

Investment Update August 2026



Investment Headlines & Comment

- Another good month for Pacific ex Japan Equities.
- Bond markets were generally peaceful (for once).
- A good month for Commodities due to oil prices.

Feature Section

This month we revisit Shiller analysis. We first tackled this in our [July 2010](#) issue, but we returned to it in [February 2014](#) and [September 2019](#). However, on each occasion we applied the technique to the UK Equity market. This time, our focus is on the US Equity market. Are there strong signs there that a crash is imminent?

We should start with a quick refresher on what Shiller analysis actually is. It is an approach originally suggested by the Yale economist Robert Shiller for adjustments to make when analysing US market data. (See <http://www.econ.yale.edu/~shiller/data.htm> if interested.) The problem Shiller sought to address was the way that current prices are forward-looking, whereas actual earnings data is historic (although analysts will derive estimates of prospective earnings). So, the calculation of a price-earnings (P/E) ratio can be distorted by sentiment in the prices, which needs identifying once earnings fluctuations have been removed. His suggestion for this latter point was to use inflation-adjusted earnings over the preceding 10 years. For the US, he used data from 1871 onwards in his analysis. (You might still reasonably ask whether values that far back reflect the structure of markets now and whether there should be equal weighting in the 10 years.) For this feature, we have truncated the data to be from 1960 onwards.

Figure 1: Cyclically adjusted Price / Earnings ratio (CAPE)



Source: Robert Shiller (horizontal axis curtailed)

The analysis correctly highlighted the “tech bubble” around the year 2000, but it probably could not have predicted that the CAPE measure would more than halve in a matter of months. Whilst the current CAPE metric has not quite hit that past peak (yet), it does make you ask whether the US market has overshot, and by extension, whether the risk of a slump there has knock-on effects for other markets elsewhere. Is it perhaps time for risk-hungry investors to hunker down and simply bank any gains they have made? Should buyout-solvent pension schemes be taking some (or even all) of their equity exposure out?



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 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	5.1	21.3	16.9	11.2	8.5	7.1
Overseas Equities	2.2	1.3	24.2	18.9	12.0	13.1	11.2
US Equities	2.1	1.4	20.0	18.7	12.8	15.0	7.9
Europe ex UK Equities	0.8	3.1	20.1	14.1	8.2	9.9	13.3
Japan Equities	2.5	2.7	26.5	17.4	10.6	9.5	7.1
Pacific ex Japan Equities	4.6	-2.0	71.8	30.8	14.9	12.6	11.6
Emerging Markets	2.7	-1.6	39.2	21.1	9.0	9.4	8.8
UK Long-dated Gilts	0.1	-2.8	1.6	-1.2	-12.0	-5.2	1.9
UK Long-dated Corp. Bonds	0.6	-1.7	3.4	2.9	-7.3	-1.9	3.1
UK Over 5 Yrs Index-Linked Gilts	1.0	-2.2	4.4	-2.2	-11.2	-3.9	2.8
High Yield (Global)	0.3	0.2	4.2	6.7	3.7	4.5	8.1
Overseas Bonds	-0.6	-1.7	-2.1	-0.6	-2.9	-1.1	3.6
Property *	0.4	1.1	5.8	5.3	3.4	4.7	4.5
Cash	0.3	0.9	3.9	4.6	3.6	2.0	2.0
Commodities £-converted	5.2	6.9	49.8	14.6	17.9	9.8	1.0
Hedge Funds original \$ basis *	-1.2	0.7	13.8	10.4	6.5	6.9	5.4
Illustrative £-converted version *	-2.5	1.7	11.9	8.8	7.2	6.8	7.1
Euro relative to Sterling	0.1	-1.1	-1.2	0.0	0.0	0.1	1.2
US \$ relative to Sterling	-0.9	-0.7	-0.5	-2.3	0.3	-0.4	1.7
Japanese Yen relative to Sterling	-1.3	-1.1	-8.6	-5.3	-7.0	-4.6	0.1
Sterling trade weighted	0.3	1.1	0.9	1.4	1.0	0.9	-0.9
Price Inflation (RPI) *	0.6	1.1	3.2	3.8	6.5	4.8	3.8
Price Inflation (CPI) *	0.3	0.6	2.8	3.0	5.1	3.6	2.9
Price Inflation (RPIX) *	0.6	1.1	3.1	3.5	6.1	4.6	3.8
Earnings Inflation **	2.3	-11.6	4.1	3.9	5.6	4.4	3.2
All Share Capital Growth	0.1	4.3	17.5	12.9	7.3	4.7	3.4
Dividend Growth	2.1	2.2	7.3	4.4	7.9	3.2	3.4
Earnings Growth	5.6	12.4	54.6	13.4	8.9	13.8	2.8

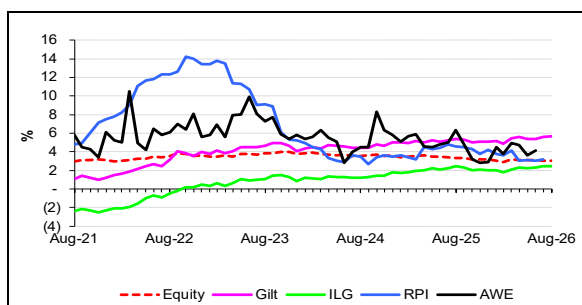
Note: All market returns are total returns for pension funds with income reinvested monthly. Indices used are as follows:

- 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.

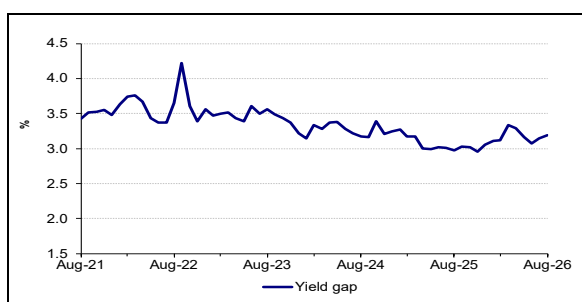


Yields and Yield Gaps

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.

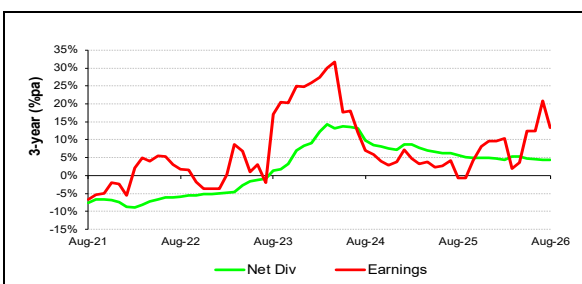
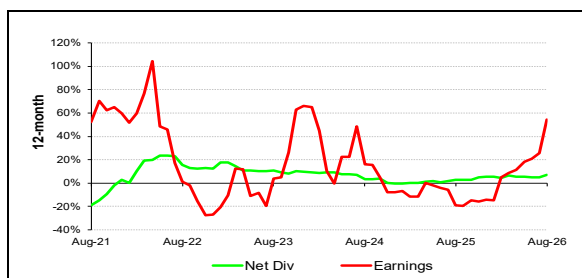


The gap gives a current expectation of around 3.2% p.a. for longer-term inflation including the (unknown) risk premium for gilts, relative to index-linked gilts.

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]

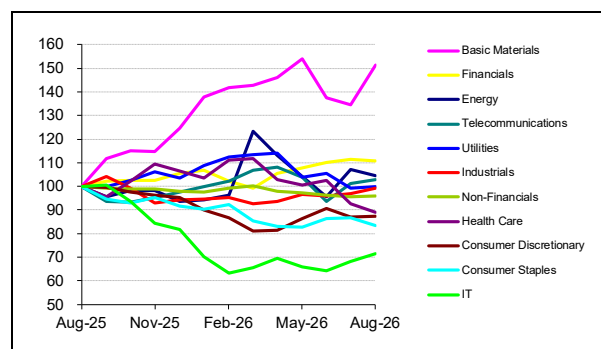
Figure 3: Dividend & Earnings Growth



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



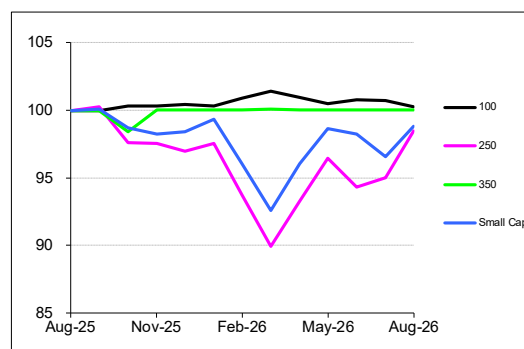
Note: Sector labels for relative lines are in end-value order

There was a slight rise this month in the rolling 12-month sector dispersion (up from 78% to 80%).

(% absolute return)	1 mth	3 mth	12 mth
Energy	-1.9	5.2	26.6
Basic Materials	13.1	3.4	83.5
Industrials	3.1	8.0	20.3
Consumer Staples	-3.1	5.8	1.0
Health Care	-3.4	-7.0	7.9
Consumer Discretionary	1.0	6.3	6.0
Telecommunications	2.5	4.4	24.9
Utilities	1.3	1.0	21.2
Non-Finan	1.0	3.9	16.4
Financials	0.1	8.1	34.3
IT	5.5	14.3	-13.1
All Share	0.7	5.1	21.3

UK Equity Size Returns

Figure 4b: Size groups relative to All Share



This month, both Mid Cap and Small Cap 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

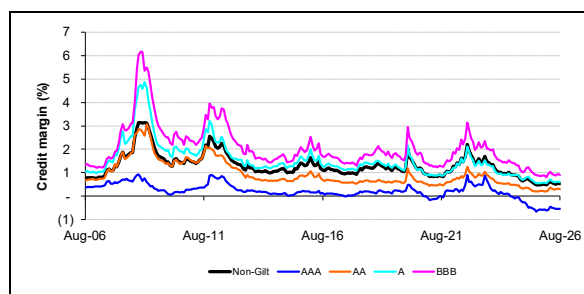


Table 2a: Over 15 Yr Corporate Yields & Margins

Month End	iBoxx Corp AA Y'ld (%)	FT 20 yr Gilt (%)	Margin (%)
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
Jul '26	6.30	5.62	0.68
Aug '26	6.30	5.65	0.65

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

Category	Mkt Val (£bn @ Aug 26 & 23, 20)			Weight (%)
Gilts (65)	1,684	1,382	1,677	75.1
Non-Gilts (1,215)	558	547	668	24.9
AAA (129)	115	118	135	5.1
AA (156)	72	71	82	3.2
A (452)	175	160	187	7.8
BBB (479)	197	198	263	8.8

Category	Mkt Val (£bn @ Aug 26 & 23)		W't (%)	Dur'n (yrs)
Gilts (65)	1,684	1,382	75.1	8.0
< 5 Yrs (14)	532	445	23.7	2.6
5-15 Yrs (24)	719	455	32.1	7.4
> 15 Yrs (27)	433	482	19.3	15.4
Non-Gilts (1,216)	558	547	24.9	5.2
< 5 Yrs (550)	295	271	13.2	2.6
5-15 Yrs (468)	195	194	8.7	6.6
> 15 Yrs (198)	69	82	3.1	12.5

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

Category	Mkt Val (€bn)	Weight (%)
Sovereigns (562)	8,201	55.7
Non-Sovereigns	6,534	44.3
AAA (1,447)	2,359	16.0
AA (767)	854	5.8
A (2,010)	1,732	11.8
BBB (2,239)	1,589	10.8

Category	Mkt Val (€bn)	Weight (%)
1 - 3 Yrs (1,921)	3,694	25.1
3 - 5 Yrs (1,899)	3,292	22.3
5 - 7 Yrs (1,354)	2,368	16.1
7 - 10 Yrs (1,061)	2,432	16.5
10+ Yrs (790)	2,950	20.0

Table 2f: Breakdown of £ Index-Linked Market

Category (Number of issues)	Mkt Val (£bn @ Aug 26 & 23)		W't (%)	Dur'n (yrs)
Gilts (34)	558	559	100.0	12.9
< 5 Yrs (5)	125	119	22.4	2.7
5 - 15 Yrs (11)	225	174	40.4	9.4
> 15 Yrs (18)	207	266	37.2	22.9

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

Month End	US (%)	Euro (%)	Sterling (%)
May '26	6.74	5.40	8.12
Jun '26	6.82	5.35	7.85
Jul '26	7.02	5.54	8.14
Aug '26	6.89	5.59	8.11

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

£ Gilt Market "main" & "Green" Issuance

- £5.31bn, 4⁵/₈% 2032 (3.34x, 4.61%, 25%, new)
- £5.00bn, 4¹/₈% 2033 (3.39x, 4.76%, 25%, Jul '26)
- £1.83bn, 1¹/₈% IL 2035 (3.37x, 1.73%, 22%, Jun '26)
- £4.07bn, 4⁷/₈% 2036 (3.65x, 5.16%, 2%, Jul '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.

