inflation including the (unknown) risk premium for gilts, relative to index-linked gilts.

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

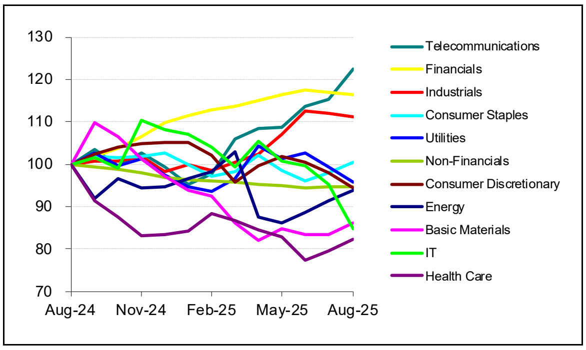




Note: *Earnings data from mid-2015 onwards is no longer reliable as one-off events may be affecting the prospective P/E ratios*

UK Equity Sector Returns

Figure 4a: Sectors relative to All Share



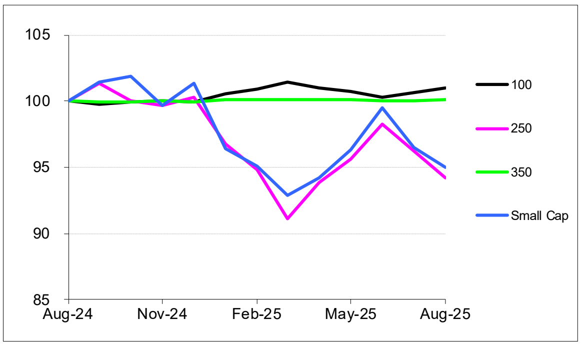
Note: *Sector labels for relative lines are in end-value order*

There was a fall this month in the rolling 12-month sector dispersion (down from 47% to 40%).

(% absolute return)	1 mth	3 mth	12 mth
Energy	3.5	15.0	5.6
Basic Materials	4.3	7.3	-3.1
Industrials	0.2	9.5	25.2
Consumer Staples	3.4	7.4	13.0
Health Care	4.5	4.9	-7.3
Consumer Discretionary	-2.8	-2.2	6.2
Telecommunications	7.1	18.7	37.8
Utilities	-2.7	-0.4	7.7
Non-Finan	1.1	5.4	6.7
Financials	0.5	5.6	31.1
IT	-10.2	-11.3	-4.7
All Share	0.9	5.4	12.6

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

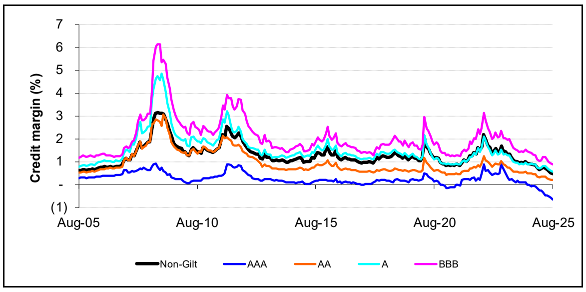


Table 2a: Over 15 Yr Corporate Yields & Margins

Month End	iBoxx Corp AA Y'ld (%)	FT 20 yr Gilt (%)	Margin (%)
Mar '25	5.66	5.14	0.52
Apr '25	5.57	5.03	0.54
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**

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

Category	Mkt Val (£bn @ Aug 25 & 22, 19)			Weight (%)
Gilts (62)	1,574	1,455	1,438	73.8
Non-Gilts (1,220)	559	562	637	26.2
AAA (139)	117	121	129	5.5
AA (160)	69	75	87	3.2
A (425)	169	150	178	7.9
BBB (496)	205	216	244	9.6

Category	Mkt Val (£bn @ Aug 25 & 22)		W't (%)	Dur'n (yrs)
Gilts (62)	1,574	1,455	73.8	8.4
< 5 Yrs (14)	489	418	22.9	2.6
5–15 Yrs (20)	624	451	29.3	7.6
> 15 Yrs (28)	461	587	21.6	15.7
Non-Gilts (1,220)	559	562	26.2	5.3
< 5 Yrs (571)	300	251	14.1	2.5
5–15 Yrs (447)	188	211	8.8	6.9
> 15 Yrs (202)	71	100	3.3	12.7

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

Category	Mkt Val (€bn)	Weight (%)
Sovereigns (532)	7,867	55.7
Non-Sovereigns	6,252	44.3
AAA (1,407)	2,195	15.5
AA (864)	1,057	7.5
A (1,691)	1,395	9.9
BBB (2,207)	1,605	11.4

Category	Mkt Val (€bn)	Weight (%)
1 – 3 Yrs (1,935)	3,491	24.7
3 – 5 Yrs (1,753)	3,145	22.3
5 – 7 Yrs (1,234)	2,259	16.0
7 – 10 Yrs (995)	2,384	16.9
10+ Yrs (784)	2,839	20.1

Table 2f: Breakdown of £ Index-Linked Market

Category (Number of issues)	Mkt Val (£bn @ Aug 25 & 22)		W't (%)	Dur'n (yrs)
Gilts (35)	532	674	100.0	13.4
< 5 Yrs (5)	119	95	22.4	2.7
5 – 15 Yrs (11)	204	208	38.3	9.6
> 15 Yrs (19)	209	371	39.3	23.3

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

Month End	US (%)	Euro (%)	Sterling (%)
May '25	7.04	5.05	7.85
Jun '25	6.67	5.06	7.91
Jul '25	6.73	4.92	7.76
Aug '25	**6.57**	**4.99**	**7.35**

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

£ Gilt Market "main" & "Green" Issuance

- £5.16bn, 4$^{3}/_{8}$% 2028 (3.16x, 3.99%, 3%, Jul '25)
- £4.75bn, 4$^{3}/_{8}$% 2030 (3.15x, 4.02%, 0%, Jul '25)
- £5.62bn, 4½% 2035 (3.33x, 4.52%, 25%, Jul '25)
- £1.96bn, 1$^{1}/_{8}$% IL 2035 (3.10x, 1.73%, 22%, 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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