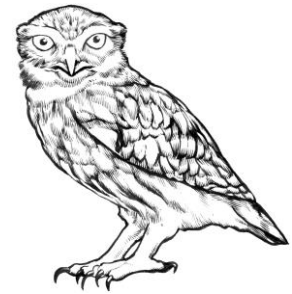


Investment Update December 2025

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Investment Headlines & Comment

- A further strong month for Far East equities, leading to a remarkable 12 month return.
- The UK gilt market has now reached three times the size of Sterling corporate bonds.
- A curious year for Sterling with the dispersion of returns relative to other major currencies.



Feature Section

This month we consider a curious feature in European government bond yields. We have commented in the past on the divergence between various countries' yields, and the implications for markets anticipating the Euro breaking up at some point. However, as 2025 has gone on, French yields have risen to converge with Italian yields, at both 10-year and 30-year measures, with a clear gap relative to German yields being the result.

Figure 1a shows the data for the 10 year yields, and Figure 1b shows the data for the 30 year yields. The data is courtesy of JP Morgan's bond index monitor.

Figure 1a: 10-year yields

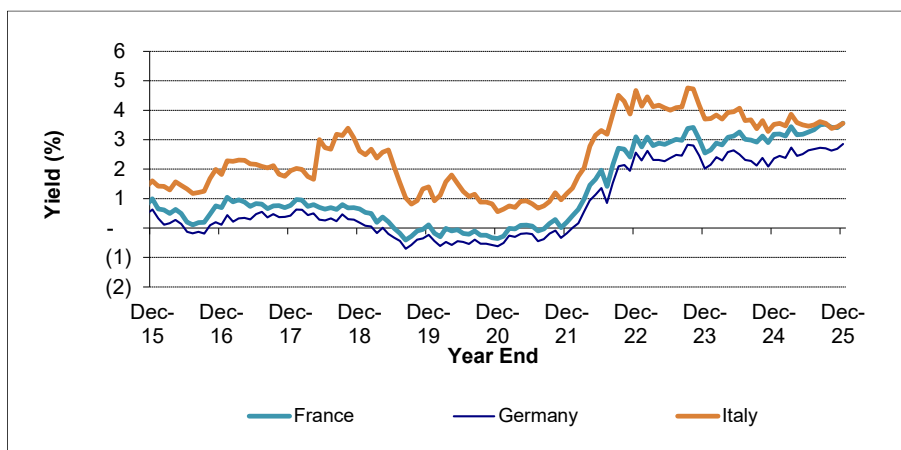
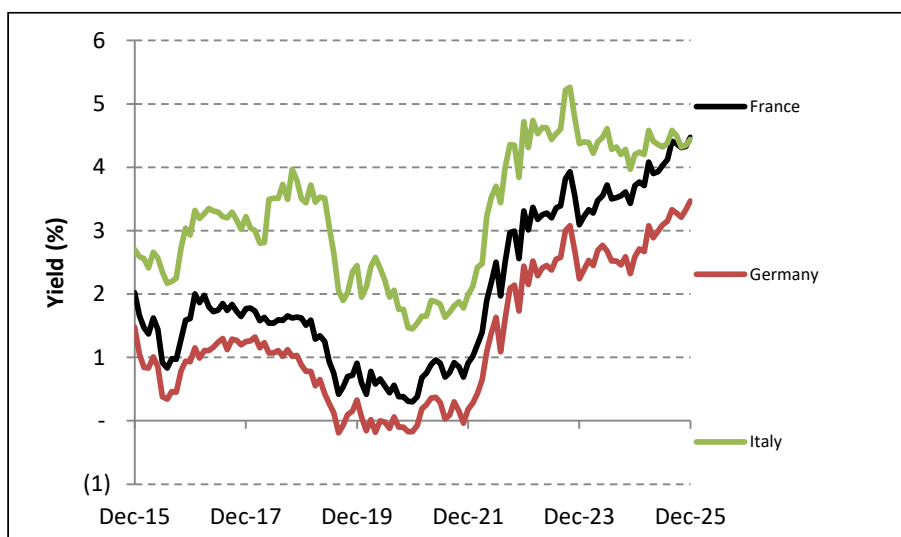


Figure 1b: 30-year yields



Quite how long this peculiar situation can be sustained is debatable, even though countries are still joining the Euro (Bulgaria being the latest).



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 December 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	2.2	6.4	24.0	13.6	11.7	8.4	7.0
Overseas Equities	-0.4	3.8	14.5	16.9	12.1	13.6	10.4
US Equities	-1.4	2.7	10.5	18.9	14.4	15.9	7.9
Europe ex UK Equities	2.6	6.5	26.9	13.6	9.3	10.2	12.4
Japan Equities	-0.9	3.1	17.1	13.5	7.3	9.0	5.8
Pacific ex Japan Equities	4.2	9.7	29.4	13.8	6.7	10.7	9.5
Emerging Markets	1.2	4.7	24.9	12.6	5.0	9.8	7.7
UK Long-dated Gilts	0.3	5.8	3.7	-2.0	-12.1	-2.0	2.1
UK Long-dated Corp. Bonds	0.4	4.9	6.2	3.5	-7.3	1.1	3.3
UK Over 5 Yrs Index-Linked Gilts	0.7	4.1	0.8	-3.4	-10.3	-0.9	3.0
High Yield (Global)	-0.6	1.2	3.2	6.5	3.8	6.9	7.8
Overseas Bonds	-1.8	-0.7	-1.2	-1.7	-3.3	1.4	3.3
Property *	0.5	1.5	7.7	3.3	4.4	4.4	5.0
Cash	0.3	1.0	4.3	4.7	3.1	1.8	2.0
Commodities £-converted	-2.0	0.9	-0.4	0.0	15.0	7.0	-1.4
Hedge Funds original \$ basis *	0.6	3.5	10.4	9.5	7.8	6.4	5.4
Illustrative £-converted version *	-0.1	5.6	6.1	5.7	8.0	7.7	6.8
Euro relative to Sterling	-0.5	-0.1	5.5	-0.6	-0.5	1.7	1.2
US \$ relative to Sterling	-1.8	-0.1	-7.0	-3.7	0.3	0.9	1.2
Japanese Yen relative to Sterling	-2.1	-5.8	-6.8	-9.1	-7.7	-1.7	-0.2
Sterling trade weighted	0.7	-0.1	0.2	2.9	1.4	-0.7	-0.7
Price Inflation (RPI) *	-0.4	-0.5	3.8	4.2	6.7	4.6	3.8
Price Inflation (CPI) *	-0.2	0.1	3.3	3.3	5.1	3.4	2.9
Price Inflation (RPIX) *	-0.5	-0.6	3.7	3.6	6.2	4.4	3.8
Earnings Inflation **	0.1	0.6	2.8	5.6	5.6	4.4	3.3
All Share Capital Growth	2.1	5.7	19.8	9.5	7.8	4.5	3.2
Dividend Growth	0.5	1.2	5.4	4.9	6.0	2.9	3.6
Earnings Growth	3.5	8.5	-14.1	9.7	9.0	3.8	2.0

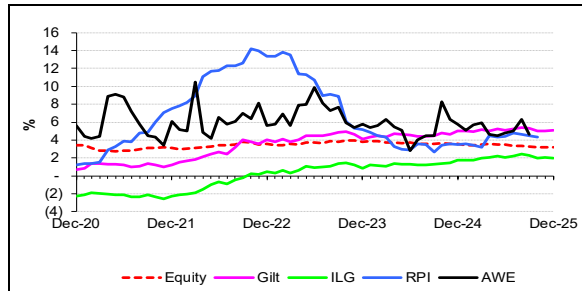
Note: All market returns are total returns for pension funds with income reinvested monthly. Indices used are as follows:

- 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.

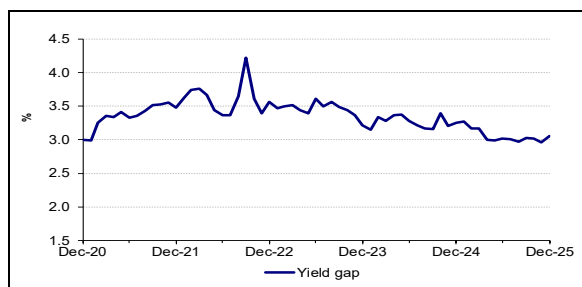


Yields and Yield Gaps

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.

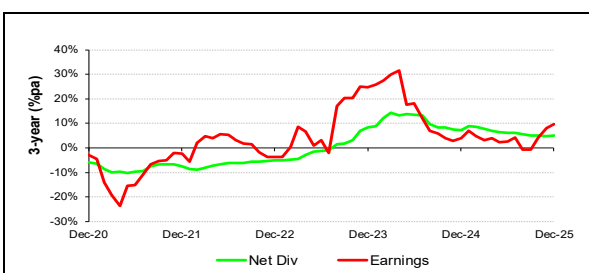
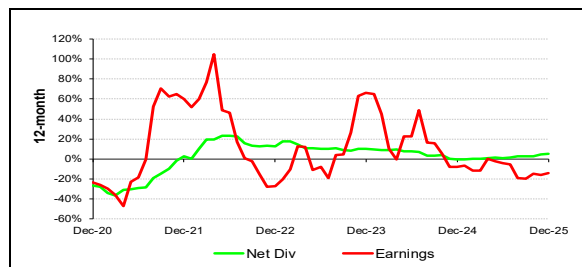


The gap gives a current expectation of around 3.1% p.a. for longer-term inflation including the (unknown) risk premium for gilts, relative to index-linked gilts.

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]

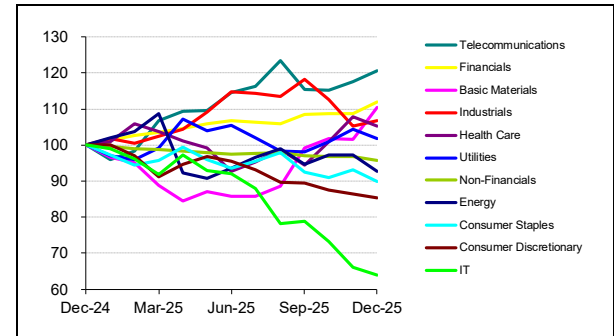
Figure 3: Dividend & Earnings Growth



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



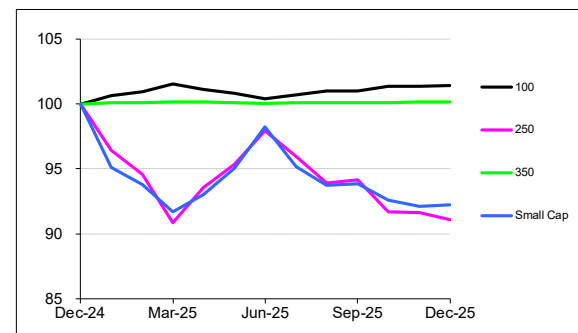
Note: Sector labels for relative lines are in end-value order

There was a clear rise this month in the rolling 12-month sector dispersion (up from 49% to 57%).

(% absolute return)	1 mth	3 mth	12 mth
Energy	-2.6	4.0	14.9
Basic Materials	11.2	18.6	37.1
Industrials	3.7	-3.8	32.5
Consumer Staples	-1.5	3.4	11.4
Health Care	-0.4	18.7	30.5
Consumer Discretionary	0.9	1.5	5.9
Telecommunications	4.8	11.1	49.5
Utilities	-0.4	10.4	26.2
Non-Finan	1.0	5.0	18.8
Financials	5.3	9.8	38.8
IT	-1.2	-13.7	-20.8
All Share	2.2	6.4	24.0

UK Equity Size Returns

Figure 4b: Size groups relative to All Share



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

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



Bond market information

Figure 5: £ Non-Gilt Credit Margins

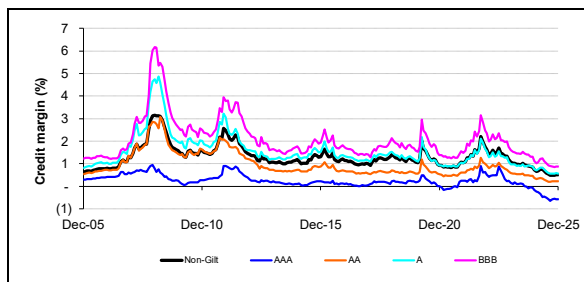


Table 2a: Over 15 Yr Corporate Yields & Margins

Month End	iBoxx Corp AA Y'ld (%)	FT 20 yr Gilt (%)	Margin (%)
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
Dec '25	5.49	5.07	0.42

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

Category	Mkt Val (£bn @ Dec 25 & 22, 19)			Weight (%)
Gilts (66)	1,689	1,390	1,381	75.0
Non-Gilts (1,212)	563	544	643	25.0
AAA (133)	116	119	133	5.2
AA (143)	62	72	88	2.7
A (446)	179	148	179	7.9
BBB (490)	206	205	242	9.2

Category	Mkt Val (£bn @ Dec 25 & 22)		W't (%)	Dur'n (yrs)
Gilts (66)	1,689	1,390	75.0	8.4
< 5 Yrs (15)	523	403	23.2	2.6
5-15 Yrs (22)	661	478	29.4	7.4
> 15 Yrs (29)	504	510	22.4	15.8
Non-Gilts (1,212)	563	544	25.0	5.4
< 5 Yrs (552)	296	258	13.2	2.6
5-15 Yrs (458)	195	198	8.7	6.9
> 15 Yrs (202)	72	88	3.2	13.1

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

Category	Mkt Val (€bn)	Weight (%)
Sovereigns (532)	7,978	55.8
Non-Sovereigns	6,325	44.2
AAA (1,444)	2,267	15.9
AA (704)	798	5.6
A (1,895)	1,660	11.6
BBB (2,213)	1,599	11.2

Category	Mkt Val (€bn)	Weight (%)
1 - 3 Yrs (1,919)	3,556	24.9
3 - 5 Yrs (1,742)	3,157	22.1
5 - 7 Yrs (1,295)	2,273	15.9
7 - 10 Yrs (1,039)	2,439	17.1
10+ Yrs (793)	2,878	20.1

Table 2f: Breakdown of £ Index-Linked Market

Category (Number of issues)	Mkt Val (£bn @ Dec 25 & 22)		W't (%)	Dur'n (yrs)
Gilts (35)	570	569	100.0	13.6
< 5 Yrs (5)	120	95	21.0	2.3
5 - 15 Yrs (11)	218	191	38.3	9.3
> 15 Yrs (19)	232	283	40.7	23.4

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
Dec '25	6.45	5.09	7.49

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

£ Gilt Market "main" & "Green" Issuance

- £5.94bn, 4% 2029 (3.10x, 3.86%, 25%, Nov '25)
- £4.81bn, 4½% 2031 (3.23x, 4.09%, 13%, Nov '25)
- £1.00bn, ½% IL 2031 (3.88x, 0.95%, 0%, Oct '25)
- £0.75bn, 4¼% 2032 (4.35x, 4.11%, n/a, Sep '25)
- £5.63bn, 4¾% 2035 (3.05x, 4.61%, 25%, Nov '25)
- £1.00bn, 4¼% 2039 (3.88x, 4.81%, n/a, Jul '16)

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.

