

## Investment Update July 2021



### Investment Headlines & Comment

- Nominal and real gilt yields fell this month, with real yields reaching new lows.
- It was a poor month for Far Eastern and Emerging Market equities.
- There was substantial demand for the new conventional gilt maturing in 2039.

### Feature Section

This month we consider how the Global Equity market’s key constituents have evolved over the last decade. The UK market is known for being highly concentrated (e.g. the top 10 in the All Share Index made up 32% of the index as of June 2021), but how different are things globally, and how have they changed over time?

A decade ago, back in mid 2011, the FTSE All-World index was valued at around \$28 trillion, and the sub-index of the Global 100 constituents accounted for around 30% of the overall index. By June 2016, these figures had increased to around \$36 trillion and 32% respectively. As of June 2021, the market capitalization has rocketed to \$67 trillion, and the top 100 have progressed to a 35% weighting. This market capitalization expansion has coincided with the weighting for the USA reaching a new peak, just exceeding the weighting reached in late 2001 at the peak of the original “tech bubble”. Figure 1a shows the long-run outputs for the main country and regional components.

**Figure 1a: Regional capitalization percentages**

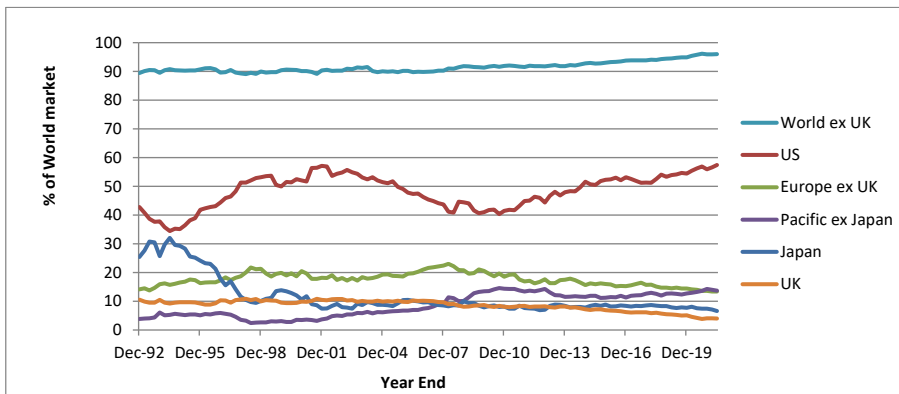


Figure 1b shows how the “top 10” holdings has evolved over the last decade, and just two companies from the 2011 list appear in the 2021 list.

The current dominance from Technology stocks is to be expected, given the evolution of the global sector weightings as shown in our [December 2020](#) issue.

**Figure 1b: Top 10 holdings as of 30 June**

	2011	2016	2021
1	ExxonMobil	Apple	Apple
2	Apple	Alphabet	Microsoft
3	PetroChina	Microsoft	Amazon
4	ICBC	ExxonMobil	Alphabet
5	BHP Billiton	Berkshire Hathaway	Facebook
6	Royal Dutch Shell	Amazon	Tencent
7	Microsoft	Johnson & Johnson	Tesla
8	Nestlé	General Electric	Berkshire Hathaway
9	Petrobras	Facebook	TSMC
10	IBM	AT&T	Alibaba Group

Source: FTSE Russell

subsequently this month by the G20 nations which does not yet seem to have affected company valuations (e.g. initial market dips for Facebook and Amazon were quickly reversed). This may be because the detail of the tax agreement is still to be sorted out, but it does raise the question of whether there is now a “known unknown” risk that ought to be being more strongly priced in by investors at this stage.

It is also striking that the largest company from a decade ago is now well outside the top 10 (having last been in it during 2018). Again, this ties in with the comparative demise of the Oil & Gas sector.

We have previously asked whether markets are in a second “Tech bubble”, and now there is the issue of the global tax agreement initially by the G7 nations, and then



**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 July 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	0.5	2.0	26.6	1.8	5.8	6.7	5.7
Overseas Equities	0.0	3.2	26.4	12.5	13.7	13.0	8.4
US Equities	1.6	5.1	<b>29.6</b>	<b>16.5</b>	<b>16.7</b>	<b>17.4</b>	7.5
Europe ex UK Equities	1.6	5.5	26.8	9.0	11.3	9.2	9.1
Japan Equities	-1.9	-0.4	19.0	4.7	7.9	8.9	5.0
Pacific ex Japan Equities	-6.8	<b>-5.4</b>	15.6	7.5	10.2	8.0	<b>10.9</b>
Emerging Markets	<b>-7.3</b>	<b>-4.0</b>	14.2	6.2	9.7	5.7	10.5
UK Long-dated Gilts	5.5	7.8	<b>-6.5</b>	6.7	3.6	8.1	6.9
UK Long-dated Corp. Bonds	3.8	5.8	1.2	8.9	5.2	8.3	7.1
UK Over 5 Yrs Index-Linked Gilts	<b>7.0</b>	<b>10.8</b>	1.5	7.5	6.1	8.4	7.8
High Yield (Global)	<b>-0.7</b>	0.6	4.1	4.8	5.7	7.9	7.9
Overseas Bonds	0.8	0.9	<b>-7.4</b>	2.2	0.7	3.1	4.8
Property *	1.9	3.9	9.1	3.3	5.2	7.7	7.3
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	0.9	8.9	45.4	<b>-2.9</b>	3.2	<b>-5.0</b>	<b>-1.3</b>
Hedge Funds original \$ basis *	0.4	4.1	27.5	8.7	7.9	5.1	5.9
Illustrative £-converted version *	3.3	3.9	14.0	7.1	7.2	6.7	6.0
Euro relative to Sterling	<b>-0.7</b>	<b>-1.8</b>	<b>-5.3</b>	<b>-1.5</b>	0.3	<b>-0.3</b>	1.7
US \$ relative to Sterling	<b>-0.6</b>	0.3	<b>-5.6</b>	<b>-1.9</b>	<b>-0.9</b>	1.7	0.1
Japanese Yen relative to Sterling	0.5	<b>-0.4</b>	<b>-9.1</b>	<b>-1.3</b>	<b>-2.3</b>	<b>-1.8</b>	0.8
Sterling trade weighted	0.6	1.5	5.2	1.8	0.7	0.3	<b>-1.0</b>
Price Inflation (RPI) *	0.7	2.4	3.9	2.6	2.9	2.6	2.8
Price Inflation (CPI) *	0.5	1.7	2.5	1.7	2.0	1.8	2.1
Price Inflation (RPIX) *	0.7	2.5	3.9	2.7	3.0	2.7	2.9
Earnings Inflation **	<b>-0.8</b>	<b>-1.1</b>	8.8	3.8	3.2	2.5	2.9
All Share Capital Growth	0.4	1.3	22.8	<b>-1.8</b>	2.0	2.9	2.1
Dividend Growth	0.7	0.6	<b>-28.4</b>	<b>-9.5</b>	<b>-2.5</b>	1.8	2.7
Earnings Growth	19.8	67.1	<b>-0.5</b>	<b>-10.9</b>	14.8	<b>-2.5</b>	2.9

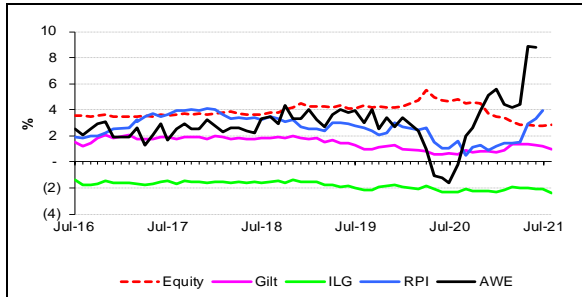
Note: All market returns are total returns for pension funds with income reinvested monthly. Indices used are as follows:

- 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.

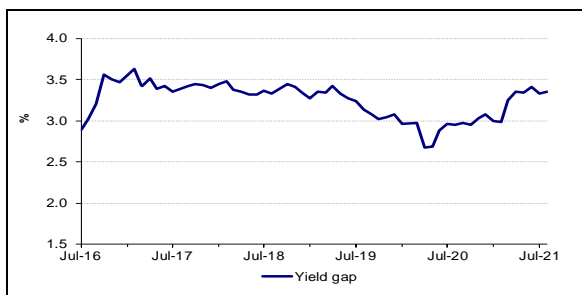


## Yields and Yield Gaps

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.

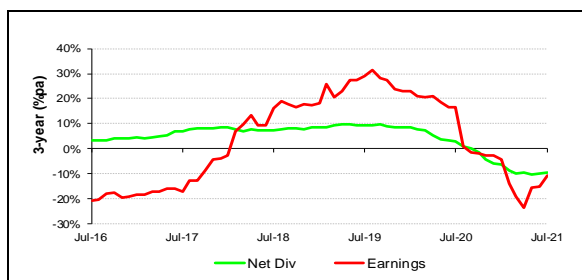
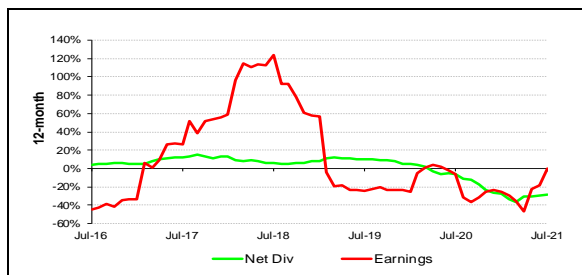


The gap gives a current expectation around 3.4% for longer-term inflation including the risk premium for gilts, relative to index-linked gilts.

## 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]

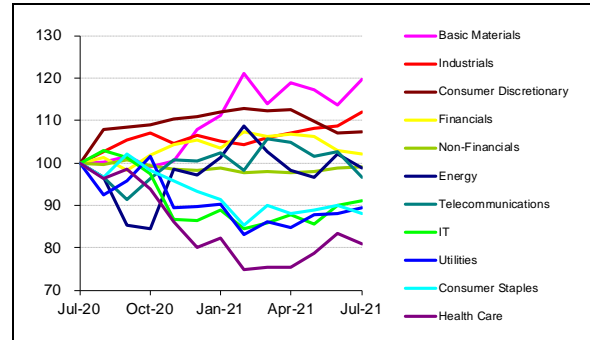
Figure 3: Dividend & Earnings Growth



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



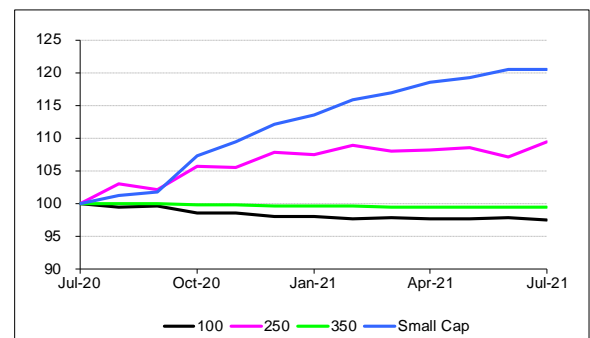
Note: Sector labels for relative lines are in end-value order

There was a small rise this month in the rolling 12-month sector dispersion (up from 36% to 39%).

(% 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



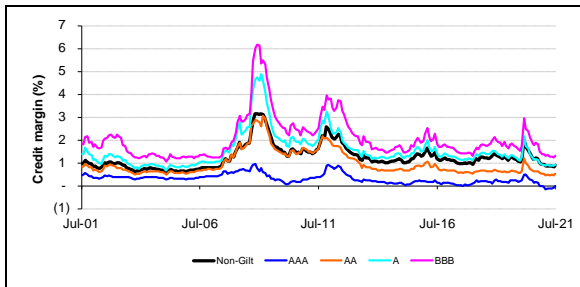
This month, Mid Cap rose whilst Small Cap fell slightly relative to the All Share.

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 (%)
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	1.86	1.23	0.63
Jul '21	<b>1.62</b>	<b>1.00</b>	<b>0.62</b>

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

Category	Mkt Val (£bn @ Jul 21 & 18, 15)			Weight (%)
Gilts (51)	1,838	1,350	1,214	73.3
Non-Gilts (1,163)	670	563	542	26.7
AAA (131)	127	112	99	5.1
AA (139)	78	79	96	3.1
A (371)	191	161	166	7.6
BBB (522)	275	212	180	11.0

Category	Mkt Val (£bn @ Jul 21, 18)		W't (%)	Dur'n (yrs)
Gilts (51)	1,838	1,350	73.3	12.9
< 5 Yrs (12)	432	357	17.2	2.7
5-15 Yrs (15)	580	381	23.1	8.2
> 15 Yrs (24)	826	613	32.9	21.6
Non-Gilts (1,163)	670	563	26.7	8.0
< 5 Yrs (401)	222	185	8.9	2.8
5-15 Yrs (531)	292	233	11.6	7.3
> 15 Yrs (231)	156	145	6.2	16.6

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

Category	Mkt Val (€bn)	Weight (%)
Sovereigns (426)	7,787	59.2
Non-Sovereigns	5,362	40.8
AAA (997)	1,410	10.7
AA (778)	1,260	9.6
A (1,247)	1,126	8.6
BBB (1,894)	1,565	11.9

Category	Mkt Val (€bn)	Weight (%)
1 – 3 Yrs (1,321)	2,785	21.2
3 – 5 Yrs (1,305)	2,576	19.6
5 – 7 Yrs (1,033)	2,050	15.6
7 – 10 Yrs (898)	2,311	17.6
10+ Yrs (785)	3,427	26.1

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

Category (Number of issues)	Mkt Val (£bn @ Jul 21 & 18)		W't (%)	Dur'n (yrs)
Gilts (31)	858	669	100.0	21.8
< 5 Yrs (4)	89	59	10.3	2.8
5 – 15 Yrs (8)	191	153	22.3	9.5
> 15 Yrs (19)	578	457	67.4	28.8

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

Month End	US (%)	Euro (%)	Sterling (%)
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	4.21	2.61	4.14
Jul '21	<b>4.23</b>	<b>2.60</b>	<b>4.18</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.

