



Investment Headlines & Comment

- Far Eastern and Emerging Markets gave up some of their recent strong gains.
- Remarkably, all other asset classes posted changes in local terms of less than +/-1%.
- Major demand for the second syndication of the new(ish) 2038 Index-Linked Gilt.

Feature Section

This month we consider the updated UK finances as disclosed in this month's Budget. The Office for Budget Responsibility (OBR) has done its analysis, and its commentary can be found [here](#). However, the OBR's involvement this time is rather different with the market-sensitive accidental early publication of its outputs, the apparent pre-Budget OBR notification to the Treasury that there was no current need to raise taxes to continue to meet the Government's fiscal rules, and then the apparent misleading of pretty much everyone by the Chancellor on that very subject. An ethics investigation is the result. These (at the time of writing) controversial aspects could yet still be significant in what happens down the line.

Figures 1a-1d show the usual metrics, including the OBR projections for the next five tax years as well as the incomplete current one. It is fair to say not a lot has really changed since the last projections published for the March 2025 Financial Statement in terms of where we are expected to get to by the end of the updated projection period. So, we continue to have built up a major debt overhang costing us interest of about 4% a year (on both Debt and GDP measures) with no sign of any real *effective* plan for its subsequent reduction.

Figure 1a: Public Sector Net Borrowing (%)

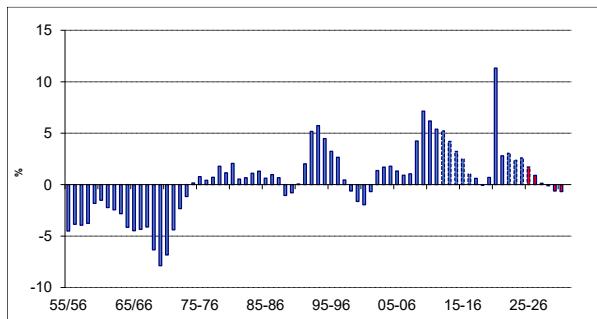


Figure 1b: Debt to GDP Ratio (%)

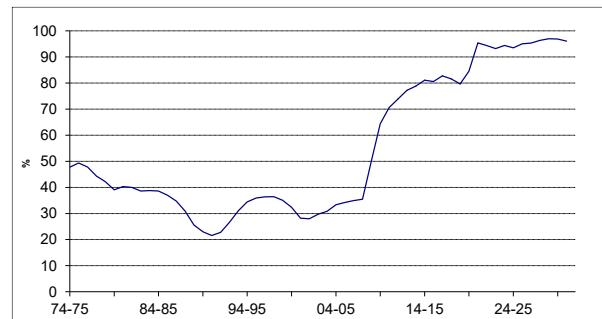


Figure 1c: Interest to GDP Ratio (%)

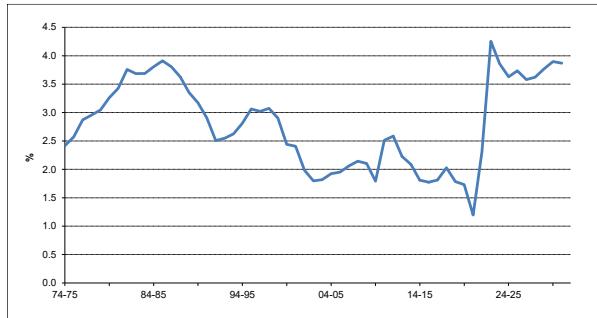
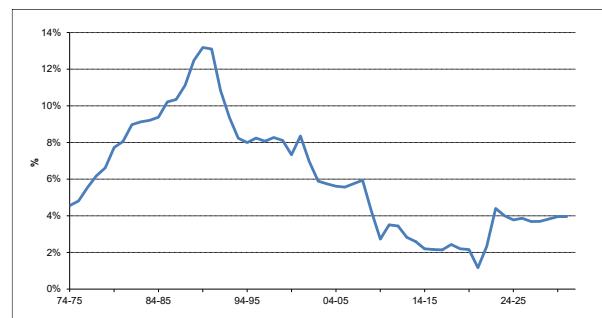


Figure 1d: Interest to Debt Ratio (%)



Source: Office for Budget Responsibility (OBR)

It is worth flagging that Figure 1a only covers "completely new" borrowing. Putting figures on it, apart from adding the remainder of the current tax year, that borrowing is projected to total £33bn over the next 2 tax years, with an offset of £50bn for the next 3 tax years. However, there is considerable "roll over" borrowing to be refinanced that does not appear in the above charts. We believe that totals c.£711bn of conventionals and c.£118bn of Index-Linked Gilts (plus more inflation uplift prior to maturity). With many pension funds heading for the exit where they can, will there be enough buyers, or are yields going to have to rise further?



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 2025

| 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 | 0.4 | 6.0 | 20.0 | 12.2 | 12.1 | 8.0 | 7.0 |
| Overseas Equities | -0.7 | 8.3 | 13.8 | 15.2 | 12.7 | 13.7 | 10.6 |
| US Equities | -0.6 | 8.4 | 10.7 | 16.7 | 15.0 | 16.1 | 8.0 |
| Europe ex UK Equities | 0.7 | 6.4 | 22.6 | 12.4 | 9.3 | 9.9 | 12.5 |
| Japan Equities | -1.1 | 6.9 | 19.3 | 13.6 | 7.9 | 9.3 | 6.3 |
| Pacific ex Japan Equities | -4.6 | 11.1 | 22.9 | 11.8 | 6.8 | 10.5 | 9.6 |
| Emerging Markets | -3.1 | 11.3 | 25.1 | 11.3 | 5.7 | 9.7 | 8.0 |
| UK Long-dated Gilts | 0.0 | 7.1 | -2.0 | -4.9 | -11.7 | -2.2 | 2.2 |
| UK Long-dated Corp. Bonds | -0.2 | 6.4 | 2.9 | 1.5 | -6.8 | 0.8 | 3.4 |
| UK Over 5 Yrs Index-Linked Gilts | -0.9 | 5.5 | -5.1 | -5.6 | -10.3 | -1.4 | 3.1 |
| High Yield (Global) | -0.4 | 3.0 | 4.7 | 6.6 | 4.0 | 7.0 | 7.9 |
| Overseas Bonds | -0.8 | 2.1 | -0.5 | -1.4 | -3.2 | 1.9 | 3.5 |
| Property * | 0.4 | 1.6 | 8.1 | 1.2 | 4.4 | 4.5 | 5.1 |
| Cash | 0.3 | 1.0 | 4.4 | 4.7 | 3.0 | 1.8 | 2.0 |
| Commodities £-converted | -0.8 | 4.0 | 6.6 | -0.1 | 16.3 | 6.5 | -1.1 |
| Hedge Funds original \$ basis * | 0.7 | 5.2 | 12.5 | 9.7 | 8.9 | 6.3 | 5.4 |
| Illustrative £-converted version * | 3.2 | 5.9 | 10.0 | 5.0 | 8.5 | 8.0 | 7.0 |
| Euro relative to Sterling | -0.2 | 1.1 | 5.4 | 0.4 | -0.4 | 2.2 | 1.3 |
| US \$ relative to Sterling | -0.7 | 2.1 | -4.0 | -3.5 | 0.2 | 1.3 | 1.3 |
| Japanese Yen relative to Sterling | -2.1 | -4.0 | -7.6 | -7.0 | -7.6 | -1.1 | 0.0 |
| Sterling trade weighted | 0.6 | -1.3 | -0.3 | 2.2 | 1.3 | -1.0 | -0.8 |
| Price Inflation (RPI) * | 0.3 | 0.3 | 4.3 | 4.6 | 6.7 | 4.6 | 3.8 |
| Price Inflation (CPI) * | 0.4 | 0.6 | 3.6 | 3.5 | 5.1 | 3.4 | 2.9 |
| Price Inflation (RPIX) * | 0.3 | 0.3 | 4.2 | 3.9 | 6.3 | 4.5 | 3.8 |
| Earnings Inflation ** | -0.3 | -0.9 | 4.6 | 5.6 | 5.7 | 4.3 | 3.3 |
| All Share Capital Growth | 0.0 | 5.4 | 15.8 | 8.2 | 8.1 | 4.1 | 3.3 |
| Dividend Growth | 0.6 | 1.0 | 4.7 | 4.9 | 5.1 | 2.9 | 3.5 |
| Earnings Growth | 1.8 | 5.3 | -15.9 | 8.1 | 8.6 | 3.4 | 1.8 |

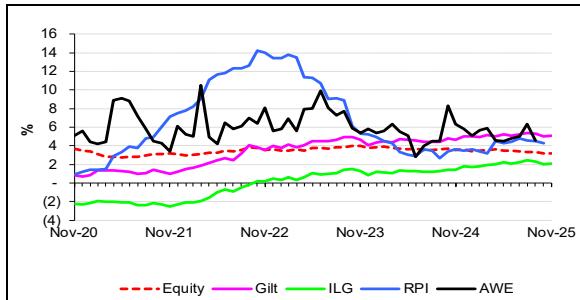
Note: All market returns are total returns for pension funds with income reinvested monthly. Indices used are as follows:

- 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, and SONIA since March 2021, 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.

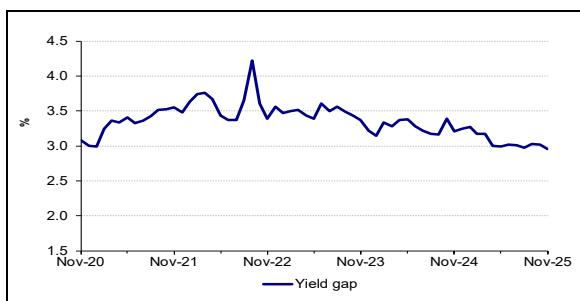


Yields and Yield Gaps

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.

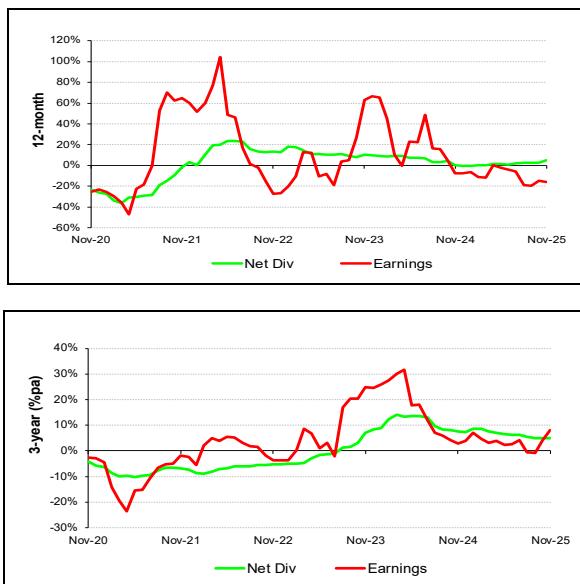


The gap gives a current expectation of around 3.0% p.a. for longer-term inflation including the (unknown) risk premium for gilts, relative to index-linked gilts.

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]

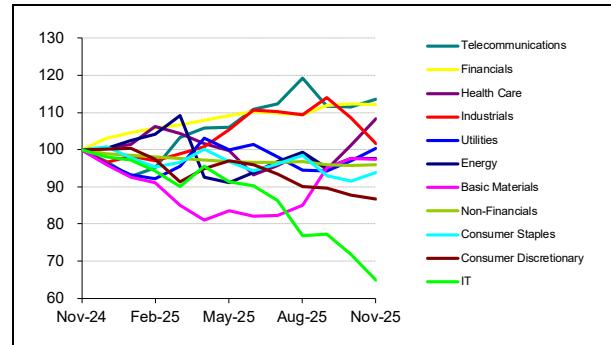
Figure 3: Dividend & Earnings Growth



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



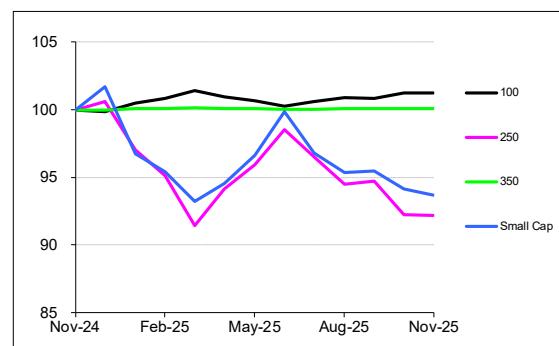
Note: Sector labels for relative lines are in end-value order

There was a clear rise this month in the rolling 12-month sector dispersion (up from 35% to 49%).

| (% absolute return) | 1 mth | 3 mth | 12 mth |
|------------------------|-------|-------|--------|
| Energy | 0.3 | 4.1 | 17.0 |
| Basic Materials | 0.1 | 21.6 | 16.8 |
| Industrials | -6.1 | -1.5 | 21.9 |
| Consumer Staples | 2.8 | 1.0 | 12.6 |
| Health Care | 7.4 | 15.9 | 30.1 |
| Consumer Discretionary | -0.9 | 2.1 | 3.9 |
| Telecommunications | 2.4 | 1.0 | 36.3 |
| Utilities | 3.9 | 12.7 | 20.4 |
| Non-Finan | 0.4 | 5.0 | 15.0 |
| Financials | 0.3 | 8.7 | 34.5 |
| IT | -9.4 | -10.4 | -22.2 |
| All Share | 0.4 | 6.0 | 20.0 |

UK Equity Size Returns

Figure 4b: Size groups relative to All Share



This month, Small Cap fell relative to the All Share but Mid Cap was level with it.

Sources for charts on this page:
Financial Times, Office for National Statistics, J&A



Bond market information

Figure 5: £ Non-Gilt Credit Margins

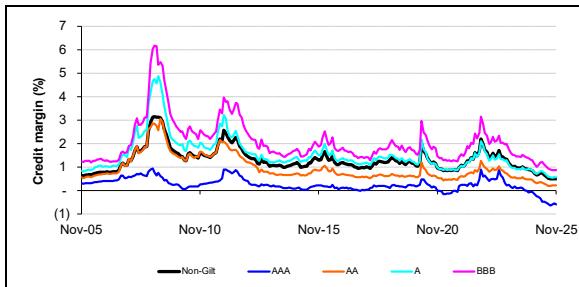


Table 2a: Over 15 Yr Corporate Yields & Margins

| Month End | iBoxx Corp AA Y'd (%) | FT 20 yr Gilt (%) | Margin (%) |
|-----------|-----------------------|-------------------|-------------|
| Jun '25 | 5.53 | 5.10 | 0.43 |
| Jul '25 | 5.62 | 5.22 | 0.40 |
| Aug '25 | 5.83 | 5.39 | 0.44 |
| Sep '25 | 5.74 | 5.33 | 0.41 |
| Oct '25 | 5.43 | 5.02 | 0.41 |
| Nov '25 | 5.48 | 5.05 | 0.43 |

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

| Category | Mkt Val (£bn @ Nov 25 & 22, 19) | | | Weight (%) |
|-------------------|---------------------------------|-------|-------|------------|
| Gilts (66) | 1,672 | 1,441 | 1,401 | 74.8 |
| Non-Gilts (1,209) | 562 | 553 | 644 | 25.2 |
| AAA (133) | 116 | 120 | 133 | 5.2 |
| AA (143) | 62 | 74 | 89 | 2.8 |
| A (438) | 176 | 150 | 180 | 7.9 |
| BBB (495) | 208 | 209 | 242 | 9.3 |

| Category | Mkt Val (£bn @ Nov 25 & 22) | W't (%) | Dur'n (yrs) |
|-------------------|-----------------------------|---------|-------------|
| Gilts (66) | 1,672 | 1,441 | 74.8 |
| < 5 Yrs (15) | 518 | 397 | 23.2 |
| 5–15 Yrs (22) | 650 | 491 | 29.1 |
| > 15 Yrs (29) | 505 | 553 | 22.6 |
| Non-Gilts (1,209) | 562 | 553 | 25.2 |
| < 5 Yrs (561) | 299 | 255 | 13.4 |
| 5–15 Yrs (448) | 191 | 204 | 8.6 |
| > 15 Yrs (200) | 71 | 94 | 3.2 |

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Tables 2d, 2e: € Market Size and Maturity (Nov 25)

| Category | Mkt Val (€bn) | Weight (%) |
|------------------|---------------|------------|
| Sovereigns (534) | 8,028 | 56.0 |
| Non-Sovereigns | 6,310 | 44.0 |
| AAA (1,451) | 2,277 | 15.9 |
| AA (702) | 799 | 5.6 |
| A (1,845) | 1,639 | 11.4 |
| BBB (2,194) | 1,594 | 11.1 |

| Category | Mkt Val (€bn) | Weight (%) |
|--------------------|---------------|------------|
| 1 – 3 Yrs (1,916) | 3,514 | 24.5 |
| 3 – 5 Yrs (1,752) | 3,134 | 21.9 |
| 5 – 7 Yrs (1,258) | 2,272 | 15.8 |
| 7 – 10 Yrs (1,035) | 2,501 | 17.4 |
| 10+ Yrs (776) | 2,917 | 20.3 |

Table 2f: Breakdown of £ Index-Linked Market

| Category (Number of issues) | Mkt Val (£bn @ Nov 25 & 22) | W't (%) | Dur'n (yrs) |
|-----------------------------|-----------------------------|---------|-------------|
| Gilts (35) | 566 | 599 | 100.0 |
| < 5 Yrs (5) | 120 | 95 | 21.2 |
| 5 – 15 Yrs (11) | 217 | 198 | 38.4 |
| > 15 Yrs (19) | 228 | 306 | 40.4 |

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

| Month End | US (%) | Euro (%) | Sterling (%) |
|-----------|-------------|-------------|--------------|
| Sep '25 | 6.47 | 4.97 | 7.42 |
| Oct '25 | 6.53 | 5.02 | 7.53 |
| Nov '25 | 6.48 | 5.07 | 7.55 |

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

£ Gilt Market “main” & “Green” Issuance

- o £5.05bn, 4% 2029 (3.06x, 3.85%, 1%, Oct '25)
- o £1.25bn, 4³/₄% 2030 (3.75x, 3.90%, n/a, Mar '20)
- o £5.63bn, 4¹/₈% 2031 (3.01x, 4.09%, 25%, Oct '25)
- o £4.50bn, 4³/₄% 2035 (2.84x, 4.61%, 0%, Oct '25)
- o £4.25bn, 1³/₄% IL 2038 (**16.3x**, 1.83%, n/a, Jun '25)
- o £0.30bn, 1¹/₄% IL 2052 (3.65x, 2.37%, n/a, Sep '14)

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.



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