JAGGER & ASSOCIATES

Investment Update
September 2026

Investment Headlines & Comment

- Nominal bond yields drifted upwards this month.
- Credit margins increased slightly as well.
- Massive demand for the latest tranche of the 2056 gilt.

Feature Section

This month we return to market correlations, which we last considered in our December 2023 issue. At that time, UK and Overseas Equities were showing a reasonably steady rolling 5-year correlation at around 80% both in nominal and real terms. How has that changed given the surge in overseas technology stocks and associated component manufacturers?

Figure 1a shows the rolling 5-year correlation based on both monthly and quarterly nominal returns, whilst Figure 1b shows the correlation based on real returns. It is quite striking how rapidly the correlation has dropped away since we last considered the subject.

Figure 1a: UK & Overseas Equities (Nominal)

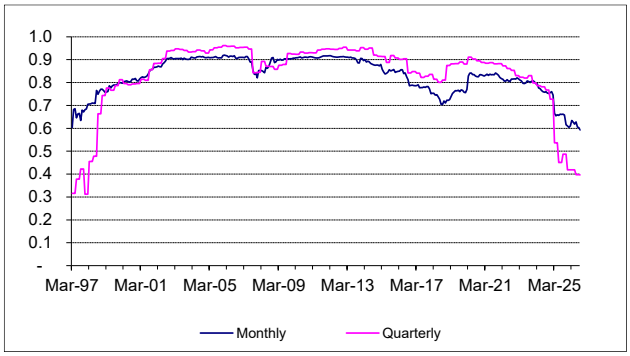
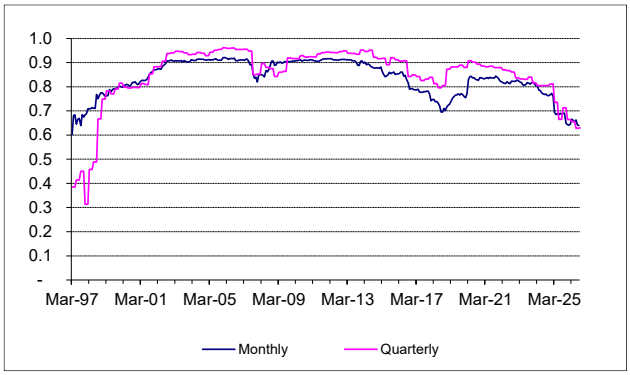


Figure 1b: UK & Overseas Equities (Real)



Source: FT

A similar "downward trend" result is found if you look at Global High Yield and Overseas Equities for their nominal and real returns. This links back to last month's question of whether overseas equity markets are simply now overvalued.

Reader feedback on that month's article included the valid counter point that technology companies invest heavily, but that this is expensed immediately in accounts rather than capitalised as an asset. On that basis, it was argued that higher price/earnings ratios could be justified. The residual question is "by just how much?"

Postscript to our June 2026 edition on Quantitative Tightening (QT)

The goalposts were well and truly moved this month on QT. A letter was sent from the Bank of England to the Chancellor, setting out a dramatically revised policy. Gilts maturing before 2035 will be held to their maturity, gilts maturing after 2049 will also (for now) be held to maturity, and (provisionally) the Treasury will gradually buy back the middle bit for holdings maturing between 2035 and 2049.

This fails the "how does it look" test on so many levels, it is difficult to know where to start. Treasury buying back of the middle section is going to have to be financed by more borrowing (in the absence of a budget surplus). Although they may choose to do this with issuing shorter-dated debt, it is still borrowing, pushing yields up. (We've been here before in the late 2000s, with the Treasury saddling whoever the next government was going to be with a lot of short-term maturing debt.)

Keeping the ultra-long gilts in the portfolio is likely to act as a continued downward distortion on the associated gilt yields. As seen in gilt auctions, there is still considerable demand for ultra-long gilts, so why let things drag on for decades more? And just how independent does the Bank of England now seem to be?!

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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 30 September 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	-1.9	2.4	16.8	15.5	11.0	8.1	6.9
Overseas Equities	1.2	1.7	20.9	19.7	12.8	13.0	11.1
US Equities	1.5	2.3	17.0	19.6	13.8	**15.1**	7.6
Europe ex UK Equities	**-2.8**	-2.5	13.9	13.4	8.3	9.4	**13.2**
Japan Equities	**3.4**	**5.4**	27.3	18.0	10.3	9.6	7.3
Pacific ex Japan Equities	3.0	-0.1	**67.5**	**32.1**	**16.0**	12.7	11.5
Emerging Markets	1.5	-0.3	31.4	21.2	9.8	9.3	8.7
UK Long-dated Gilts	-1.9	**-5.4**	-1.8	-0.1	**-11.2**	**-4.9**	**1.7**
UK Long-dated Corp. Bonds	-2.2	-4.8	-0.6	3.0	-6.7	-1.7	3.0
UK Over 5 Yrs Index-Linked Gilts	-0.5	-1.9	1.9	-0.6	-10.4	-3.8	2.7
High Yield (Global)	-0.8	-2.0	2.3	5.5	3.3	4.3	7.9
Overseas Bonds	-0.2	-2.9	**-3.3**	**-0.9**	-3.0	-1.3	3.5
Property *	0.4	1.2	5.6	5.4	3.2	4.7	4.4
Cash	0.3	0.9	3.8	4.5	3.7	2.0	2.0
Commodities £-converted	7.1	25.0	58.9	14.2	17.7	10.0	1.9
Hedge Funds original $ basis *	1.6	0.7	13.1	11.3	6.7	7.1	5.4
Illustrative £-converted version *	0.7	0.0	12.5	8.7	7.0	6.7	7.2
Euro relative to Sterling	-0.1	-0.7	-2.0	-0.4	-0.1	-0.1	1.2
US $ relative to Sterling	2.2	-0.1	1.3	-2.8	0.3	-0.2	1.7
Japanese Yen relative to Sterling	4.0	3.3	-4.8	-4.4	-6.3	-4.5	0.3
Sterling trade weighted	-0.8	0.3	0.6	1.8	1.0	0.9	-0.9
Price Inflation (RPI) *	0.6	1.5	3.4	3.8	6.5	4.8	3.8
Price Inflation (CPI) *	0.5	0.8	3.1	3.0	5.1	3.6	2.9
Price Inflation (RPIX) *	0.6	1.5	3.3	3.5	6.1	4.6	3.8
Earnings Inflation **	-1.9	-1.6	3.5	4.3	5.3	4.2	3.2
All Share Capital Growth	-2.0	1.7	13.2	11.6	7.1	4.3	3.2
Dividend Growth	0.0	2.3	7.0	4.3	7.0	3.2	3.3
Earnings Growth	0.5	10.8	54.8	13.0	8.1	12.9	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.*

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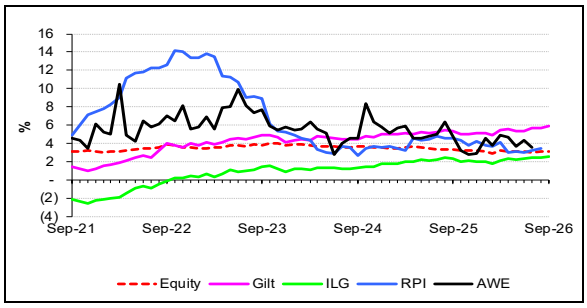
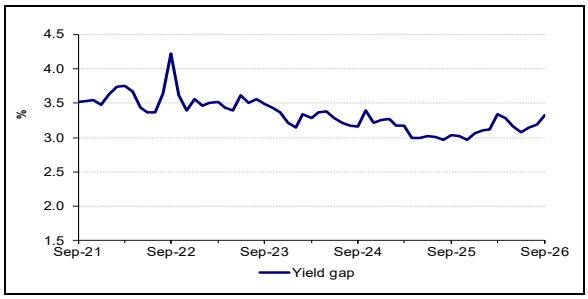
Yields and Yield Gaps

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.

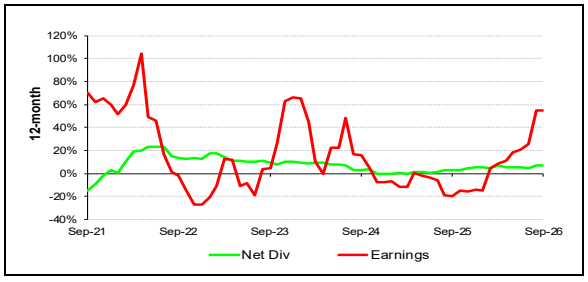


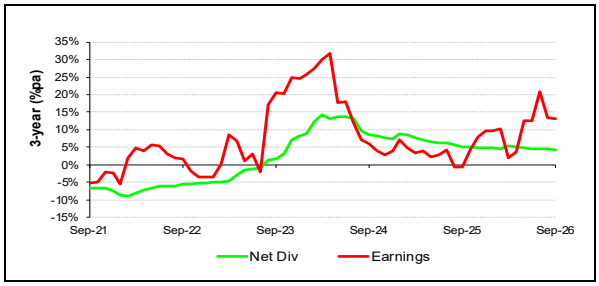
The gap gives a current expectation of around 3.3% p.a. for longer-term inflation including the (unknown) risk premium for gilts, relative to index-linked gilts.

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

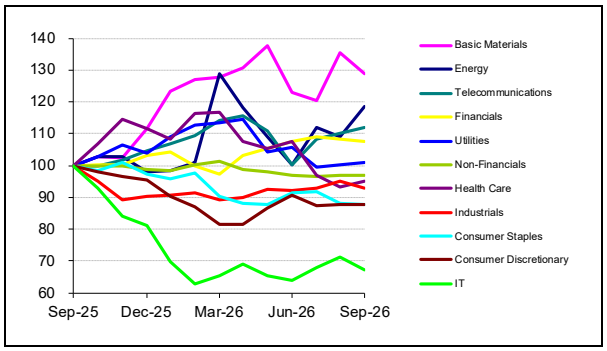




Note: Earnings data from mid-2015 onwards is no longer reliable as one-off events may be affecting the prospective P/E ratios

UK Equity Sector Returns

Figure 4a: Sectors relative to All Share



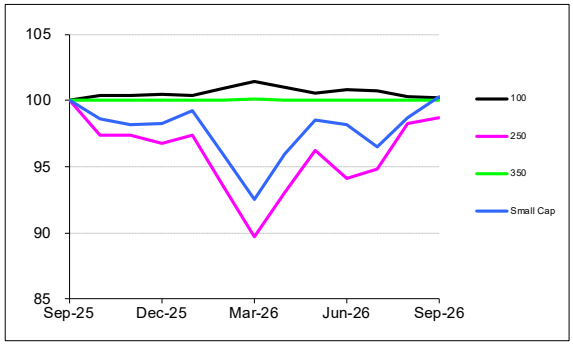
Note: Sector labels for relative lines are in end-value order

There was a fall this month in the rolling 12-month sector dispersion (down from 80% to 62%).

(% absolute return)	1 mth	3 mth	12 mth
Energy	6.7	21.4	38.6
Basic Materials	-6.4	7.4	50.7
Industrials	-4.1	3.5	8.7
Consumer Staples	-2.2	-1.5	2.6
Health Care	0.1	-9.4	11.0
Consumer Discretionary	-1.8	-1.1	2.5
Telecommunications	-0.2	14.6	30.7
Utilities	-1.1	-2.1	17.9
Non-Finan	-1.6	2.4	13.4
Financials	-2.4	2.5	25.8
IT	-7.4	7.9	-21.5
All Share	-1.9	2.4	16.8

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

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Bond market information

Figure 5: £ Non-Gilt Credit Margins

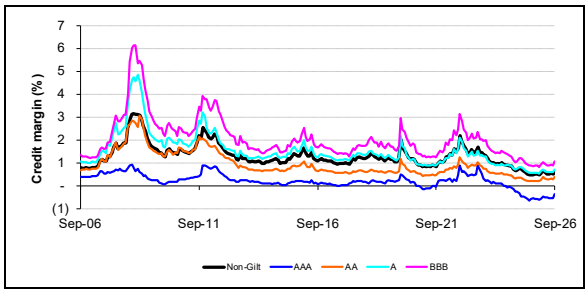


Table 2a: Over 15 Yr Corporate Yields & Margins

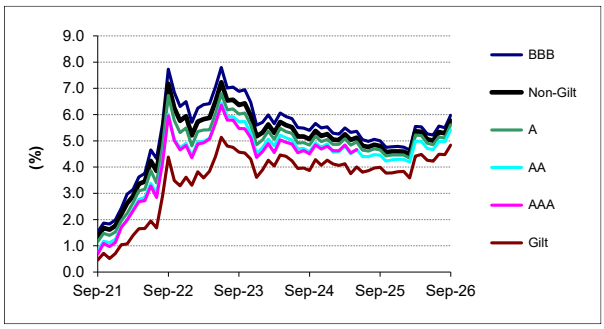
Month End	iBoxx Corp AA Y'ld (%)	FT 20 yr Gilt (%)	Margin (%)
Apr '26	6.15	5.56	0.59
May '26	5.93	5.37	0.56
Jun '26	5.94	5.34	0.60
Jul '26	6.30	5.62	0.68
Aug '26	6.30	5.65	0.65
Sep '26	**6.58**	**5.84**	**0.74**

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

Category	Mkt Val (£bn @ Sep 26 & 23, 20)			Weight (%)
Gilts (66)	1,664	1,373	1,735	75.1
Non-Gilts (1,218)	551	550	670	24.9
AAA (131)	115	119	135	5.2
AA (157)	71	73	85	3.2
A (457)	173	161	189	7.8
BBB (473)	192	197	262	8.7

Category	Mkt Val (£bn @ Sep 26 & 23)		W't (%)	Dur'n (yrs)
Gilts (66)	1,664	1,373	75.1	7.7
< 5 Yrs (15)	560	450	25.3	2.7
5–15 Yrs (24)	682	457	30.8	7.4
> 15 Yrs (27)	423	466	19.1	15.0
Non-Gilts (1,218)	551	550	24.9	5.1
< 5 Yrs (565)	302	281	13.6	2.6
5–15 Yrs (457)	183	190	8.3	6.6
> 15 Yrs (196)	66	79	3.0	12.2

Figure 6: £ Short-dated Bond Yields



Note: *The credit margin on short-dated Corporates (NB not Non-Gilts) was 0.93% at 30 Sept 2026.*

Table 2d: Breakdown of £ Index-Linked Market

Category (Number of issues)	Mkt Val (£bn @ Sep 26 & 23)		W't (%)	Dur'n (yrs)
Gilts (34)	556	542	100.0	12.8
< 5 Yrs (5)	126	121	22.6	2.6
5 – 15 Yrs (11)	223	173	40.2	9.3
> 15 Yrs (18)	207	248	37.2	22.9

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

Month End	US (%)	Euro (%)	Sterling (%)
Jun '26	6.82	5.35	7.85
Jul '26	7.02	5.54	8.14
Aug '26	6.89	5.59	8.11
Sep '26	**7.70**	**6.18**	**8.50**

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

£ Gilt Market "main" & "Green" Issuance

- £1.25bn, ½% 2029 (3.65x, 4.82%, n/a, Jun '26)
- £5.00bn, $4^{5}/_{8}$% 2030 (3,24x, 4.79%, 0%, new)
- £5.53bn, $4^{5}/_{8}$% 2032 (3.07x, 4.84%, 16%, Aug '26)
- £5.31bn, $4^{7}/_{8}$% 2036 (3.34x, 5.38%, 25%, Aug '26)
- £0.75bn, 4¼% 2040 (3.67x, 5.64%, n/a, Jul '26)
- £0.90bn, $1^{7}/_{8}$% IL 2049 (3.58x, 2.50%, 0%, Apr '26)
- £4.25bn, $5^{3}/_{8}$% 2056 (***20.5x***, 5.82%, n/a, May '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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