



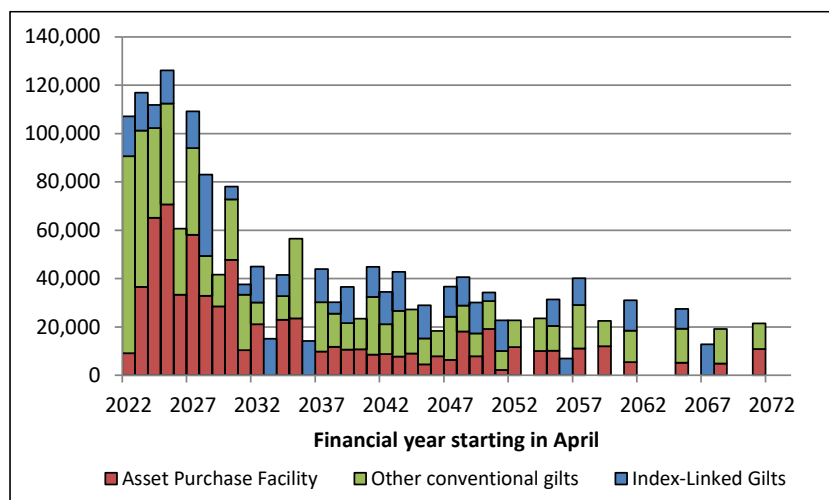
Investment Headlines & Comment

- Another good month for many equity markets.
- Bond markets were generally pretty stable.
- Sterling fell slightly against the major currencies.

Feature Section

This month, as the UK Government's borrowing shows a clear sign of slowing down, and the [Federal Reserve](#) indicates that it is expecting to reduce its market support (but not yet go as far as starting to unwind it), we consider the UK's updated gilt market profile.

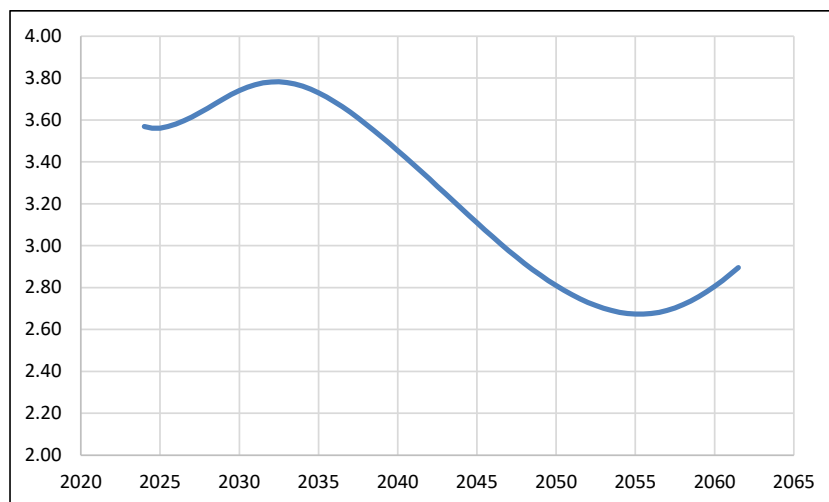
Figure 1a: Gilt market profile (£m, nominal)



In July 2021, the House of Lords' Economic Affairs Committee (EAC) published a [report](#) which was critical of the Bank of England's continued use of Quantitative Easing (QE), and in particular asking for clarity on how it proposed to unwind the QE portfolio, which is now nearing £840bn.

Figure 1a shows the yearly maturity profile. Relatively little of the QE portfolio matures in 2022, but there are material redemptions for the next decade thereafter. It may well be significant for markets whether the redemptions are funded by further QE purchases, or by increased issuance within the gilt market.

Figure 1b: UK Forward RPI inflation rate (%)



The EAC report highlighted the widening wealth inequalities resulting from rising asset prices caused by QE. It also asked the Bank to set out in more detail why it believes higher inflation will be a short-term phenomenon, clarify what it means by "transitory" inflation, and also demonstrate that it has a plan to keep inflation in check.

Sources: Bank of England, DMO

It will be interesting to see whether the Bank becomes any more transparent as a result of the report, particularly on the subject of inflation. Figure 1b shows the RPI curve as at the end of August 2021, derived from nominal and real yields on gilts. We last looked at projected future inflation rates in our [November 2020](#) issue. Over the next couple of decades, the projection is well above the 2% p.a. CPI target, and there is still no step-change associated with the expected change of RPI to CPIH in 2030. It may be that the curve overstates future inflation due to the comparative scarcity of Index-Linked Gilts, but there appears no consensus on the extent of this.



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 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	2.7	3.4	26.9	3.7	5.9	7.7	6.0
Overseas Equities	3.6	8.1	25.6	13.1	14.1	14.2	9.0
US Equities	4.0	11.6	27.7	16.4	17.2	18.5	7.9
Europe ex UK Equities	2.9	6.5	27.7	10.6	11.6	10.8	9.8
Japan Equities	4.0	4.7	17.1	5.7	8.4	10.2	5.5
Pacific ex Japan Equities	3.4	-1.1	17.3	8.8	10.3	9.3	11.2
Emerging Markets	3.7	-0.8	15.6	8.2	9.7	7.0	10.9
UK Long-dated Gilts	-1.5	5.3	-2.4	6.1	2.1	7.7	6.7
UK Long-dated Corp. Bonds	-0.6	5.0	4.0	8.4	3.9	8.3	7.0
UK Over 5 Yrs Index-Linked Gilts	0.4	7.2	7.2	7.9	4.1	8.5	7.7
High Yield (Global)	1.6	4.1	6.2	5.0	5.3	8.5	8.0
Overseas Bonds	0.6	3.6	-4.5	2.1	0.8	2.8	4.7
Property *	1.2	4.3	10.3	3.6	5.9	7.8	7.3
Cash	0.0	0.0	0.1	0.5	0.5	0.6	2.2
Commodities £-converted	-1.3	6.9	39.3	-4.0	2.3	-5.0	-1.4
Hedge Funds original \$ basis *	-0.9	1.0	22.7	8.2	7.4	5.0	5.9
Illustrative £-converted version *	-1.6	1.3	15.9	6.2	6.4	6.8	6.0
Euro relative to Sterling	0.6	-0.3	-3.9	-1.4	0.2	-0.3	1.6
US \$ relative to Sterling	1.0	3.3	-3.1	-1.9	-1.0	1.7	0.3
Japanese Yen relative to Sterling	0.9	2.9	-7.2	-1.6	-2.2	-1.9	0.7
Sterling trade weighted	-0.8	-0.9	3.3	1.5	0.7	0.3	-1.0
Price Inflation (RPI) *	0.5	1.5	3.8	2.7	3.0	2.7	2.9
Price Inflation (CPI) *	0.0	1.1	2.0	1.7	2.0	1.8	2.1
Price Inflation (RPIX) *	0.5	1.5	3.9	2.8	3.1	2.8	3.0
Earnings Inflation **	0.2	-7.3	8.8	3.6	3.1	2.3	2.9
All Share Capital Growth	2.0	2.3	23.0	0.0	2.1	3.9	2.3
Dividend Growth	8.1	10.1	-18.8	-7.6	-1.2	2.4	3.0
Earnings Growth	14.8	38.2	52.5	-6.7	18.8	-1.5	3.7

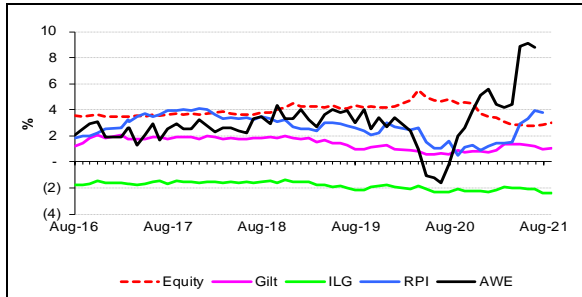
Note: All market returns are total returns for pension funds with income reinvested monthly. Indices used are as follows:

- 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.

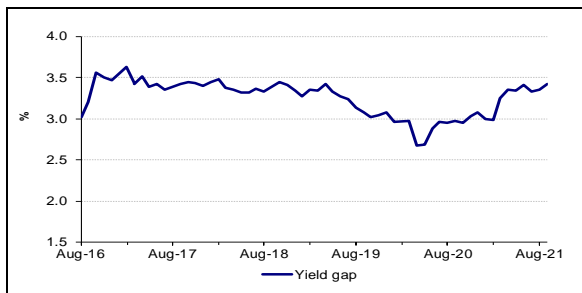


Yields and Yield Gaps

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.

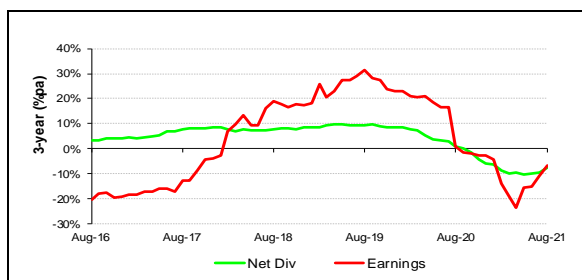
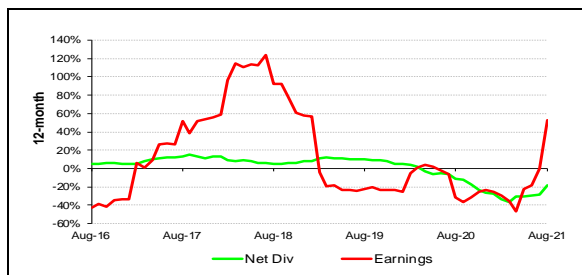


The gap gives a current expectation around 3.4% for longer-term inflation including the risk premium for gilts, relative to index-linked gilts.

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]

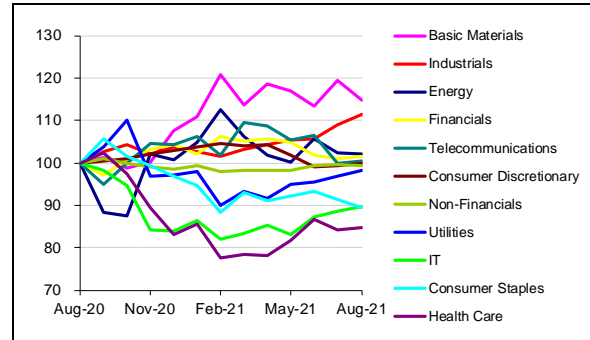
Figure 3: Dividend & Earnings Growth



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



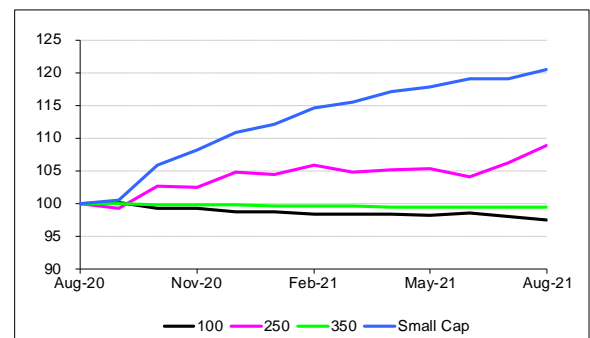
Note: Sector labels for relative lines are in end-value order

There was a fall this month in the rolling 12-month sector dispersion (down from 39% to 30%).

(% absolute return)	1 mth	3 mth	12 mth
Oil & Gas	2.3	5.3	29.5
Basic Materials	-1.3	1.5	45.6
Industrials	4.9	9.4	41.4
Consumer Goods	0.8	0.6	13.6
Health Care	3.5	7.0	7.5
Consumer Services	3.1	1.6	26.8
Telecommunications	3.2	-1.3	27.6
Utilities	4.0	6.9	24.6
Non-Financials	2.5	4.4	26.1
Financials	3.3	0.0	28.9
IT	4.2	11.6	14.0
All Share	2.7	3.4	26.9

UK Equity Size Returns

Figure 4b: Size groups relative to All Share



This month, Mid Cap and Small Cap both 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

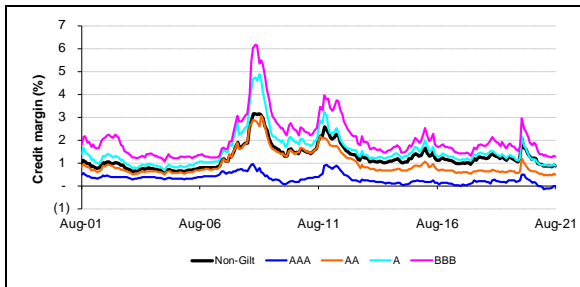


Table 2a: Over 15 Yr Corporate Yields & Margins

Month End	iBoxx Corp AA Y'ld (%)	FT 20 yr Gilt (%)	Margin (%)
Mar '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	1.62	1.00	0.62
Aug '21	1.65	1.07	0.58

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

Category	Mkt Val (£bn @ Aug 21 & 18, 15)			Weight (%)
Gilts (52)	1,815	1,324	1,229	73.0
Non-Gilts (1,166)	670	570	537	27.0
AAA (131)	128	114	100	5.2
AA (141)	78	81	97	3.2
A (377)	192	163	163	7.7
BBB (517)	271	212	177	10.9

Category	Mkt Val (£bn @ Aug 21, 18)		W't (%)	Dur'n (yrs)
Gilts (52)	1,815	1,324	73.0	13.0
< 5 Yrs (13)	450	349	18.1	3.0
5-15 Yrs (14)	540	359	21.7	8.4
> 15 Yrs (25)	824	615	33.2	21.4
Non-Gilts (1,166)	670	570	27.0	8.0
< 5 Yrs (412)	228	186	9.2	2.9
5-15 Yrs (522)	287	239	11.6	7.3
> 15 Yrs (232)	155	145	6.2	16.7

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

Category	Mkt Val (€bn)	Weight (%)
Sovereigns (438)	7,810	59.1
Non-Sovereigns	5,402	40.9
AAA (996)	1,402	10.6
AA (784)	1,314	9.9
A (1,289)	1,163	8.8
BBB (1,863)	1,523	11.5

Category	Mkt Val (€bn)	Weight (%)
1 – 3 Yrs (1,340)	2,816	21.3
3 – 5 Yrs (1,297)	2,603	19.7
5 – 7 Yrs (1,040)	2,054	15.5
7 – 10 Yrs (908)	2,297	17.4
10+ Yrs (785)	3,441	26.0

Table 2f: Breakdown of £ Index-Linked Market

Category (Number of issues)	Mkt Val (£bn @ Aug 21 & 18)		W't (%)	Dur'n (yrs)
Gilts (31)	863	666	100.0	21.7
< 5 Yrs (4)	89	59	10.3	2.7
5 – 15 Yrs (8)	192	155	22.2	9.4
> 15 Yrs (19)	582	452	67.4	28.7

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

Month End	US (%)	Euro (%)	Sterling (%)
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	4.23	2.60	4.18
Aug '21	4.18	2.58	4.18

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.

