



Investment Headlines & Comment

- A poor month for many equity markets, especially in Europe.
- The trend of rising gilt yields has continued.
- Sterling fell against the Dollar and Euro.

Feature Section

This month, we consider sector returns in Global Equities over the last decade, following on from related analysis in our [December 2020](#) issue. All data is from FTSE Russell, and we have confined ourselves to the broad sector level rather than all the sub-sectors.

Figure 1a shows the cumulative absolute total returns, and Figure 1b shows the cumulative total returns *relative* to that of the FTSE All-World index (with each having an initial level of 100). The legend is in end-value order. Figure 1c shows the progression in the sector weightings within the index.

Figure 1a: Cumulative total returns

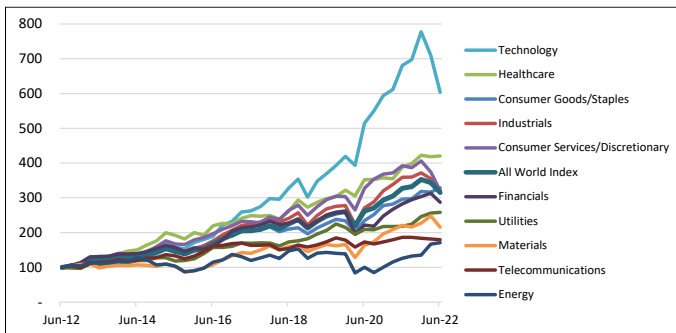


Figure 1b: Cumulative relative returns

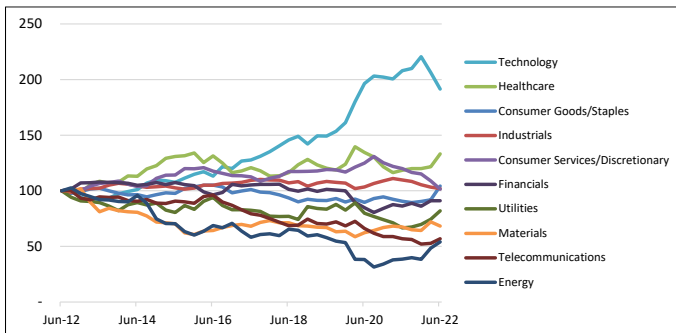
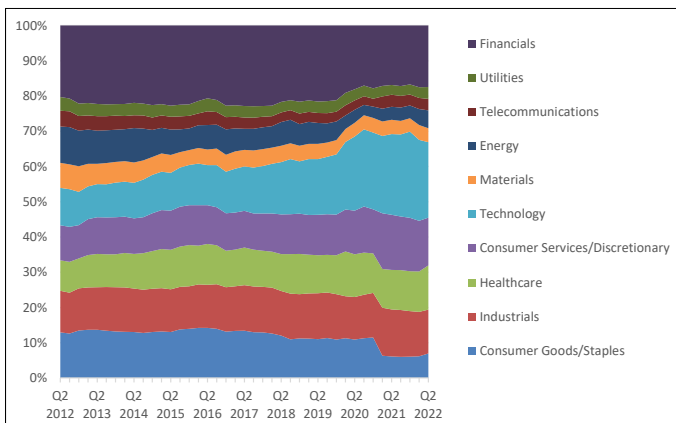


Figure 1c: Sector weightings



The overall index now has 4,115 constituents, with 620 of them accounting for the US weighting of just under 60%. The index's 10-year return is high at 12.2% p.a. and it is fair to say that prospective returns are likely to be rather lower than this. The sector returns range from an excessive 19.7% p.a. for Technology down as far as a modest 5.5% p.a. for Energy.

The strength of the Technology rally in 2020 and its subsequent retreat is very clearly demonstrated in Figure 1a, but there is still a fair question about just how much further it has to fall.

Equally starkly displayed is the prolonged sequence of poor returns from the Energy sector, both in absolute terms and relative to the wider market. This may in part be down to consumers of their products adopting more sustainable approaches, although the recent spike in oil prices has seen something of a rally for the sector.

This spike has also led to it being the most volatile sector (based on the 10 consecutive 12-month absolute returns), followed by Technology. The sectors with the lowest volatility have been Healthcare, Telecommunications and Consumer Staples.

The Energy weighting within the overall index has halved over the last 10 years, whereas Technology has more than doubled. In contrast, there has been relatively little variation in the weighting for the Industrials and Healthcare sectors.



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 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	-4.1	-3.2	3.6	3.1	3.7	7.1	6.6
Overseas Equities	-4.9	-8.5	-4.0	8.7	9.2	12.6	9.3
US Equities	-4.8	-9.6	-0.7	12.1	12.7	15.8	7.4
Europe ex UK Equities	-7.1	-8.6	-12.4	2.6	3.8	9.3	10.4
Japan Equities	-3.9	-6.8	-8.5	3.0	3.4	8.8	5.5
Pacific ex Japan Equities	-2.2	-3.2	-11.0	4.8	5.3	8.6	10.4
Emerging Markets	-3.0	-3.9	-14.7	2.5	3.9	6.1	10.1
UK Long-dated Gilts	-3.4	-14.2	-22.9	-6.3	-1.7	2.7	5.0
UK Long-dated Corp. Bonds	-5.5	-15.4	-25.1	-5.2	-1.3	3.7	5.0
UK Over 5 Yrs Index-Linked Gilts	-5.2	-19.8	-19.1	-4.7	-0.7	4.1	6.0
High Yield (Global)	-3.8	-3.9	-6.3	-0.3	2.1	6.5	8.2
Overseas Bonds	0.7	-0.2	-3.5	-2.4	0.4	2.1	4.4
Property *	1.3	6.0	25.1	9.3	8.7	9.5	8.0
Cash	0.1	0.3	0.6	0.4	0.5	0.5	2.0
Commodities £-converted	-4.2	10.6	65.0	16.5	13.2	0.7	1.9
Hedge Funds original \$ basis *	-0.5	-0.7	-2.3	8.0	5.8	5.3	5.6
Illustrative £-converted version *	-0.9	5.7	10.2	8.0	6.2	7.5	6.3
Euro relative to Sterling	1.3	1.9	0.3	-1.3	-0.4	0.6	1.4
US \$ relative to Sterling	3.8	8.4	13.8	1.6	1.4	2.6	1.2
Japanese Yen relative to Sterling	-1.7	-3.1	-7.1	-6.0	-2.4	-2.7	0.5
Sterling trade weighted	-1.9	-3.0	-3.6	0.8	0.3	-0.5	-1.1
Price Inflation (RPI) *	0.7	5.3	11.7	5.2	4.4	3.4	3.3
Price Inflation (CPI) *	0.7	4.3	9.0	3.8	3.2	2.3	2.4
Price Inflation (RPIX) *	0.7	5.3	11.8	5.4	4.5	3.4	3.4
Earnings Inflation **	-11.8	0.0	4.7	4.1	3.7	2.8	2.9
All Share Capital Growth	-4.3	-4.0	0.1	-0.3	0.1	3.3	2.9
Dividend Growth	0.9	6.5	23.4	-6.1	-0.8	2.7	3.7
Earnings Growth	-1.2	-1.7	46.1	5.3	13.7	0.3	4.8

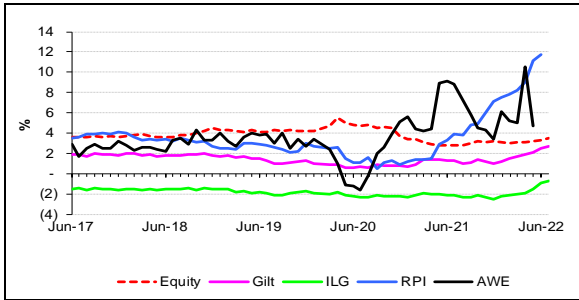
Note: All market returns are total returns for pension funds with income reinvested monthly. Indices used are as follows:

- 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, 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.

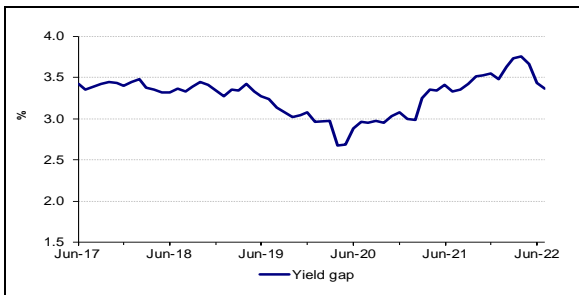


Yields and Yield Gaps

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.

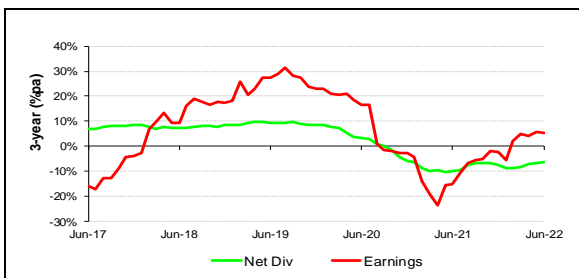
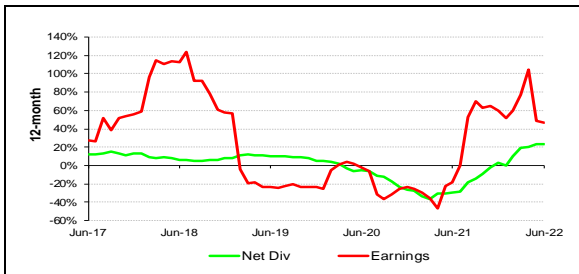


The gap gives a current expectation around 3.4% for longer-term inflation including the (unknown) risk premium for gilts, relative to index-linked gilts.

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]

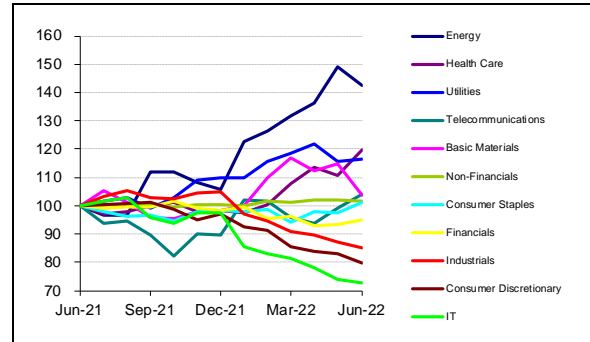
Figure 3: Dividend & Earnings Growth



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



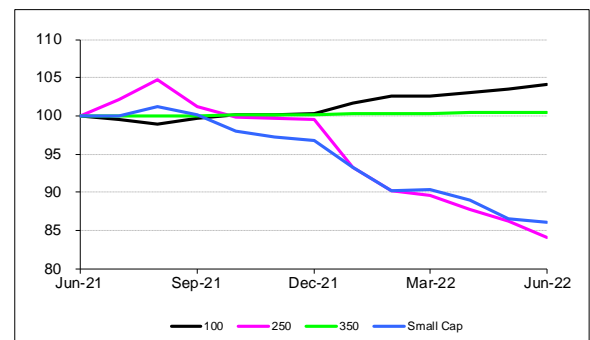
Note: Sector labels for relative lines are in end-value order

There was a fall this month in the rolling 12-month sector dispersion (falling from 80% to 70%).

(% absolute return)	1 mth	3 mth	12 mth
Energy	-8.4	4.7	47.8
Basic Materials	-13.3	-14.1	7.5
Industrials	-6.4	-9.5	-12.0
Consumer Staples	-0.3	4.0	4.8
Health Care	4.0	7.7	24.2
Consumer Discretionary	-7.6	-9.5	-17.3
Telecommunications	0.8	4.9	7.8
Utilities	-3.7	-5.0	20.5
Non-Finan	-4.6	-2.8	5.2
Financials	-2.4	-4.4	-1.4
IT	-5.6	-13.2	-24.6
All Share	-4.1	-3.2	3.6

UK Equity Size Returns

Figure 4b: Size groups relative to All Share



This month, Mid Cap and Small Cap both fell 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

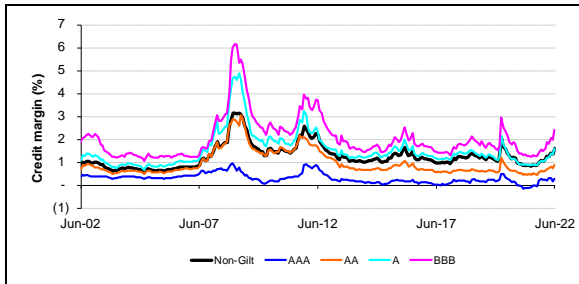


Table 2a: Over 15 Yr Corporate Yields & Margins

Month End	iBoxx Corp AA Y'ld (%)	FT 20 yr Gilt (%)	Margin (%)
Jan '22	2.25	1.52	0.73
Feb '22	2.62	1.67	0.95
Mar '22	2.71	1.84	0.87
Apr '22	3.05	2.13	0.92
May '22	3.40	2.46	0.94
Jun '22	3.78	2.66	1.12

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

Category	Mkt Val (£bn @ Jun 22 & 19, 16)			Weight (%)
Gilts (55)	1,545	1,375	1,357	72.5
Non-Gilts (1,207)	585	606	547	27.5
AAA (144)	127	124	109	5.9
AA (158)	78	87	96	3.7
A (389)	156	164	163	7.3
BBB (516)	225	230	178	10.6

Category	Mkt Val (£bn @ Jun 22, 19)		W't (%)	Dur'n (yrs)
Gilts (55)	1,545	1,375	72.5	11.1
< 5 Yrs (12)	411	338	19.3	2.6
5-15 Yrs (16)	500	355	23.5	7.7
> 15 Yrs (27)	634	683	29.8	19.2
Non-Gilts (1,207)	585	606	27.5	6.7
< 5 Yrs (472)	253	206	11.9	2.9
5-15 Yrs (501)	224	255	10.5	7.1
> 15 Yrs (234)	108	145	5.1	14.7

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

Category	Mkt Val (€bn)	Weight (%)
Sovereigns (448)	6,832	58.4
Non-Sovereigns	4,872	41.6
AAA (1,083)	1,493	12.8
AA (775)	988	8.4
A (1,379)	1,061	9.1
BBB (1,961)	1,330	11.4

Category	Mkt Val (€bn)	Weight (%)
1 – 3 Yrs (1,436)	2,736	23.4
3 – 5 Yrs (1,380)	2,500	21.4
5 – 7 Yrs (1,050)	1,920	16.4
7 – 10 Yrs (974)	1,919	16.4
10+ Yrs (806)	2,629	22.5

Table 2f: Breakdown of £ Index-Linked Market

Category (Number of issues)	Mkt Val (£bn @ Jun 22 & 19)		W't (%)	Dur'n (yrs)
Gilts (32)	689	736	100.0	18.1
< 5 Yrs (4)	93	79	13.6	1.8
5 – 15 Yrs (9)	207	176	30.0	9.0
> 15 Yrs (19)	389	481	56.4	26.9

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

Month End	US (%)	Euro (%)	Sterling (%)
Jan '22	5.09	3.38	5.22
Feb '22	5.36	4.16	5.86
Mar '22	5.70	4.23	6.08
Apr '22	6.56	5.01	6.68
May '22	6.53	5.22	7.41
Jun '22	8.21	7.00	9.10

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

£ Gilt Market “main” Issuance

- £3.08bn, ¼% 2025 (2.24x, 1.95%, 3%, Mar '22)
- £1.01bn, 1/8% IL 2031 (2.77x, -1.34%, 1%, Mar '22)
- £3.13bn, 1% 2032 (2.85x, 2.30%, 25%, Apr '22)
- £5.50bn, 1 1/8% 2073 (7.91x, 2.64%, n/a, Feb '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.

