



### Investment Headlines & Comment

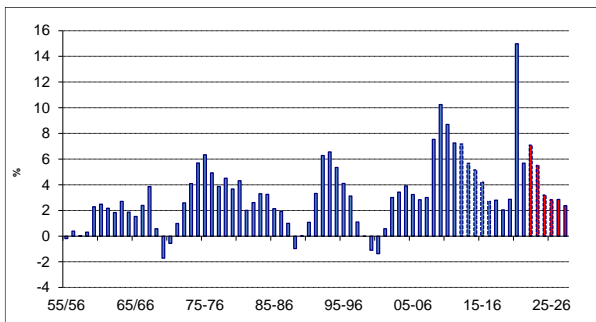
- A strong month for many equity markets, particularly in the Far East and Emerging Markets.
- In the UK, bond markets continued to stabilize, and credit margins reduced accordingly.
- But the worst ever single month return on IPD's property index since it started in January 1990.

### Feature Section

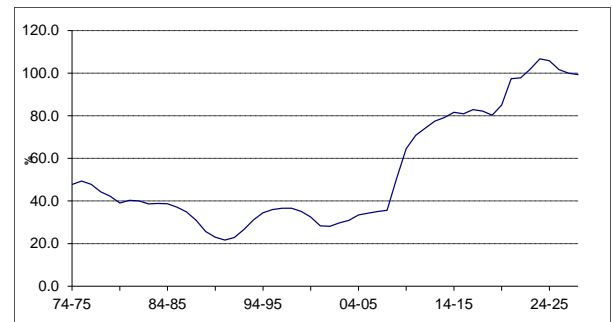
This month we look at the UK Government's borrowing projections, in the light of the Autumn Budget. We last looked at this in our [March 2022](#) edition, but quite a lot has happened since then. Stability is something highly desired but lately rather elusive!

The Office for Budget Responsibility (OBR) was involved (unlike for the disastrous mini-Budget), and its commentary can be found [here](#). Figures 1a-1d show the usual metrics, including the Office for Budget Responsibility's (OBR) projections for the current tax year, and the next five tax years.

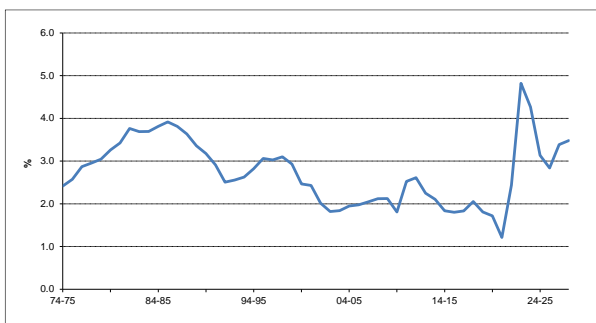
**Figure 1a: Public Sector Net Borrowing (%)**



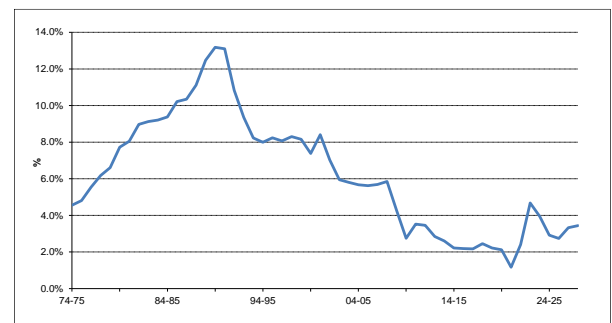
**Figure 1b: Debt to GDP Ratio (%)**



**Figure 1c: Interest to GDP Ratio (%)**



**Figure 1d: Interest to Debt Ratio (%)**



Source: Office for Budget Responsibility (OBR)

In Figure 1c, the interest spike remains in place in 2022/23 due to the spike in inflation (as measured by RPI) that the UK is currently experiencing. However, the OBR no longer has it then stabilizing at just over 1.5%, instead it has it dropping for a while, then rising to around 3.5%. This reflects the jump in interest rates over 2022. Similarly, whereas Figure 1d used to show the interest to debt ratio stabilizing at a historically low level of around 2%, it is now projected to be heading to over 3%, which is potentially rather more problematic.

It is worth flagging that all these figures are before you factor in the losses that the Government will have to finance as the Bank of England unwinds the Quantitative Easing portfolio (because the timing of those sales is not set in stone). These gilt sales are taking place at far lower prices than the Bank paid for the gilts, but when the scheme was created, it was agreed that the Government would bear any losses. The current OBR estimate for those is £133bn, probably emerging over the next five years, or perhaps the next decade.



**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 November 2022**

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	7.1	4.0	<b>6.5</b>	3.9	4.2	6.8	7.4
Overseas Equities	4.2	0.9	-1.6	10.3	9.9	12.9	10.3
US Equities	2.0	0.9	-1.0	<b>13.7</b>	<b>13.7</b>	<b>16.6</b>	8.8
Europe ex UK Equities	8.0	<b>7.2</b>	-5.5	5.4	5.1	9.0	<b>11.3</b>
Japan Equities	5.9	-1.0	-4.8	2.8	3.1	9.8	6.8
Pacific ex Japan Equities	<b>13.0</b>	-3.8	-4.7	5.5	4.3	7.6	11.0
Emerging Markets	11.0	-3.9	-7.9	3.3	2.5	5.5	10.4
UK Long-dated Gilts	4.6	-4.8	-37.8	<b>-12.3</b>	<b>-4.5</b>	1.1	4.1
UK Long-dated Corp. Bonds	7.2	-1.8	-33.0	-9.4	-2.9	2.1	4.4
UK Over 5 Yrs Index-Linked Gilts	4.1	-9.3	<b>-38.0</b>	-8.8	-3.4	2.7	5.3
High Yield (Global)	0.7	-1.2	-2.6	1.6	3.4	6.4	8.5
Overseas Bonds	0.8	-3.6	-7.6	-2.3	0.5	2.0	4.2
Property *	<b>-6.4</b>	<b>-9.7</b>	4.6	5.4	5.6	8.3	7.2
Cash	0.3	0.8	1.7	0.7	0.7	<b>0.6</b>	<b>2.0</b>
Commodities £-converted	<b>-5.0</b>	<b>-5.5</b>	52.7	16.7	10.5	<b>-0.3</b>	1.5
Hedge Funds original \$ basis *	1.4	<b>-0.6</b>	<b>-5.8</b>	6.4	4.6	4.8	5.7
Illustrative £-converted version *	<b>-1.7</b>	5.1	12.1	10.6	7.6	8.4	7.4
Euro relative to Sterling	0.7	0.0	1.6	0.5	<b>-0.4</b>	0.6	1.5
US \$ relative to Sterling	<b>-3.3</b>	<b>-2.3</b>	11.1	2.8	2.6	3.0	1.3
Japanese Yen relative to Sterling	3.0	<b>-2.9</b>	<b>-9.6</b>	<b>-5.2</b>	<b>-1.8</b>	<b>-2.3</b>	0.7
Sterling trade weighted	0.3	1.5	<b>-3.2</b>	<b>-0.6</b>	0.0	<b>-0.6</b>	<b>-1.2</b>
Price Inflation (RPI) *	2.5	3.8	14.2	7.0	5.3	3.8	3.5
Price Inflation (CPI) *	1.9	3.0	11.1	5.2	3.9	2.7	2.6
Price Inflation (RPIX) *	2.4	3.6	13.9	7.1	5.3	3.9	3.6
Earnings Inflation **	0.9	<b>-0.5</b>	6.9	4.7	4.2	3.0	3.1
All Share Capital Growth	6.8	3.3	2.8	0.6	0.5	3.1	3.7
Dividend Growth	0.8	3.0	13.1	<b>-5.2</b>	<b>-0.5</b>	2.8	3.9
Earnings Growth	<b>-8.6</b>	<b>-18.2</b>	<b>-27.4</b>	<b>-3.6</b>	2.0	<b>-1.5</b>	3.9

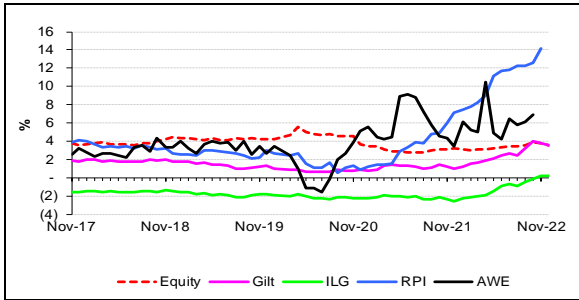
Note: All market returns are total returns for pension funds with income reinvested monthly. Indices used are as follows:

- 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.

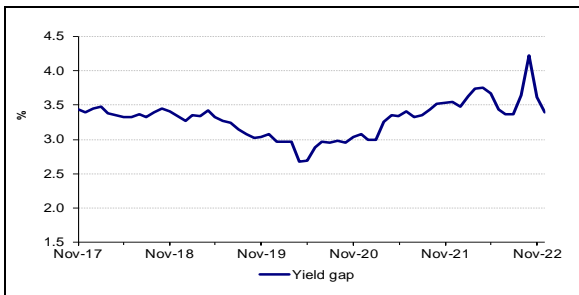


## Yields and Yield Gaps

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.

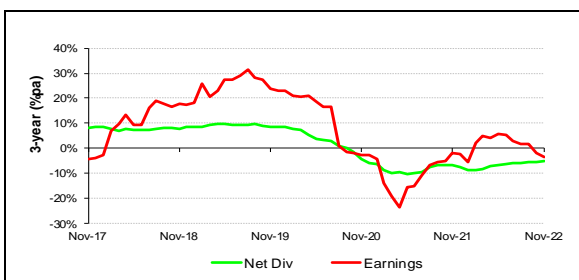
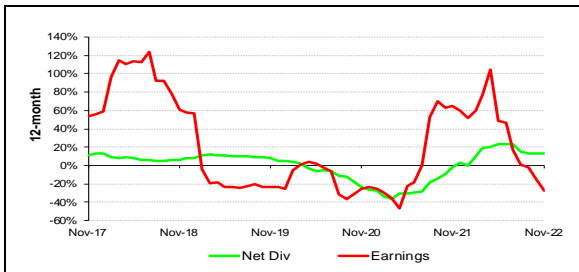


The gap gives a current expectation of around 3.4% p.a. for longer-term inflation including the (unknown) risk premium for gilts, relative to index-linked gilts.

## 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]

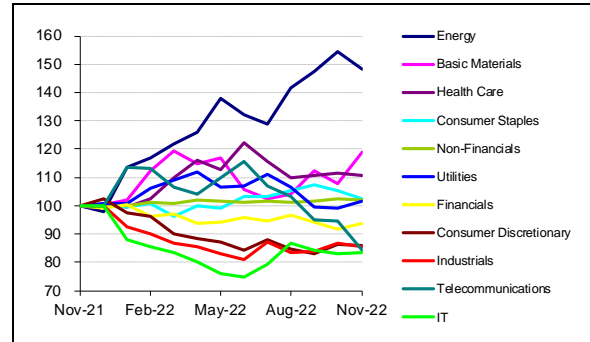
Figure 3: Dividend & Earnings Growth



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



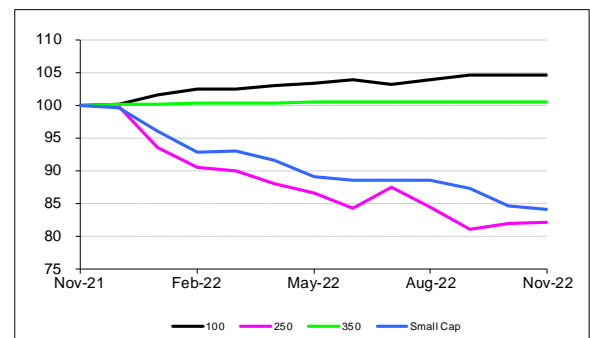
Note: Sector labels for relative lines are in end-value order

There was a small fall this month in the rolling 12-month sector dispersion (down from 66% to 65%).

(% absolute return)	1 mth	3 mth	12 mth
Energy	3.1	9.0	58.1
Basic Materials	18.6	19.2	26.9
Industrials	5.6	6.6	-8.8
Consumer Staples	4.2	1.2	9.1
Health Care	6.4	4.6	17.8
Consumer Discretionary	6.8	5.6	-8.3
Telecommunications	-4.2	-15.0	-10.0
Utilities	10.0	-0.7	8.4
Non-Finan	6.4	4.8	8.5
Financials	9.9	1.1	0.0
IT	8.0	0.3	-11.0
All Share	7.1	4.0	6.5

## UK Equity Size Returns

Figure 4b: Size groups relative to All Share



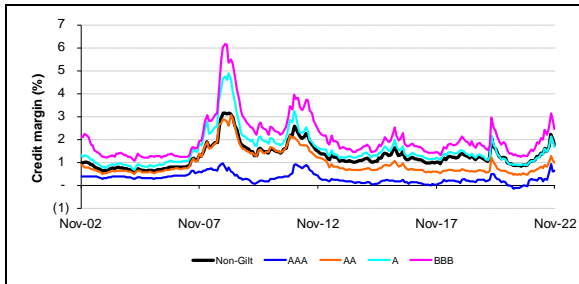
This month, Mid Cap rose relative to the All Share but Small Cap fell.

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 (%)
Jun '22	3.78	2.66	1.12
Jul '22	3.45	2.45	1.00
Aug '22	4.18	3.20	0.98
Sep '22	5.07	4.03	1.04
Oct '22	4.68	3.82	0.86
Nov '22	<b>4.26</b>	<b>3.54</b>	<b>0.72</b>

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

Category	Mkt Val (£bn @ Nov 22 & 19, 16)			Weight (%)
	Nov 22	Nov 19	Nov 16	
Gilts (54)	1,441	1,401	1,316	72.3
Non-Gilts (1,214)	553	644	552	27.7
AAA (145)	120	133	108	6.0
AA (159)	74	89	92	3.7
A (399)	150	180	169	7.5
BBB (511)	209	242	183	10.5

Category	Mkt Val (£bn @ Nov 22, 19)		W't (%)	Dur'n (yrs)
Gilts (54)	1,441	1,401	72.3	10.5
< 5 Yrs (12)	397	311	19.9	2.6
5-15 Yrs (16)	491	403	24.6	7.8
> 15 Yrs (26)	553	688	27.7	18.6
Non-Gilts (1,214)	553	644	27.7	6.3
< 5 Yrs (498)	255	213	12.8	2.7
5-15 Yrs (488)	204	278	10.2	7.0
> 15 Yrs (228)	94	153	4.7	14.1

**Tables 2d, 2e: € Market Size and Maturity (Nov 22)**

Category	Mkt Val (£bn)	Weight (%)
Sovereigns (449)	6,753	58.0
Non-Sovereigns	4,899	42.0
AAA (1,123)	1,523	13.1
AA (788)	984	8.4
A (1,426)	1,083	9.3
BBB (1,951)	1,310	11.2

Category	Mkt Val (£bn)	Weight (%)
1 – 3 Yrs (1,463)	2,729	23.4
3 – 5 Yrs (1,475)	2,557	21.9
5 – 7 Yrs (1,056)	1,826	15.7
7 – 10 Yrs (956)	1,977	17.0
10+ Yrs (787)	2,562	22.0

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

Category (Number of issues)	Mkt Val (£bn @ Nov 22 & 19)		W't (%)	Dur'n (yrs)
Gilts (31)	599	740	100.0	17.5
< 5 Yrs (4)	95	94	15.9	2.8
5 – 15 Yrs (9)	198	154	33.0	9.8
> 15 Yrs (18)	306	493	51.1	27.1

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

Month End	US (%)	Euro (%)	Sterling (%)
Jul '22	7.03	5.92	8.50
Aug '22	7.64	6.51	9.07
Sep '22	8.69	7.85	11.39
Oct '22	8.21	7.37	10.86
Nov '22	<b>7.86</b>	<b>6.72</b>	<b>10.07</b>

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

**£ Gilt Market “main” & “Green” Issuance**

- £3.56bn, ¼% 2025 (1.89x, 3.35%, 2%, Sep '22)
- £4.37bn, 4½% 2027 (2.30x, 3.63%, 25%, Oct '22)
- £3.25bn, 1% 2032 (2.11x, 3.43%, 0%, Oct '22)
- £2.75bn, 7½% Gr 2033 (2.25x, 3.71%, n/a, May '22)
- £6.00bn, 3¾% 2038 (7.85x, 4.08%, n/a, new)
- £2.25bn, 7½% 2046 (2.11x, 3.59%, 0%, Sep '22)
- £1.5bn, 1½% IL 2073 (11.2x, -0.39%, n/a, Apr '22)

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.

