



### Investment Headlines & Comment

- The [UK Government Green Financing framework](#) has been published.
- An associated [report](#) on the framework by the Carbon Trust may also be of interest.
- A poor month for Sterling against the US \$ and also the Japanese Yen.

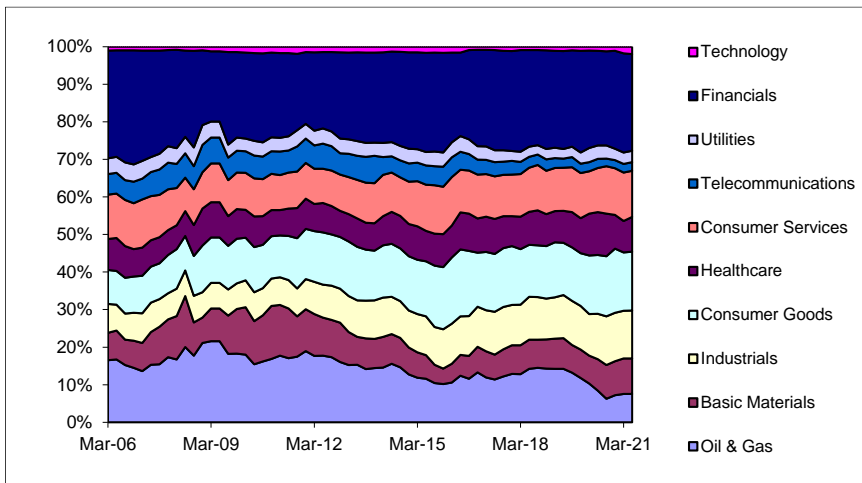
### Feature Section

This month we update our analysis of how the various sectors of the UK Equity market have performed relative to the market as a whole. We last looked at this in our [October 2017](#) edition, but quite a lot has happened since then.

Figure 1a shows that over 15+ years the Oil & Gas sector has dropped from 17% of the overall market to its current 8%, and given current environmental trends, it is likely to drop further. The main areas that have expanded as a proportion of the overall market have been Industrials and Consumer Goods (now renamed as Consumer Staples). The Oil & Gas sector has recently been renamed Energy, so that Energy weighting may yet be maintained by new companies providing alternative energy sources, if they list on the UK market.

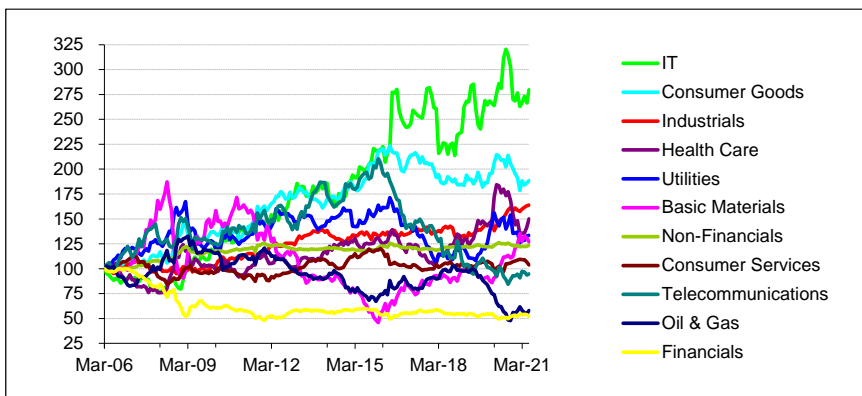
Figure 1b shows the cumulative total returns for the various sectors, relative to the All Share index being fixed at 100. Although the Technology line is quite striking, it is a negligible part of the market.

**Figure 1a: Quarterly Sector weightings**



The Consumer Goods sector has ended up 88% ahead (having been 123% ahead at one point), whereas Financials has just gone more or less sideways in relative terms since the “credit crunch”, and has ended up 48% behind. These are unannualised, but even if you annualise them, you still come out with material relative return divergences of 4% p.a. ahead and minus 4% p.a. behind, respectively.

**Figure 1b: Dispersion of returns vs All Share**



In terms of volatility of monthly returns *relative* to the All Share index, and excluding the Non-Financials group (as it the majority of the market), Basic Materials has been the most volatile with annualized relative volatility of 21%, whereas Industrials has been the least volatile with an annualized figure of 8%. Several sectors have relative volatility of around 15%, including Oil & Gas, Healthcare, Telecoms and Utilities.

Source: FTSE Russell Note: Labels in Figure 1b are in end-value order



**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 June 2021**

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	0.2	5.6	21.5	2.0	6.5	6.4	5.6
Overseas Equities	4.3	7.3	25.3	14.0	14.9	12.5	8.2
US Equities	<b>5.7</b>	<b>8.6</b>	<b>27.1</b>	<b>17.5</b>	<b>17.3</b>	<b>16.7</b>	7.3
Europe ex UK Equities	1.9	8.4	23.0	10.2	12.2	8.3	8.9
Japan Equities	2.6	<b>-0.5</b>	12.0	5.7	9.9	9.3	4.6
Pacific ex Japan Equities	2.6	4.1	25.9	10.8	13.2	8.6	<b>10.9</b>
Emerging Markets	3.1	5.0	26.4	10.0	12.7	6.2	10.5
UK Long-dated Gilts	1.3	3.2	<b>-10.9</b>	4.6	3.2	8.0	6.8
UK Long-dated Corp. Bonds	1.7	3.7	0.0	7.7	6.0	8.3	7.1
UK Over 5 Yrs Index-Linked Gilts	<b>-0.3</b>	3.9	<b>-4.4</b>	5.3	5.0	8.0	7.5
High Yield (Global)	3.1	2.4	3.4	5.7	6.5	7.9	7.9
Overseas Bonds	2.2	0.9	<b>-10.9</b>	1.9	0.8	3.0	4.8
Property *	1.1	3.1	6.8	3.0	4.8	7.6	7.2
Cash	0.0	0.0	0.1	<b>0.5</b>	<b>0.5</b>	<b>0.6</b>	<b>2.2</b>
Commodities £-converted	7.3	15.6	40.8	<b>-4.2</b>	1.1	<b>-5.1</b>	<b>-1.4</b>
Hedge Funds original \$ basis *	1.4	4.4	29.5	8.4	7.9	5.0	5.9
Illustrative £-converted version *	<b>-0.6</b>	2.7	12.6	6.1	8.5	6.5	5.9
Euro relative to Sterling	<b>-0.2</b>	0.8	<b>-5.6</b>	<b>-1.0</b>	0.7	<b>-0.5</b>	1.8
US \$ relative to Sterling	2.9	<b>-0.1</b>	<b>-10.6</b>	<b>-1.5</b>	<b>-0.7</b>	1.5	0.1
Japanese Yen relative to Sterling	1.4	<b>-0.6</b>	<b>-13.1</b>	<b>-1.6</b>	<b>-2.2</b>	<b>-1.7</b>	0.7
Sterling trade weighted	<b>-0.7</b>	<b>-0.5</b>	7.4	1.4	0.3	0.5	<b>-1.0</b>
Price Inflation (RPI) *	0.3	2.0	3.3	2.5	2.9	2.5	2.8
Price Inflation (CPI) *	0.6	1.6	2.1	1.6	2.0	1.7	2.0
Price Inflation (RPIX) *	0.3	2.1	3.4	2.5	3.0	2.6	2.9
Earnings Inflation **	<b>-7.2</b>	0.3	8.7	3.7	3.0	2.6	2.9
All Share Capital Growth	0.0	4.8	17.7	<b>-1.5</b>	2.7	2.6	2.0
Dividend Growth	1.0	3.0	<b>-29.3</b>	<b>-9.8</b>	<b>-2.7</b>	2.0	2.7
Earnings Growth	0.6	18.8	<b>-18.4</b>	<b>-15.1</b>	10.6	<b>-3.1</b>	1.9

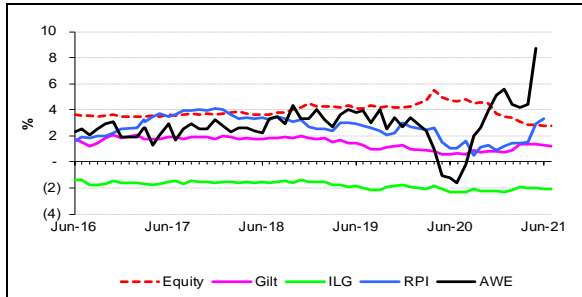
Note: All market returns are total returns for pension funds with income reinvested monthly. Indices used are as follows:

- 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, 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.

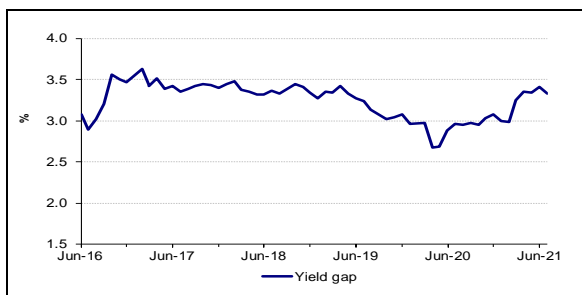


## Yields and Yield Gaps

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.

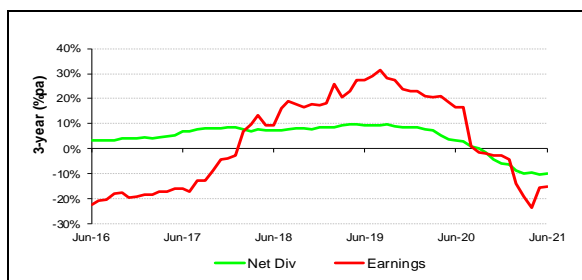
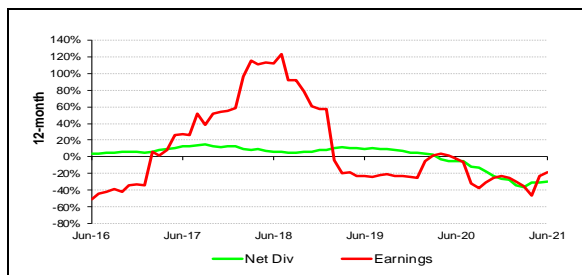


The gap gives a current expectation around 3.3% for longer-term inflation including the risk premium for gilts, relative to index-linked gilts.

## 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]

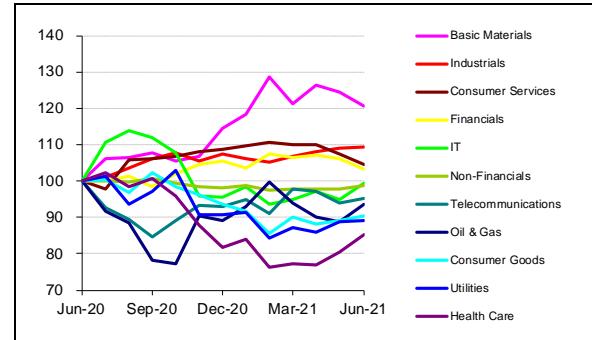
Figure 3: Dividend & Earnings Growth



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



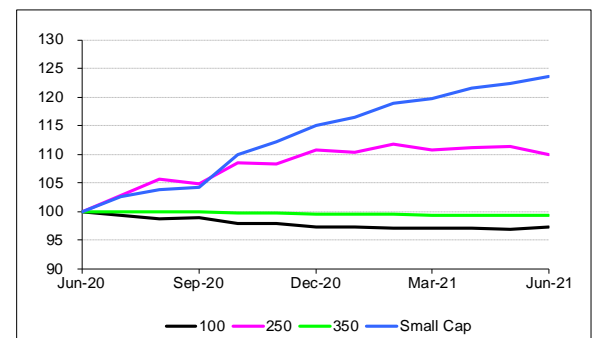
Note: Sector labels for relative lines are in end-value order

There was a fall this month in the rolling 12-month sector dispersion (down from 52% to 36%).

(% absolute return)	1 mth	3 mth	12 mth
Oil & Gas	5.8	5.2	13.8
Basic Materials	-2.9	5.2	46.5
Industrials	0.6	8.3	33.0
Consumer Goods	1.4	5.7	9.6
Health Care	5.9	16.6	3.4
Consumer Services	-2.5	0.5	27.1
Telecommunications	1.3	2.7	15.5
Utilities	0.6	8.1	8.4
Non-Financials	1.0	6.6	20.0
Financials	-2.8	2.4	25.3
IT	5.1	10.7	20.9
All Share	0.2	5.6	21.5

## UK Equity Size Returns

Figure 4b: Size groups relative to All Share



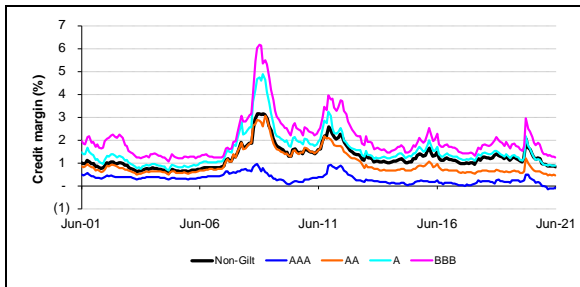
This month, Mid Cap fell whilst Small Cap rose relative to the All Share.

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 (%)
Jan '21	1.51	0.85	0.66
Feb '21	1.97	1.34	0.63
Mar '21	2.02	1.37	0.65
Apr '21	1.94	1.33	0.61
May '21	1.93	1.29	0.64
Jun '21	<b>1.86</b>	<b>1.23</b>	<b>0.63</b>

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

Category	Mkt Val (£bn @ Jun 21 & 18, 15)			Weight (%)
Gilts (51)	1,771	1,354	1,190	72.7
Non-Gilts (1,175)	665	563	531	27.3
AAA (133)	125	111	96	5.1
AA (147)	81	77	96	3.3
A (372)	188	161	165	7.7
BBB (523)	271	214	175	11.1

Category	Mkt Val (£bn @ Jun 21, 18)		W't (%)	Dur'n (yrs)
Gilts (51)	1,771	1,354	72.7	12.6
< 5 Yrs (12)	431	358	17.7	2.8
5-15 Yrs (15)	560	379	23.0	8.2
> 15 Yrs (24)	780	616	32.0	21.2
Non-Gilts (1,175)	665	563	27.3	7.8
< 5 Yrs (419)	228	183	9.4	2.8
5-15 Yrs (525)	285	234	11.7	7.3
> 15 Yrs (231)	151	146	6.2	16.3

**Tables 2d, 2e: € Market Size and Maturity (Jun 21)**

Category	Mkt Val (€bn)	Weight (%)
Sovereigns (424)	7,564	59.0
Non-Sovereigns	5,266	41.0
AAA (998)	1,395	10.9
AA (776)	1,225	9.5
A (1,251)	1,118	8.7
BBB (1,862)	1,528	11.9

Category	Mkt Val (€bn)	Weight (%)
1 – 3 Yrs (1,306)	2,733	21.3
3 – 5 Yrs (1,306)	2,542	19.8
5 – 7 Yrs (1,038)	2,043	15.9
7 – 10 Yrs (878)	2,263	17.6
10+ Yrs (772)	3,250	25.3

**Table 2f: Breakdown of £ Index-Linked Market**

Category (Number of issues)	Mkt Val (£bn @ Jun 21 & 18)		W't (%)	Dur'n (yrs)
Gilts (31)	806	662	100.0	21.4
< 5 Yrs (4)	88	59	11.0	2.9
5 – 15 Yrs (8)	186	154	23.1	9.5
> 15 Yrs (19)	532	449	65.9	28.6

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

Month End	US (%)	Euro (%)	Sterling (%)
Jan '21	4.43	2.74	4.20
Feb '21	4.44	2.69	4.12
Mar '21	4.47	2.65	4.13
Apr '21	4.35	2.66	4.08
May '21	4.35	2.66	4.12
Jun '21	<b>4.21</b>	<b>2.61</b>	<b>4.14</b>

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

**£ Gilt Market “main” Issuance**

- o During the expanded gilt issuance programme, there is insufficient space here to list all the auction / tender exercises, so please click [here](#) for the details.

Note: Issuance amounts are nominals. The first % figure in each row is the yield or real yield. The second % 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 tender or syndication cases.

