



Investment Headlines & Comment

- UK inflation remains stubbornly above target, with food costs the main problem.
- A remarkable month for Far East and Emerging Markets equities.
- The Bank of England is to slow down the unwinding of Quantitative Easing.

Feature Section

This month we consider just how far bond yield reversion has gone across major world bond markets. All data is courtesy of the JP Morgan Government Bond Index. We consider this for both the 10-year yield point and the 30-year yield point (although the data set for the latter is somewhat shorter).

Figure 1a shows the long-run 10-year yield dataset. Italy is now back at yields levels last seen in the early 2010s, but for Japan and the US the levels are last seen from 2007/08, and similarly for the UK. For France, it is at around yield levels from 2011. However, in absolute terms, the UK currently has the highest 10-year yield across the six markets, being about 0.6% p.a. higher than the next case (the US).

Figure 1a: 10-year yields

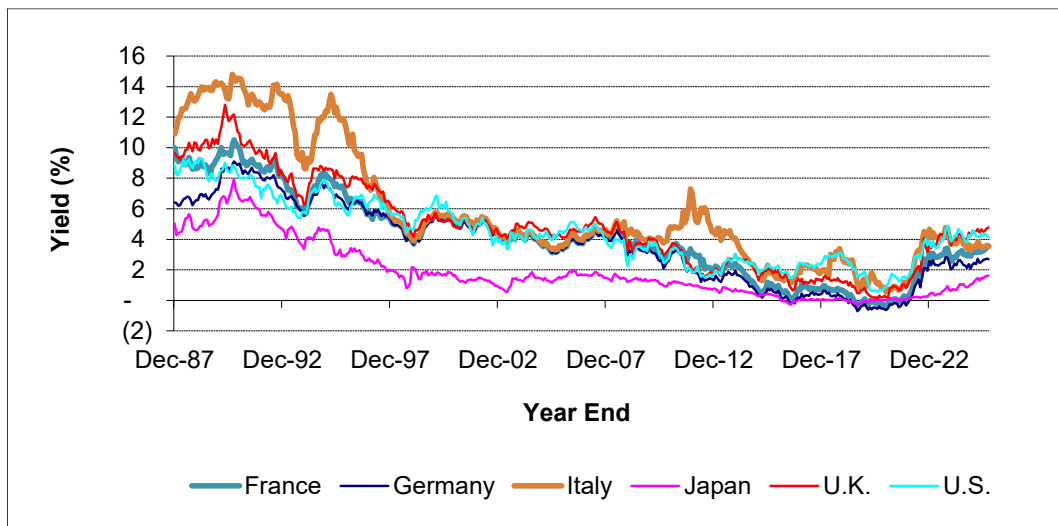
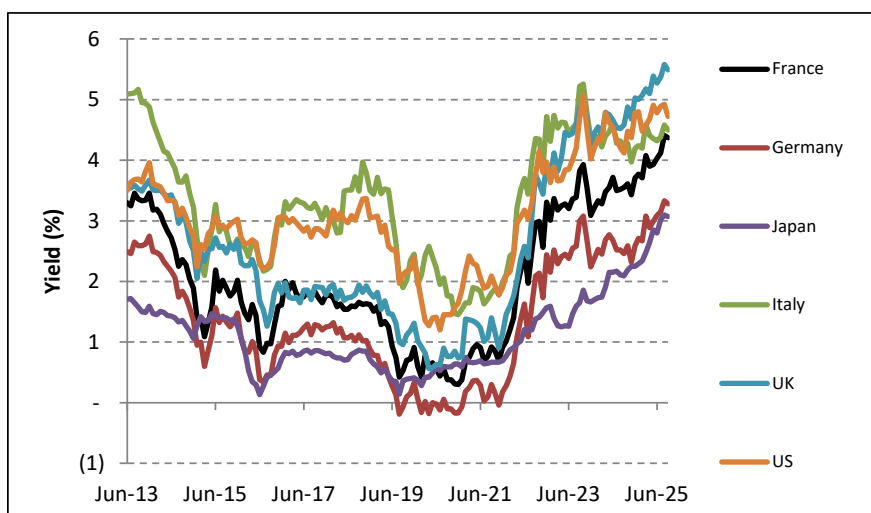


Figure 1b: 30-year yields



At the 30-year point, the swings are even more pronounced. The only case where a country is on a lower yield than at the start of their dataset is Italy. Most of the other cases are around 1% p.a. higher than in 2013, but the UK is once again an outlier, almost 2% p.a. higher in absolute terms. The gap down to the US is running at around 0.8% p.a. Something of a forthcoming 2025 Budget problem?



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 September 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	1.9	6.9	16.2	14.5	13.0	8.1	6.8
Overseas Equities	3.9	9.6	17.7	16.2	13.1	14.1	10.6
US Equities	4.1	10.1	18.2	17.7	15.3	16.7	7.9
Europe ex UK Equities	2.5	4.5	14.3	15.6	9.9	10.1	12.6
Japan Equities	2.8	10.5	16.7	14.1	8.4	9.9	6.4
Pacific ex Japan Equities	5.6	12.1	16.7	11.8	7.4	10.5	9.4
Emerging Markets	7.6	12.9	17.7	11.6	6.6	9.7	8.0
UK Long-dated Gilts	1.5	-2.4	-9.0	-4.4	-12.9	-2.8	2.1
UK Long-dated Corp. Bonds	1.8	-0.7	-2.2	4.2	-7.1	0.6	3.2
UK Over 5 Yrs Index-Linked Gilts	2.0	-1.9	-10.3	-7.2	-10.7	-1.7	3.0
High Yield (Global)	1.1	4.3	7.9	5.8	3.9	7.0	7.9
Overseas Bonds	1.0	2.0	0.6	-2.8	-3.8	1.6	3.4
Property *	0.6	1.7	8.7	-2.1	4.4	4.6	5.2
Cash	0.3	1.0	4.5	4.6	2.9	1.7	2.0
Commodities £-converted	1.0	5.9	9.7	-1.6	16.6	5.3	-1.9
Hedge Funds original \$ basis *	2.2	5.6	10.2	8.3	8.1	6.0	5.3
Illustrative £-converted version *	0.1	5.4	7.2	3.0	7.8	7.4	6.8
Euro relative to Sterling	0.7	1.9	4.9	-0.2	-0.8	1.7	1.2
US \$ relative to Sterling	0.3	1.8	-0.4	-6.1	-0.8	1.2	1.4
Japanese Yen relative to Sterling	-0.2	-0.4	-3.5	-6.7	-7.3	-0.9	0.0
Sterling trade weighted	-0.5	-1.6	-1.2	3.6	1.8	-0.7	-0.8
Price Inflation (RPI) *	0.4	1.2	4.6	5.7	6.8	4.6	3.8
Price Inflation (CPI) *	0.2	0.7	3.7	4.2	5.1	3.3	2.9
Price Inflation (RPIX) *	0.4	1.2	4.4	5.0	6.4	4.5	3.8
Earnings Inflation **	-1.4	-0.7	4.8	5.7	6.0	4.1	3.2
All Share Capital Growth	1.8	6.1	12.2	10.4	9.0	4.3	3.1
Dividend Growth	0.3	0.6	2.9	5.0	2.2	3.0	3.6
Earnings Growth	0.4	-13.4	-19.5	-0.8	10.3	2.9	1.8

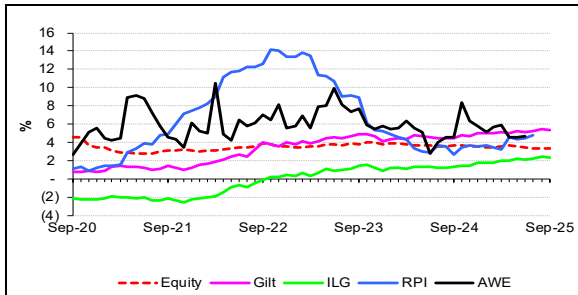
Note: All market returns are total returns for pension funds with income reinvested monthly. Indices used are as follows:

- 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.

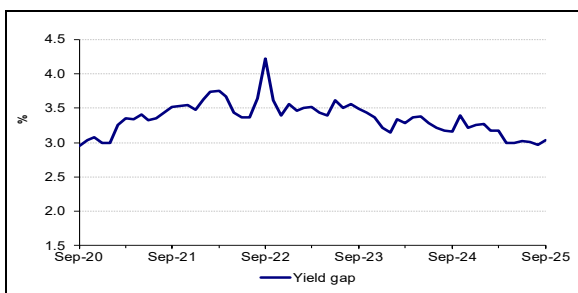


Yields and Yield Gaps

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.

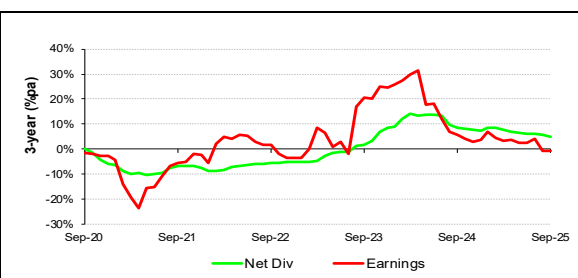
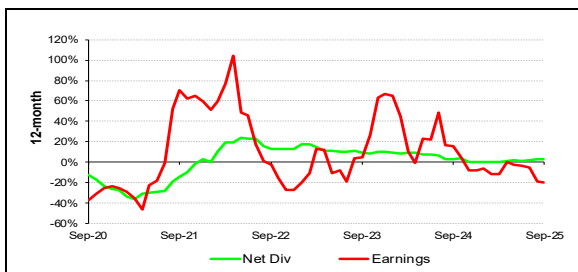


The gap gives a current expectation of around 3.0% p.a. for longer-term inflation including the (unknown) risk premium for gilts, relative to index-linked gilts.

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]

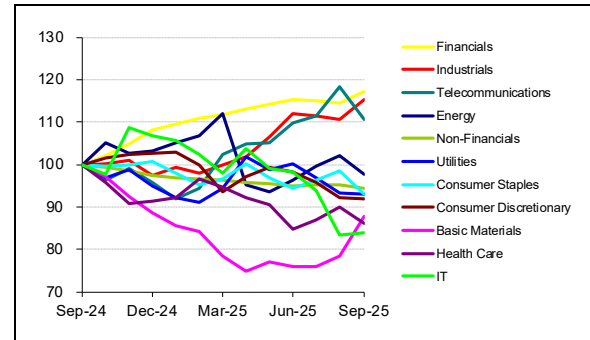
Figure 3: Dividend & Earnings Growth



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



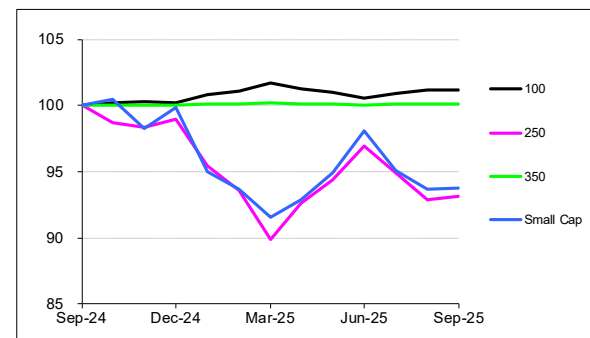
Note: Sector labels for relative lines are in end-value order

There was a fall this month in the rolling 12-month sector dispersion (down from 40% to 33%).

(% absolute return)	1 mth	3 mth	12 mth
Energy	-2.6	8.2	13.4
Basic Materials	13.9	23.6	1.9
Industrials	6.2	10.1	33.9
Consumer Staples	-3.8	5.4	8.1
Health Care	-2.7	8.7	0.0
Consumer Discretionary	1.6	0.0	6.8
Telecommunications	-4.7	7.7	28.6
Utilities	1.7	-0.6	8.1
Non-Finan	1.0	6.3	9.7
Financials	4.2	8.5	36.1
IT	2.6	-8.5	-2.4
All Share	1.9	6.9	16.2

UK Equity Size Returns

Figure 4b: Size groups relative to All Share



This month, Mid Cap and Small Cap both rose (very slightly) 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

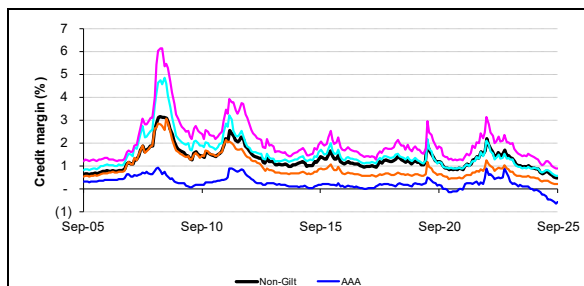


Table 2a: Over 15 Yr Corporate Yields & Margins

Month End	iBoxx Corp AA Y'ld (%)	FT 20 yr Gilt (%)	Margin (%)
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
Aug '25	5.83	5.39	0.44
Sep '25	5.74	5.33	0.41

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

Category	Mkt Val (£bn @ Sep 25 & 22, 19)			Weight (%)
Gilts (62)	1,598	1,329	1,446	74.0
Non-Gilts (1,220)	561	519	638	26.0
AAA (139)	117	116	131	5.4
AA (160)	69	70	87	3.2
A (418)	167	138	177	7.7
BBB (503)	208	195	243	9.6

Category	Mkt Val (£bn @ Sep 25 & 22)		W't (%)	Dur'n (yrs)
Gilts (62)	1,598	1,329	74.0	8.4
< 5 Yrs (14)	499	402	23.1	2.6
5-15 Yrs (20)	630	413	29.2	7.5
> 15 Yrs (28)	469	514	21.7	15.7
Non-Gilts (1,220)	561	519	26.0	5.3
< 5 Yrs (565)	298	242	13.8	2.5
5-15 Yrs (453)	191	190	8.9	6.8
> 15 Yrs (202)	72	86	3.3	12.8

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

Category	Mkt Val (£bn)	Weight (%)
Sovereigns (529)	7,887	55.7
Non-Sovereigns	6,267	44.3
AAA (1,406)	2,208	15.6
AA (848)	1,037	7.3
A (1,706)	1,411	10.0
BBB (2,214)	1,611	11.4

Category	Mkt Val (£bn)	Weight (%)
1 - 3 Yrs (1,932)	3,481	24.6
3 - 5 Yrs (1,761)	3,165	22.4
5 - 7 Yrs (1,230)	2,242	15.8
7 - 10 Yrs (1,001)	2,416	17.1
10+ Yrs (779)	2,849	20.1

Table 2f: Breakdown of £ Index-Linked Market

Category (Number of issues)	Mkt Val (£bn @ Sep 25 & 22)		W't (%)	Dur'n (yrs)
Gilts (35)	541	628	100.0	13.5
< 5 Yrs (5)	119	92	22.1	2.6
5 - 15 Yrs (11)	205	188	37.9	9.5
> 15 Yrs (19)	217	347	40.1	23.3

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

Month End	US (%)	Euro (%)	Sterling (%)
Jun '25	6.67	5.06	7.91
Jul '25	6.73	4.92	7.76
Aug '25	6.57	4.99	7.35
Sep '25	6.47	4.97	7.42

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

£ Gilt Market "main" & "Green" Issuance

- £1.25bn, ½% 2029 (3.86x, 3.84%, n/a, Apr '23)
- £4.75bn, 4¾% 2030 (2.80x, 4.10%, 0%, Aug '25)
- £4.00bn, 4% 2031 (3.27x, 4.21%, 0%, May '25)
- £1.00bn, 4¼% 2032 (3.72x, 4.21%, n/a, Jul '25)
- £1.25bn, 4½% 2034 (2.90x, 4.58%, n/a, Jul '25)
- £14.0bn, 4¾% 2035 (10.1x, 4.88%, n/a, new)
- £0.75bn, 4¾% 2038 (3.28x, 4.98%, n/a, Sep '10)
- £3.00bn, 4¾% 2040 (2.95x, 5.05%, 0%, Jul '25)
- £1.81bn, 4¾% 2043 (3.50x, 5.29%, 3%, Apr '25)
- £0.94bn, 5¾% IL 2045 (3.91x, 2.41%, 17%, May '25)
- £1.60bn, 5¾% 2056 (3.07x, 5.48%, 7%, May '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.

