



Investment Headlines & Comment

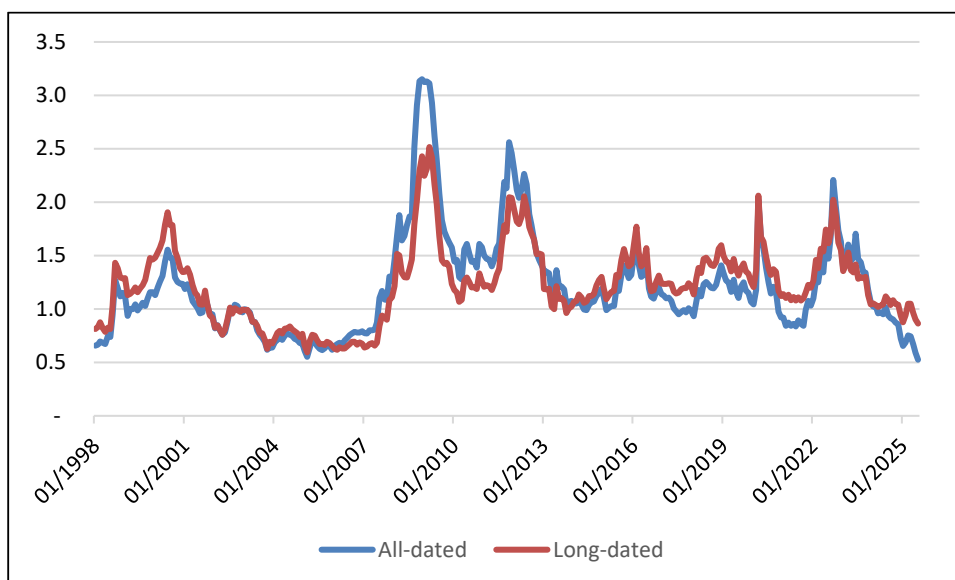
- A strong month for most equity markets, Europe the exception.
- The US Dollar rallied strongly against £ Sterling.
- UK inflation continues to be stubbornly well above target.

Feature Section

This month we examine an oddity that is emerging in UK bond markets when looking at the relative merits of government and corporate bonds. We noted in our [February 2025](#) issue that UK government yields were hitting record highs relative to AAA-rated debt, but now it has got to the point that there is a major term-related effect emerging.

Figure 1 shows the history of the credit margin for all-dated and long-dated non-gilts relative to all-dated and long-dated gilts. As shown on page 4, gilts have a longer average maturity than corporate bonds, both across the market as a whole and for the longer-dated area of the market. So, technically, we should try to do the credit margin test on the basis of using bonds of comparable maturities, but for any institutional investor that is limited to using pooled funds, this simplified approach seems the “fair” measure to use.

Figure 1: Credit margins (in % p.a.)



Source: iBoxx

Figure 1 shows strong correlation between all-dated and long-dated margins over the long term, but with some gaps emerging in times of market stress, such as the credit crunch in the late 2000s. However, we now have the situation that the credit margin for long-dated remains reasonably “normal”, whereas for all-dated it is unusually low. Conventional wisdom would say you are not being rewarded adequately for the credit risk at the all-dated level, and hence you should run for the (alleged) safety of government bonds, but in current circumstances, the opposite conclusion could be justified simply because of the risk of further gilt yield rises.

A look at the government gilt issuance schedule (shown on page 4) demonstrates that issuance is approaching levels last seen in the Covid-19 crisis (and yes, we have had to shrink the font size this month to show it all, rather than having to do a hyperlink to a separate website file as we did during Covid-19).

With public sector unrest increasing and the potential for increased spending as a result, quite how this over-borrowing gets addressed in the next Budget is anyone’s guess. However, given the knock-on effects of the (arguably disastrous) measures introduced last year, our hopes cannot be high.



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 July 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	4.0	8.8	12.1	10.5	12.5	6.9	6.9
Overseas Equities	5.0	13.5	12.8	12.7	13.1	12.7	10.5
US Equities	5.8	15.2	13.9	14.2	15.5	15.5	7.9
Europe ex UK Equities	0.7	5.0	10.3	11.4	9.7	8.7	12.3
Japan Equities	2.4	5.7	4.2	9.7	9.1	8.0	6.8
Pacific ex Japan Equities	7.0	20.7	14.1	8.4	7.1	8.9	9.3
Emerging Markets	5.6	14.0	14.4	8.0	5.7	8.0	8.1
UK Long-dated Gilts	-1.7	-2.1	-8.2	-11.7	-13.3	-2.5	2.2
UK Long-dated Corp. Bonds	-0.4	1.3	-2.1	-4.0	-7.4	0.5	3.3
UK Over 5 Yrs Index-Linked Gilts	-1.3	-0.6	-10.3	-12.1	-11.2	-1.7	3.1
High Yield (Global)	3.7	5.0	6.6	6.2	4.1	6.8	7.8
Overseas Bonds	1.6	-0.3	-0.2	-2.8	-3.7	2.1	3.4
Property *	0.6	1.7	8.6	-3.1	4.2	4.7	5.3
Cash	0.4	1.1	4.7	4.5	2.8	1.7	2.0
Commodities £-converted	7.3	11.0	4.5	-1.9	17.5	5.1	-1.2
Hedge Funds original \$ basis *	2.3	4.3	8.4	7.8	8.6	5.4	5.3
Illustrative £-converted version *	0.7	-1.7	0.0	3.5	6.3	6.9	6.7
Euro relative to Sterling	1.0	1.6	2.7	1.1	-0.8	2.0	1.1
US \$ relative to Sterling	3.6	0.9	-2.9	-2.8	-0.2	1.7	1.4
Japanese Yen relative to Sterling	-0.6	-4.3	-3.0	-6.5	-7.0	-0.3	0.0
Sterling trade weighted	-1.8	-1.0	0.5	1.9	1.6	-1.1	-0.8
Price Inflation (RPI) *	0.4	2.3	4.4	6.0	6.7	4.6	3.8
Price Inflation (CPI) *	0.4	1.8	3.6	4.5	5.0	3.3	2.9
Price Inflation (RPIX) *	0.4	2.4	4.3	5.2	6.3	4.4	3.8
Earnings Inflation **	-1.3	-1.9	4.4	6.0	6.3	4.1	3.3
All Share Capital Growth	3.9	7.9	8.0	6.5	8.6	3.1	3.2
Dividend Growth	0.6	1.0	1.7	6.3	1.1	3.0	3.7
Earnings Growth	0.5	-3.2	-5.7	4.2	5.7	3.9	2.9

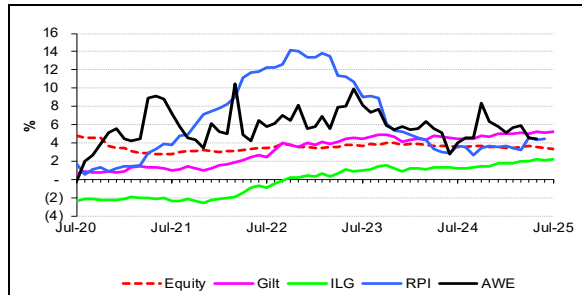
Note: All market returns are total returns for pension funds with income reinvested monthly. Indices used are as follows:

- 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, 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.

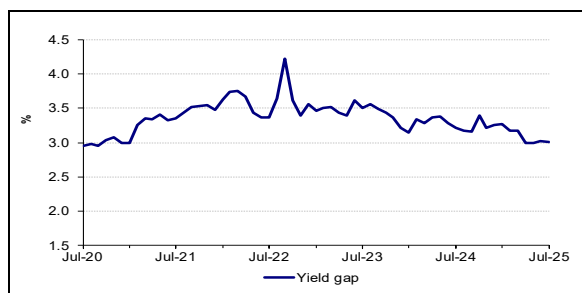


Yields and Yield Gaps

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.

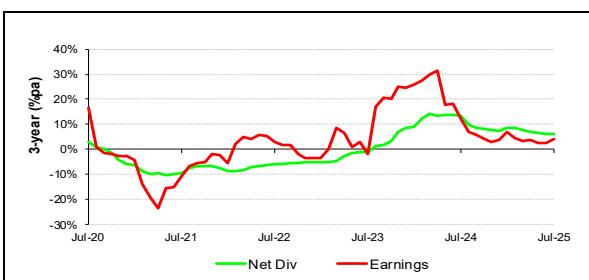
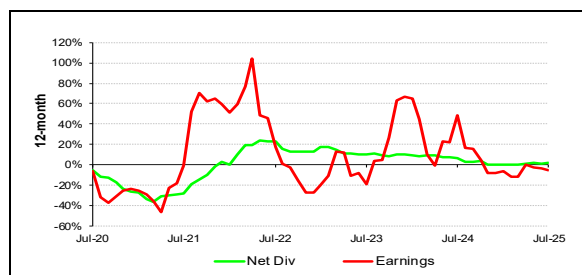


The gap gives a current expectation of around 3.0% p.a. for longer-term inflation including the (unknown) risk premium for gilts, relative to index-linked gilts.

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]

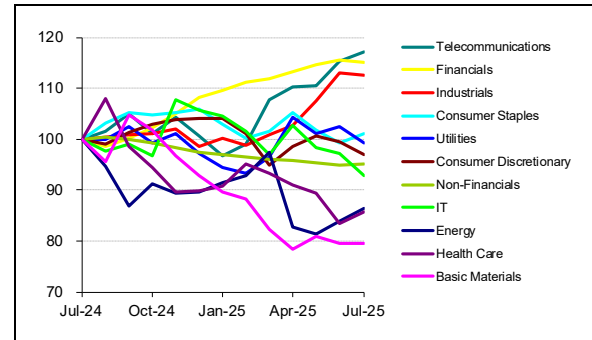
Figure 3: Dividend & Earnings Growth



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



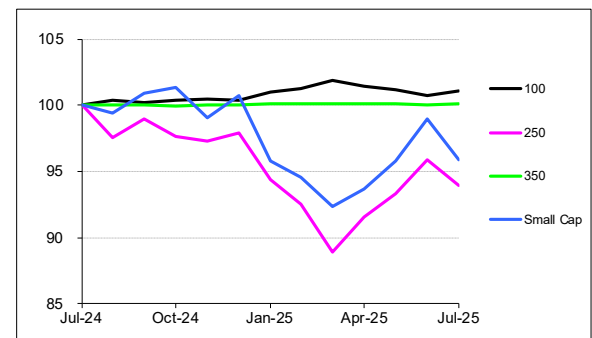
Note: Sector labels for relative lines are in end-value order

There was a fall this month in the rolling 12-month sector dispersion (down from 43% to 37%).

(% absolute return)	1 mth	3 mth	12 mth
Energy	7.3	13.7	-3.1
Basic Materials	4.0	10.5	-10.8
Industrials	3.5	19.0	26.0
Consumer Staples	6.0	4.5	13.3
Health Care	6.9	2.6	-3.9
Consumer Discretionary	1.3	7.1	8.6
Telecommunications	5.5	15.6	31.2
Utilities	0.5	3.5	11.1
Non-Finan	4.1	8.1	6.5
Financials	3.6	10.7	29.0
IT	-0.7	-1.7	4.1
All Share	4.0	8.8	12.1

UK Equity Size Returns

Figure 4b: Size groups relative to All Share

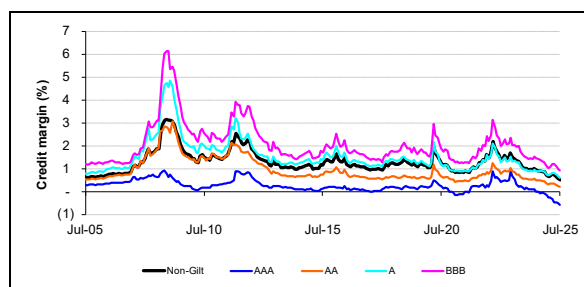


This month, Mid Cap and Small Cap both fell relative to the All Share.

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 (%)
Feb '25	5.33	4.94	0.39
Mar '25	5.66	5.14	0.52
Apr '25	5.57	5.03	0.54
May '25	5.70	5.22	0.48
Jun '25	5.53	5.10	0.43
Jul '25	5.62	5.22	0.40

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

Category	Mkt Val (£bn @ Jul 25 & 22, 19)			Weight (%)
Gilts (63)	1,608	1,593	1,410	73.9
Non-Gilts (1,229)	567	601	622	26.1
AAA (142)	118	129	125	5.4
AA (159)	69	80	89	3.2
A (429)	172	161	170	7.9
BBB (499)	208	231	239	9.6

Category	Mkt Val (£bn @ Jul 25 & 22)		W't (%)	Dur'n (yrs)
Gilts (63)	1,608	1,593	73.9	8.5
< 5 Yrs (15)	516	417	23.7	2.5
5-15 Yrs (20)	618	517	28.4	7.6
> 15 Yrs (28)	474	659	21.8	16.0
Non-Gilts (1,229)	567	601	26.1	5.4
< 5 Yrs (585)	306	258	14.1	2.5
5-15 Yrs (440)	187	232	8.6	7.0
> 15 Yrs (204)	74	111	3.4	12.9

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

Category	Mkt Val (£bn)	Weight (%)
Sovereigns (532)	7,894	55.9
Non-Sovereigns	6,226	44.1
AAA (1,408)	2,196	15.6
AA (865)	1,053	7.5
A (1,682)	1,384	9.8
BBB (2,192)	1,593	11.3

Category	Mkt Val (£bn)	Weight (%)
1 – 3 Yrs (1,905)	3,456	24.5
3 – 5 Yrs (1,753)	3,153	22.3
5 – 7 Yrs (1,237)	2,217	15.7
7 – 10 Yrs (1,001)	2,409	17.1
10+ Yrs (783)	2,885	20.4

Table 2f: Breakdown of £ Index-Linked Market

Category (Number of issues)	Mkt Val (£bn @ Jul 25 & 22)		W't (%)	Dur'n (yrs)
Gilts (35)	544	726	100.0	13.8
< 5 Yrs (5)	119	94	21.9	2.8
5 – 15 Yrs (11)	205	216	37.6	9.7
> 15 Yrs (19)	220	416	40.5	23.6

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

Month End	US (%)	Euro (%)	Sterling (%)
Apr '25	7.31	5.28	7.99
May '25	7.04	5.05	7.85
Jun '25	6.67	5.06	7.91
Jul '25	6.73	4.92	7.76

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

£ Gilt Market “main” & “Green” Issuance

- £5.05bn, 4³/₈% 2028 (3.46x, 3.85%, 1%, Jun '25)
- £6.25bn, 4³/₈% 2028 (3.71x, 3.94%, 25%, Jul '25)
- £5.89bn, 4³/₈% 2030 (3.12x, 4.08%, 24%, Jun '25)
- £1.00bn, 4¹/₄% 2032 (4.42x, 4.16%, n/a, Jun '13)
- £1.50bn, 4¹/₂% 2034 (3.32x, 4.55%, n/a, Oct '15)
- £4.76bn, 4¹/₂% 2035 (2.89x, 4.64%, 6%, Jun '25)
- £2.01bn, 1¹/₈% IL 2035 (3.35x, 1.59%, 18%, Jun '25)
- £3.75bn, 4³/₈% 2040 (3.69x, 5.07%, 25%, Jun '25)
- £0.90bn, 1⁷/₈% IL 2049 (3.39x, 2.36%, 0%, Mar '25)
- £0.30bn, 3³/₄% 2052 (4.62x, 5.38%, n/a, Mar '16)
- £2.00bn, 1¹/₂% Gr 2053 (3.20x, 5.17%, n/a, Feb '25)

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.

