



Investment Update January 2026

Investment Headlines & Comment

- A remarkable month for Far East equities.
- Commodities also had a strong start to the year.
- Huge demand for the latest syndication of the 2041 Gilt.

Feature Section

This month we revisit the subject of Absolute Return / Diversified Growth funds. We last looked at this in our [February 2022](#) issue. Since then, there has been a considerable contraction in the sector, both in terms of funds shrinking or being closed.

One reason has been investors deserting a fund because of lacklustre performance. A prime example of this would be Standard Life's GARS fund. At its peak in late 2015 it was a very popular fund and had reached £26.8bn, but persistent contraction led to its closure in late 2023.

Another reason is that the rise in long term bond yields in late 2022 (and subsequent years) has meant many defined benefit schemes have been able to move away from return-seeking funds into a buyout-matching position (even if it then takes a while for the admin side to catch up so that buyout can be implemented).

All is not lost for the sector though. Some funds are still of a substantial size – for example, Legal & General's main fund is around £12bn in size. Also, many Defined Contribution schemes make use of them in their default strategies, and so do some charities (if their rules allow them to adopt a total return approach rather than only drawing down income – the relevant guidance can be found [here](#), if it is of interest).

What remains undeniably true throughout the history of the sector is that the risk-return results profiles (derived from gross monthly returns) have always resembled a dart board, thereby making the case for using more than one manager, and looking for low past correlation. Figure 1a shows the outputs for the 5-year period to December 2025, and Figure 1b shows the 10-year period to December 2025. The dataset currently involves 15 fund managers (down from a peak of 22 fund managers, clearly demonstrating the fund closure contraction effect).

Figure 1a: 5 Year outputs

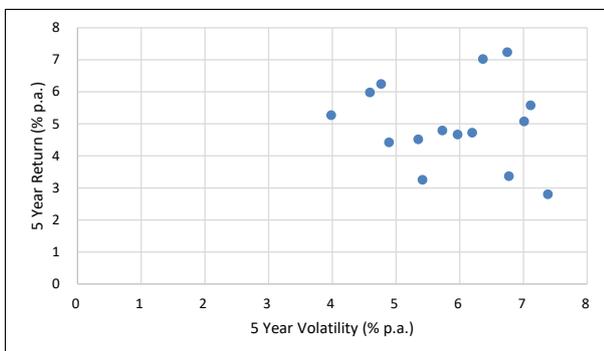
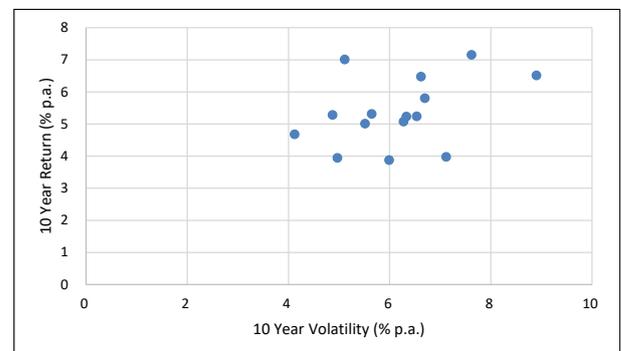


Figure 1b: 10 Year outputs



Over the 5-year period the median return has been 4.8% p.a. which can be compared with CPI inflation of 5.1% p.a. The range of returns is from 2.8% p.a. to 7.2% p.a. Similarly, over the 10-year period the median return has been 5.2% p.a. which can be compared with CPI inflation of 3.4% p.a. The range of returns is from 3.9% p.a. to 7.2% p.a.

It is fair to note that both periods include two exceptional events - the post-Covid supply side inflation shock, and the effect on energy prices from Russia's invasion of Ukraine. So, on the basis that prospective CPI inflation should be rather lower, it seems fair to say that whilst some funds have disappointed, the sector as a whole does still have some proverbial legs.



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 2026

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	3.1	5.7	21.1	13.1	12.6	9.0	7.0
Overseas Equities	1.0	-0.1	10.7	15.5	12.5	13.9	10.4
US Equities	-0.8	-2.8	5.4	17.0	14.5	16.0	7.8
Europe ex UK Equities	2.4	5.8	20.0	12.1	10.3	10.8	12.4
Japan Equities	4.2	2.2	19.2	13.8	8.5	9.9	5.9
Pacific ex Japan Equities	11.1	10.4	38.1	15.6	8.4	12.3	9.9
Emerging Markets	7.1	5.1	30.4	13.2	5.9	10.9	7.7
UK Long-dated Gilts	-0.9	-0.6	2.0	-3.5	-11.8	-2.6	2.0
UK Long-dated Corp. Bonds	-0.1	0.0	4.4	1.5	-6.8	0.9	3.2
UK Over 5 Yrs Index-Linked Gilts	0.9	0.7	0.5	-4.4	-9.5	-1.4	3.0
High Yield (Global)	-1.0	-2.1	0.0	5.5	3.7	6.6	7.8
Overseas Bonds	-1.3	-3.8	-3.7	-2.2	-3.2	0.7	3.4
Property *	0.6	1.4	7.1	4.6	4.3	4.3	4.9
Cash	0.3	1.0	4.2	4.7	3.2	1.8	2.0
Commodities £-converted	8.1	5.1	3.4	3.5	15.8	8.0	-1.1
Hedge Funds original \$ basis *	1.3	2.7	12.4	10.1	7.1	6.6	5.3
Illustrative £-converted version *	-0.4	2.6	4.5	6.0	7.4	7.6	6.6
Euro relative to Sterling	-0.7	-1.3	3.5	-0.6	-0.4	1.3	1.2
US \$ relative to Sterling	-1.6	-4.0	-9.2	-3.5	0.1	0.4	1.3
Japanese Yen relative to Sterling	-0.4	-4.4	-9.2	-8.9	-7.5	-2.1	-0.1
Sterling trade weighted	1.1	2.4	2.5	3.0	1.4	-0.3	-0.8
Price Inflation (RPI) *	0.7	0.6	4.2	4.3	6.7	4.6	3.8
Price Inflation (CPI) *	0.4	0.6	3.3	3.3	5.1	3.4	2.9
Price Inflation (RPIX) *	0.7	0.6	4.1	3.7	6.3	4.4	3.8
Earnings Inflation **	-0.7	-0.3	3.0	4.9	5.3	4.4	3.3
All Share Capital Growth	3.0	5.2	17.0	9.0	8.6	5.1	3.2
Dividend Growth	0.1	1.2	5.3	4.7	6.3	2.8	3.5
Earnings Growth	0.1	5.4	-14.7	9.6	9.7	3.8	1.9

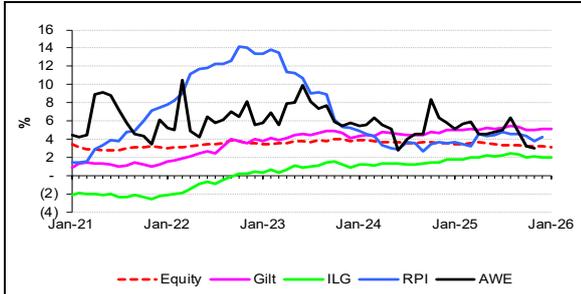
Note: All market returns are total returns for pension funds with income reinvested monthly. Indices used are as follows:

- 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.

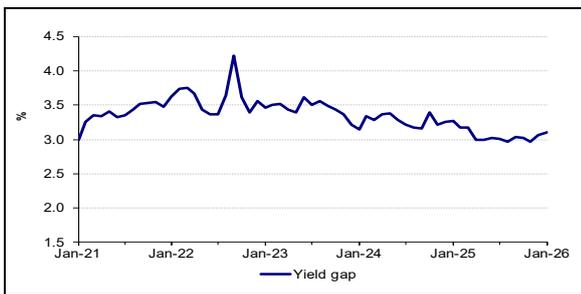


Yields and Yield Gaps

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.

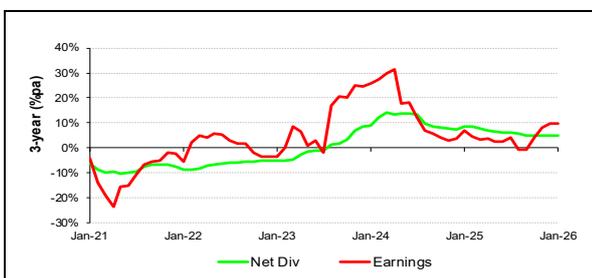
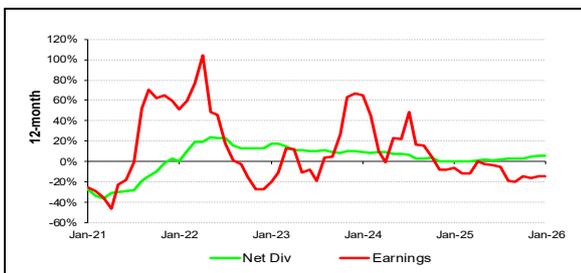


The gap gives a current expectation of around 3.2% p.a. for longer-term inflation including the (unknown) risk premium for gilts, relative to index-linked gilts.

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]

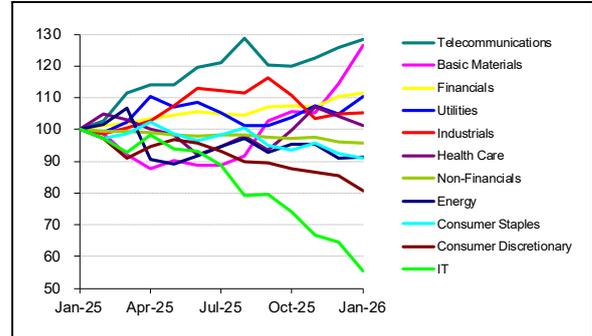
Figure 3: Dividend & Earnings Growth



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



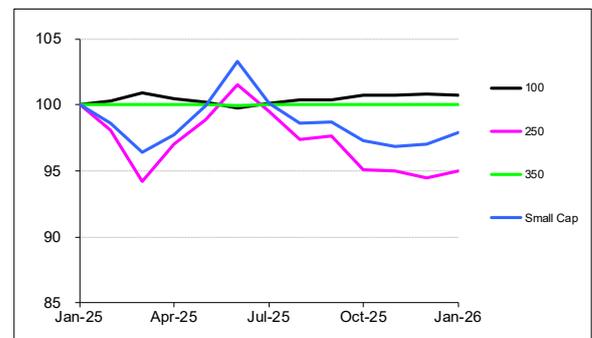
Note: Sector labels for relative lines are in end-value order

There was a clear rise this month in the rolling 12-month sector dispersion (up from 57% to 73%).

(% absolute return)	1 mth	3 mth	12 mth
Energy	3.7	1.3	10.7
Basic Materials	14.0	26.8	53.2
Industrials	3.4	0.8	27.7
Consumer Staples	1.6	2.9	10.2
Health Care	0.0	7.1	22.6
Consumer Discretionary	-2.6	-2.6	-2.4
Telecommunications	5.4	13.2	55.7
Utilities	8.3	12.1	33.5
Non-Finan	2.6	4.1	16.1
Financials	4.2	9.9	35.2
IT	-11.6	-20.9	-32.9
All Share	3.1	5.7	21.1

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

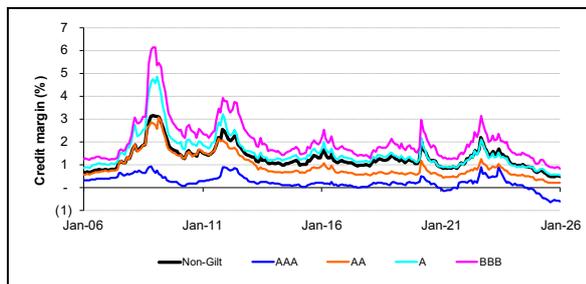


Table 2a: Over 15 Yr Corporate Yields & Margins

Month End	iBoxx Corp AA Y'ld (%)	FT 20 yr Gilt (%)	Margin (%)
Aug '25	5.83	5.39	0.44
Sep '25	5.74	5.33	0.41
Oct '25	5.43	5.02	0.41
Nov '25	5.48	5.05	0.43
Dec '25	5.49	5.07	0.42
Jan '26	5.57	5.14	0.43

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

Category	Mkt Val (£bn @ Jan 26 & 23, 20)			Weight (%)
	Jan 26	Jan 23	Jan 20	
Gilts (66)	1,698	1,438	1,440	75.7
Non-Gilts (1,191)	546	542	650	24.3
AAA (124)	106	109	131	4.7
AA (138)	59	69	87	2.6
A (441)	176	153	182	7.8
BBB (488)	205	212	250	9.2

Category	Mkt Val (£bn @ Jan 26 & 23)		W't (%)	Dur'n (yrs)
Gilts (66)	1,698	1,438	75.7	8.3
< 5 Yrs (16)	576	448	25.7	2.7
5-15 Yrs (22)	651	460	29.0	7.7
> 15 Yrs (28)	471	530	21.0	16.0
Non-Gilts (1,191)	546	542	24.3	5.5
< 5 Yrs (537)	284	252	12.7	2.7
5-15 Yrs (452)	190	198	8.5	6.9
> 15 Yrs (202)	71	93	3.2	13.0

Tables 2d, 2e: € Market Size and Maturity (Jan 26)

Category	Mkt Val (€bn)	Weight (%)
Sovereigns (542)	8,026	55.9
Non-Sovereigns	6,344	44.1
AAA (1,439)	2,274	15.8
AA (713)	812	5.6
A (1,891)	1,670	11.6
BBB (2,194)	1,588	11.1

Category	Mkt Val (€bn)	Weight (%)
1 - 3 Yrs (1,911)	3,569	24.8
3 - 5 Yrs (1,744)	3,172	22.1
5 - 7 Yrs (1,299)	2,291	15.9
7 - 10 Yrs (1,034)	2,442	17.0
10+ Yrs (791)	2,894	20.1

Table 2f: Breakdown of £ Index-Linked Market

Category (Number of issues)	Mkt Val (£bn @ Jan 26 & 23)		W't (%)	Dur'n (yrs)
Gilts (35)	575	588	100.0	13.5
< 5 Yrs (5)	120	94	20.9	2.3
5 - 15 Yrs (11)	222	197	38.6	9.2
> 15 Yrs (19)	233	297	40.5	23.3

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

Month End	US (%)	Euro (%)	Sterling (%)
Sep '25	6.47	4.97	7.42
Oct '25	6.53	5.02	7.53
Nov '25	6.48	5.07	7.55
Dec '25	6.45	5.09	7.49
Jan '26	6.49	5.02	7.33

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

£ Gilt Market "main" & "Green" Issuance

- £1.25bn, 1/8% 2028 (3.77x, 3.44%, n/a, Oct '25)
- £5.94bn, 4% 2029 (3.66x, 3.82%, 25%, Dec '25)
- £5.20bn, 4 1/8% 2031 (3.50x, 3.98%, 22%, Dec '25)
- £4.02bn, 4 1/8% 2033 (3.81x, 4.30%, 24%, Oct '25)
- £5.62bn, 4 3/4% 2035 (3.26x, 4.46%, 25%, Dec '25)
- £0.90bn, 1 1/8% IL 2035 (4.81x, 1.43%, 0%, Oct '25)
- £7.25bn, 5 1/4% 2041 (**16.2x**, 4.96%, n/a, Oct '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.

