JAGGER & ASSOCIATES

Investment Update

June 2026

Investment Headlines & Comment

- A poor month for Commodities due to the oil price falling.
- Most other asset classes posted small positive returns.
- Huge demand for the latest tranche of the 2041 gilt.

Feature Section

This month we revisit the process of Quantitative Tightening (QT). It has been in the news recently because the Governor of the Bank of England responded to criticism from among others Reform UK about the process of gilt losses being "crystallised early" relative to the alternative of letting the relevant gilts held by the Bank run onto maturity. The reason losses arise at all is that the marked rise in gilt yields since the holdings were originally acquired by the Bank means they are now worth less than was paid for them. It was agreed back in 2012 that if losses arose on future sales by the Bank then these would be borne by the Government.

The original process (set at releasing about £80bn per year) meant the unwinding was expected to take around a decade after it finally started in November 2022, but, after some variation in the annual amount, a planned slowing down in September 2025 of the rate of release back into the wider market down to around £70bn per year meant the actual process was going to take rather longer. We originally looked at this QT subject in our August 2022 issue, with a brief revisit in our November 2024 issue.

Figure 1a: Historic release into the market (£bn)

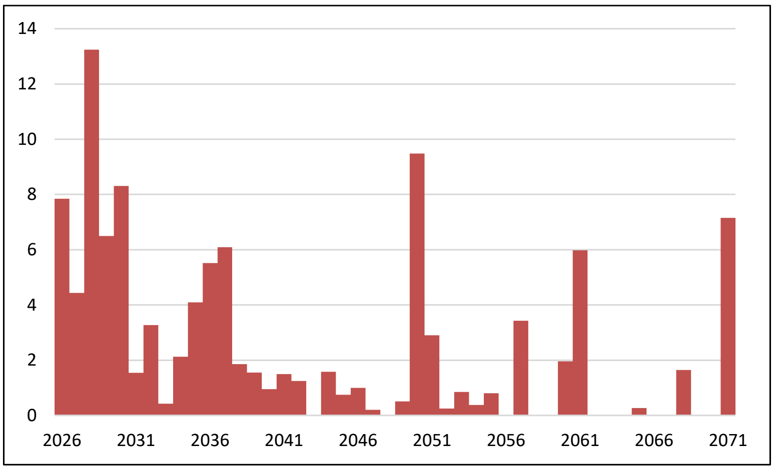
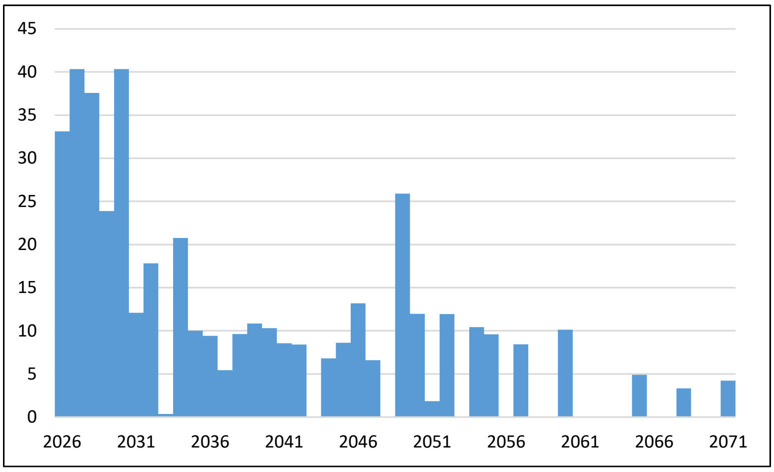


Figure 1b: Prospective release into the market (£bn)



Source: Bank of England

The reason advanced by the Bank for QT is to create a framework where Quantitative Easing (QE) can be re-introduced in the eventuality of a future financial crisis, rather than letting a bloated balance sheet continue when it no longer needs to exist. Intuitively, there is also the secondary benefit of trying to mitigate the risk of further future inflation arising from the process of the Bank having effectively "printed money" (although there certainly are economists who dispute the inflation linkage). Also, there is the argument that QE kept interest rates artificially low, penalizing savers and inflating asset prices.

Having started with £844bn to be released back into the market as of July 2022, the Bank has got it down to £522bn as of the end of June 2026. Figure 1a shows the profile of what has been released in sales so far, and Figure 1b shows the profile of what remains to be tackled.

There have been 1,458 tranches put up for selling so far. 36% had no interest from the market, 38% had interest and sales allocations were made, but 26% had interest yet no allocations were made. So, that shows that the Bank is to a material extent not willing to "sell at any price".

From Figure 1b, it is also clear that even if there are limited sales in future, there is a substantial amount that unavoidably reaches maturity over the next 5 years.

J<u>AGGER</u> & A<u>SSOCIATES</u>

Investment Update

June 2026

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 <u>cannot</u> 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 30 June 2026

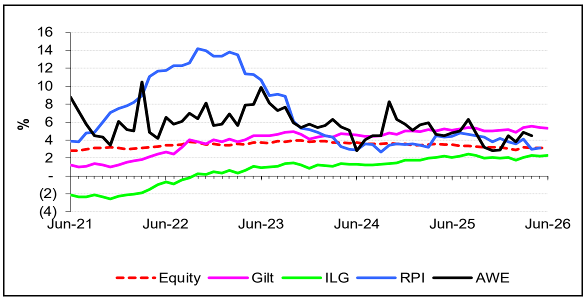
Asset Class	1 month (%)	3 months (%)	12 months (%)	3 years (% p.a.)	5 years (% p.a.)	10 years (% p.a.)	20 years (% p.a.)
UK Equities	0.7	4.7	21.9	15.3	10.9	8.7	7.0
Overseas Equities	0.8	15.6	30.3	19.2	12.7	13.8	11.2
US Equities	0.6	14.2	25.9	19.1	13.9	**15.6**	8.0
Europe ex UK Equities	**2.8**	12.2	22.1	13.8	9.1	10.6	**13.3**
Japan Equities	0.7	12.8	33.4	17.1	10.6	10.2	6.9
Pacific ex Japan Equities	1.0	**38.4**	**88.0**	**32.2**	**14.8**	14.0	11.8
Emerging Markets	0.2	23.8	48.9	21.9	8.6	10.6	8.9
UK Long-dated Gilts	0.8	2.3	**1.3**	-0.6	**-10.7**	**-4.0**	2.2
UK Long-dated Corp. Bonds	1.0	3.6	3.6	3.9	-6.2	-0.3	3.4
UK Over 5 Yrs Index-Linked Gilts	**-0.8**	**-1.3**	1.8	**-2.5**	-9.7	-2.6	3.1
High Yield (Global)	1.5	2.2	8.9	7.7	4.2	5.3	8.1
Overseas Bonds	0.9	-0.6	1.6	0.0	-2.1	-0.7	3.6
Property *	0.3	1.2	6.1	5.0	3.9	4.3	4.6
Cash	0.3	0.9	3.9	4.7	3.5	2.0	**2.0**
Commodities £-converted	-8.5	-11.7	34.6	12.9	14.3	7.5	-0.2
Hedge Funds original $ basis *	1.6	3.1	18.6	12.2	6.6	7.3	5.4
Illustrative £-converted version *	2.4	3.2	18.7	9.1	7.8	8.1	7.1
Euro relative to Sterling	-0.5	-1.4	0.6	0.1	0.1	0.4	1.1
US $ relative to Sterling	1.6	-0.3	3.2	-1.4	0.8	0.1	1.7
Japanese Yen relative to Sterling	-0.5	-2.7	-8.2	-5.2	-6.6	-4.4	-0.1
Sterling trade weighted	0.0	1.1	-1.3	1.0	0.8	0.5	-0.8
Price Inflation (RPI) *	0.2	1.7	3.1	3.4	6.6	4.7	3.8
Price Inflation (CPI) *	0.2	1.6	2.9	2.7	5.1	3.6	2.9
Price Inflation (RPIX) *	0.2	1.8	3.0	3.0	6.1	4.5	3.8
Earnings Inflation **	-11.9	1.8	4.5	4.8	5.5	4.3	3.3
All Share Capital Growth	0.6	3.8	18.1	11.2	7.0	4.8	3.3
Dividend Growth	-0.1	0.5	5.2	4.5	9.2	3.1	3.2
Earnings Growth	2.0	7.6	20.9	12.5	13.8	12.2	2.5

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

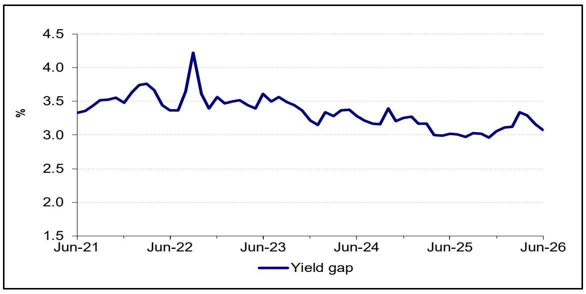
- *UK Equities (incl. dividends and earnings) – FT-A All Share.*
- *Overseas Equities (incl. regions) – blend of FT All-World / World sub-indices*
- *Emerging Markets from MSCI US $ based total return index (overall Index to 31 Oct 2001, Free Index from 1 Nov 2001 to take account of foreign investment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

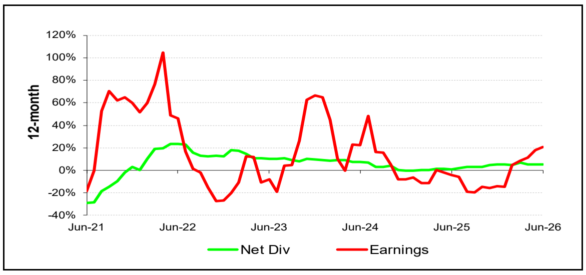


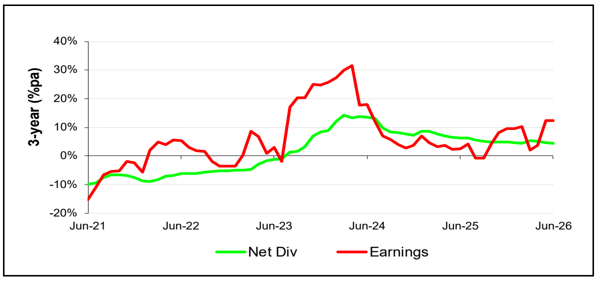
The gap gives a current expectation of around 3.1% p.a. for longer-term inflation including the (unknown) risk premium for gilts, relative to index-linked gilts.

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

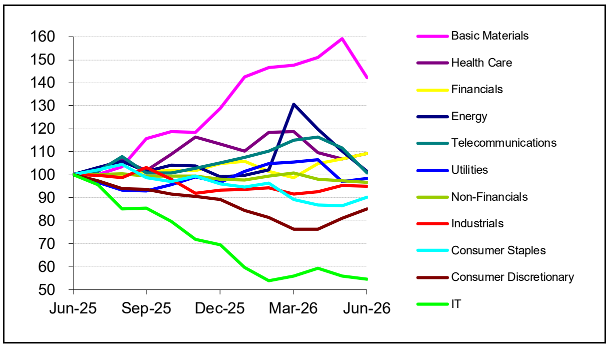




Note: Earnings data from mid-2015 onwards is no longer reliable as one-off events may be affecting the prospective P/E ratios

UK Equity Sector Returns

Figure 4a: Sectors relative to All Share



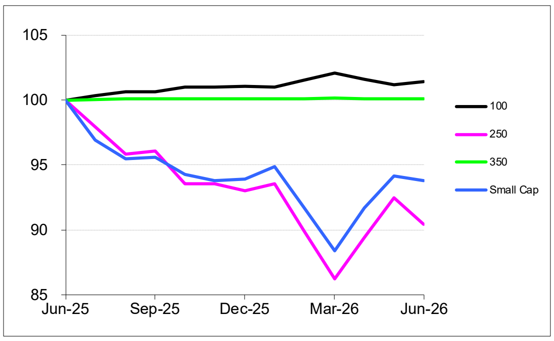
Note: Sector labels for relative lines are in end-value order

There was a fall this month in the rolling 12-month sector dispersion (down from 101% to 88%).

(% absolute return)	1 mth	3 mth	12 mth
Energy	-7.6	-18.7	23.5
Basic Materials	-10.0	0.9	73.4
Industrials	0.1	8.2	15.5
Consumer Staples	4.9	5.8	9.8
Health Care	2.8	-3.8	33.1
Consumer Discretionary	5.5	16.8	3.6
Telecommunications	-9.2	-8.4	22.9
Utilities	2.1	-2.6	19.7
Non-Finan	-0.3	0.4	17.6
Financials	2.9	16.0	33.1
IT	-1.9	2.4	-33.5
All Share	0.7	4.7	21.9

UK Equity Size Returns

Figure 4b: Size groups relative to All Share



This month, Mid 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

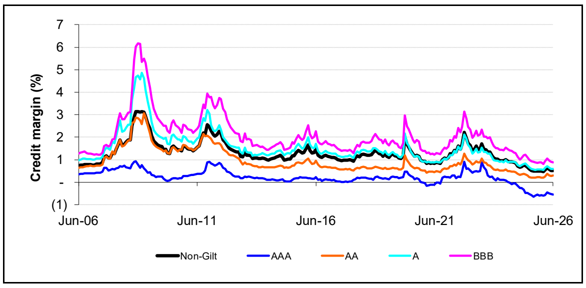


Table 2a: Over 15 Yr Corporate Yields & Margins

Month End	iBoxx Corp AA Y'ld (%)	FT 20 yr Gilt (%)	Margin (%)
Jan '26	5.57	5.14	0.43
Feb '26	5.44	4.89	0.55
Mar '26	6.06	5.42	0.64
Apr '26	6.15	5.56	0.59
May '26	5.93	5.37	0.56
Jun '26	**5.94**	**5.34**	**0.60**

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

Category	Mkt Val (£bn @ Jun 26 & 23, 20)			Weight (%)
Gilts (66)	1,705	1,350	1,630	74.9
Non-Gilts (1,230)	571	532	664	25.1
AAA (138)	121	113	138	5.3
AA (155)	70	70	84	3.1
A (452)	177	151	182	7.8
BBB (485)	203	198	259	8.9

Category	Mkt Val (£bn @ Jun 26 & 23)		W't (%)	Dur'n (yrs)
Gilts (66)	1,705	1,350	74.9	8.1
< 5 Yrs (15)	553	421	24.3	2.6
5–15 Yrs (24)	700	438	30.8	7.5
> 15 Yrs (27)	451	491	19.8	15.7
Non-Gilts (1,220)	571	532	25.1	5.3
< 5 Yrs (556)	295	260	13.0	2.5
5–15 Yrs (477)	205	189	9.0	6.7
> 15 Yrs (197)	71	83	3.1	12.8

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

Category	Mkt Val (€bn)	Weight (%)
Sovereigns (560)	8,309	56.0
Non-Sovereigns	6,536	44.0
AAA (1,447)	2,358	15.9
AA (751)	860	5.8
A (1,959)	1,716	11.6
BBB (2,230)	1,602	10.8

Category	Mkt Val (€bn)	Weight (%)
1 – 3 Yrs (1,906)	3,663	24.7
3 – 5 Yrs (1,871)	3,296	22.2
5 – 7 Yrs (1,324)	2,378	16.0
7 – 10 Yrs (1,053)	2,464	16.6
10+ Yrs (793)	3,043	20.5

Table 2f: Breakdown of £ Index-Linked Market

Category (Number of issues)	Mkt Val (£bn @ Jun 26 & 23)		W't (%)	Dur'n (yrs)
Gilts (34)	555	563	100.0	13.3
< 5 Yrs (4)	100	95	18.1	2.3
5 – 15 Yrs (11)	228	195	41.0	8.8
> 15 Yrs (19)	227	273	40.9	22.7

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

Month End	US (%)	Euro (%)	Sterling (%)
Feb '26	6.56	5.02	7.35
Mar '26	7.00	5.93	8.34
Apr '26	6.74	5.52	8.13
May '26	6.74	5.40	8.12
Jun '26	**6.82**	**5.35**	**7.85**

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

£ Gilt Market "main" & "Green" Issuance

- £1.50bn, ½% 2029 (3.61x, 4.06%, n/a, Jan '22)
- £6.25bn, 4% 2029 (3.60x, 4.42%, 25%, Apr '26)
- £5.25bn, 4¹/₈% 2031 (3.47x, 4.28%, 24%, May '26)
- £1.73bn, 1¹/₈% IL 2035 (3.35x, 1.52%, 8%, Jan '26)
- £5.31bn, 4⁷/₈% 2036 (3.46x, 4.86%, 25%, May '26)
- £3.25bn, 4⁵/₈% Gr 2037 (3.63x, 4.98%, n/a, Mar '26)
- £9.00bn, 5¼% 2041 (***12.91***x, 5.35%, n/a, Jan '26)

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.

JAGGER & ASSOCIATES

Contact: Ground Floor, 14 Exchange Quay,
Salford Quays, Manchester M5 3EQ
Tel.: 0161 873 9350, Fax: 0161 877 4851
web: www.jaggerandassociates.co.uk
e-mail: enquiries@jaggerandassociates.co.uk

See our website for details of the investment consultancy services we provide to actuarial firms, pension funds, universities and other endowment funds, and charities.

Regulated by the Institute and Faculty of Actuaries in respect of a range of investment business activities.

Although every effort is made to ensure the accuracy of the figures contained in Update, we cannot accept any liability for loss as a result of their use. This publication should not be taken as formal investment advice for any particular institution – specific guidance should be sought from us.