JAGGER & ASSOCIATES

Investment Update
May 2026

Investment Headlines & Comment

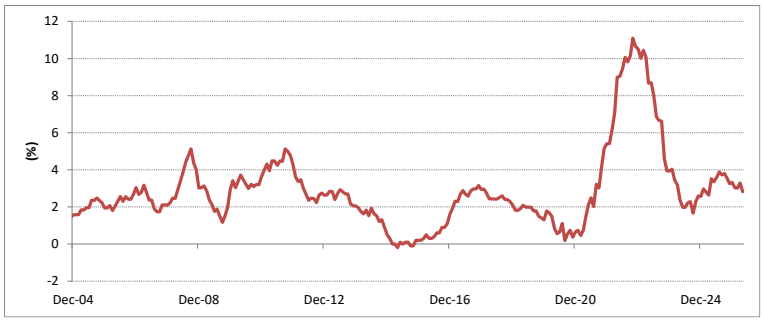
- Another strong month for Pacific ex Japan equities.
- Gilt yields have fallen back from their recent highs.
- However, UK borrowing has shifted to the shorter end.

Feature Section

This month in the light of the Bank of England's latest monetary policy report, we consider the Consumer Price Index (CPI). A target of 2% was set for it back in December 2003 by then-Chancellor Gordon Brown. How often has it met that, and what scenarios is the Bank currently considering in our increasingly unstable world?

Figure 1 shows the rolling 12-month CPI rate from December 2004 (the first point at which the 2% test could be applied fairly). If looked at rounded to 1 decimal place, the target has been hit just 4% of the time, which seems pretty dire. If you consider the range 1.9%-2.1%, the success rate rises to 11%, but there's no getting away from the fact that most of the time, actual inflation is distorted by factors outside of the Bank's control.

Figure 1: Rolling 12-month CPI *Source: ONS*



From Section 3 of the April 2026 report, three contrasting scenarios are set out. Each scenario has two components – firstly the way that future energy prices behave given the current Middle East conflict, and secondly the "knock on" effects associated with that particular pattern of energy prices on domestic prices and wage-setting. Much of what follows is abbreviated narrative from the report, rather than our interpretation of it.

In Scenario A, the focus is on how the markets were pricing at the time of the report's creation, so energy prices saw oil peaking at $108 per barrel this year before falling to below $80 by 2027 Q1 and to $72 by the end of the scenario period. (There is a separate set of gas price assumptions, but we've omitted them in this summary to avoid data overload.) Given the risk that energy futures curves understate the potential disruption to energy supply that has already occurred, or might occur in the future, Scenarios B and C assume energy prices remain elevated for longer, with Scenario C being the most pessimistic (B peaks at $108 and ends the projection at $81, whilst C peaks at $130 and ends at $92).

A assumes that there are no new second-round effects as a result of the increase in energy prices, because slack in the labour market and the relative weakness in demand limits worker bargaining and firm pricing power. The energy shock is also relatively short-lived in this scenario, reducing the risk of "knock on" effects. In A, CPI inflation rises to 3.6% at the end of 2026 but slows relatively quickly. It falls below target at the end of 2027 and ends the scenario period at 1.7%. (**Ed:** we might just get away with referring to this as the Goldilocks scenario.)

In B, higher energy prices raise short-term inflation expectations, leading to "knock on" effects. But those effects are modest, driven in part by a softer labour market and more slack in the economy since the energy shock in 2022, resulting in weaker worker bargaining and firm pricing power. In B, inflation peaks at similar levels as in A, at 3.7% at the end of 2026, then declines as energy prices fall back, but remains elevated for longer in B due to energy prices falling more slowly. Inflation is around the 2% target in years 2 and 3. (**Ed:** this might be the "we can live with this" scenario.)

C is more severe - both short and long-term inflation expectations are more sensitive to persistently elevated inflation outturns and drift higher, also because of the high inflation experience in 2022. Firms are assumed to have sufficient pricing power for higher wages and costs to feed through more fully into prices – despite consumption falling in line with the average response to energy price shocks – resulting in materially stronger "knock on" effects. In C, inflation peaks at 6.2% in 2027 Q1 and remains above target for the entire scenario period. The direct impact of the pronounced and persistent energy price shock raises inflation by 1.3% in 2027 Q2. Wage growth rises and stays significantly higher relative to A and B. As a result, inflation persistence is materially higher than in the other scenarios, with inflation ending the scenario at 2.6%. (**Ed:** this is therefore the "something of a problem" scenario, but not as bad as the inflation spike seen after Covid and Russia's invasion of Ukraine.) However, at the end of all this, which scenario do you think most likely? And how much of that reflects views on a certain President?

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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 May 2026

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	1.2	-3.0	21.6	15.4	10.8	8.9	7.1
Overseas Equities	6.7	8.5	33.1	20.1	13.5	14.6	11.2
US Equities	6.0	10.0	29.3	20.4	15.0	**16.5**	8.0
Europe ex UK Equities	4.3	-0.5	19.4	13.6	8.9	10.7	**13.3**
Japan Equities	6.0	0.2	32.9	17.4	11.0	10.8	6.9
Pacific ex Japan Equities	**17.2**	**19.1**	**97.0**	**32.0**	**15.1**	15.1	11.8
Emerging Markets	10.6	9.5	55.2	22.3	9.2	12.0	9.0
UK Long-dated Gilts	3.4	**-5.9**	2.6	-0.4	**-10.6**	**-3.1**	2.1
UK Long-dated Corp. Bonds	3.3	-3.8	5.4	3.8	-6.1	0.2	3.3
UK Over 5 Yrs Index-Linked Gilts	1.5	-4.5	5.8	-1.0	-9.6	-1.5	3.1
High Yield (Global)	1.3	0.4	7.9	7.0	4.5	6.2	8.1
Overseas Bonds	0.7	-2.6	**0.6**	**-1.3**	-1.9	0.5	3.6
Property *	0.4	1.4	6.4	5.0	4.1	4.4	4.7
Cash	**0.3**	0.9	4.0	4.7	3.4	1.9	**2.0**
Commodities £-converted	-6.9	22.5	51.2	17.0	17.9	9.3	0.4
Hedge Funds original $ basis *	4.4	2.9	19.3	11.5	6.6	7.1	5.2
Illustrative £-converted version *	1.7	3.7	17.3	8.6	7.1	7.9	6.8
Euro relative to Sterling	0.3	-1.2	2.8	0.2	0.1	1.2	1.2
US $ relative to Sterling	0.8	0.0	0.0	-2.8	1.1	0.8	1.7
Japanese Yen relative to Sterling	-0.8	-1.9	-9.3	-6.9	-6.2	-2.8	-0.1
Sterling trade weighted	-0.6	1.1	-1.4	1.7	0.6	-0.3	-0.9
Price Inflation (RPI) *	0.7	2.0	3.0	3.6	6.6	4.7	3.8
Price Inflation (CPI) *	0.8	1.9	2.8	2.9	5.2	3.6	3.0
Price Inflation (RPIX) *	0.8	2.0	3.0	3.1	6.1	4.6	3.8
Earnings Inflation **	12.4	14.1	3.9	5.3	6.5	4.5	3.5
All Share Capital Growth	0.7	-4.2	17.7	11.3	6.9	5.0	3.3
Dividend Growth	0.4	3.4	5.3	4.8	9.5	3.1	3.3
Earnings Growth	2.7	6.5	18.2	12.4	13.5	11.9	2.7

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.*

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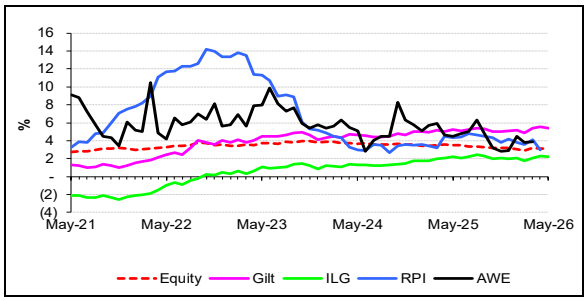
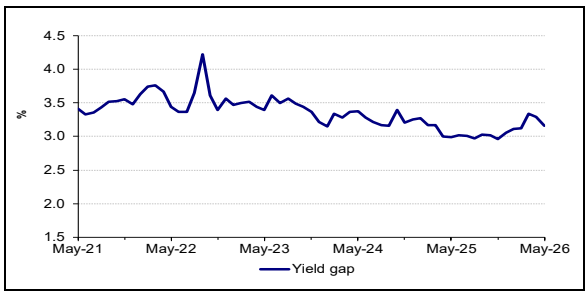
Yields and Yield Gaps

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.

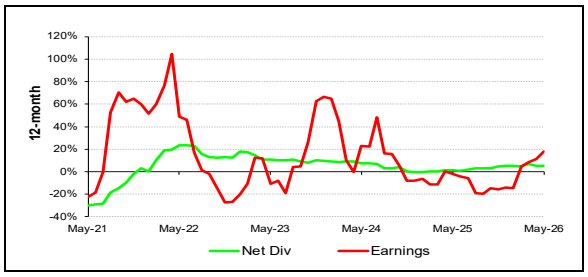


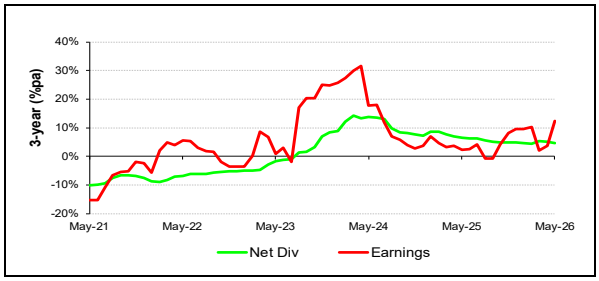
The gap gives a current expectation of around 3.2% p.a. for longer-term inflation including the (unknown) risk premium for gilts, relative to index-linked gilts.

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

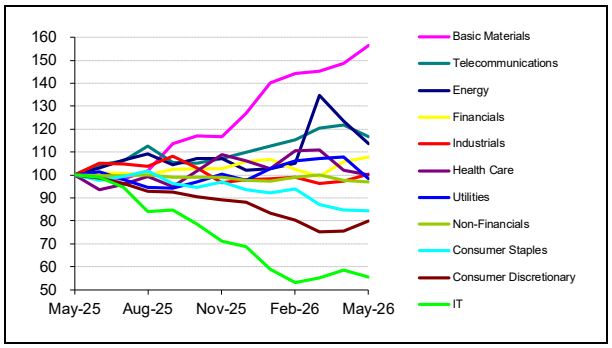




Note: Earnings data from mid-2015 onwards is no longer reliable as one-off events may be affecting the prospective P/E ratios

UK Equity Sector Returns

Figure 4a: Sectors relative to All Share



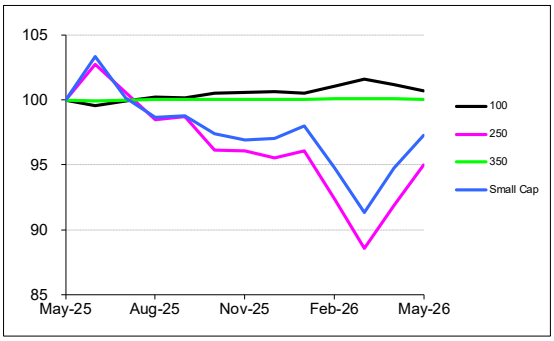
Note: Sector labels for relative lines are in end-value order

There was a rise this month in the rolling 12-month sector dispersion (up from 97% to 101%).

(% absolute return)	1 mth	3 mth	12 mth
Energy	-6.7	5.0	38.4
Basic Materials	6.6	5.2	90.4
Industrials	4.2	-1.7	22.0
Consumer Staples	0.8	-12.9	2.6
Health Care	-1.1	-12.3	21.6
Consumer Discretionary	7.6	-3.2	-2.5
Telecommunications	-3.0	-1.7	42.1
Utilities	-7.9	-10.2	19.4
Non-Finan	0.4	-5.0	18.0
Financials	3.1	2.3	31.2
IT	-4.1	1.1	-32.5
All Share	1.2	-3.0	21.6

UK Equity Size Returns

Figure 4b: Size groups relative to All Share



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

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

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Bond market information

Figure 5: £ Non-Gilt Credit Margins

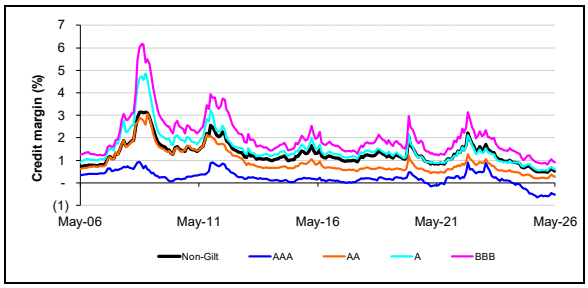

Table 2a: Over 15 Yr Corporate Yields & Margins

Month End	iBoxx Corp AA Y'ld (%)	FT 20 yr Gilt (%)	Margin (%)
Dec '25	5.49	5.07	0.42
Jan '26	5.57	5.14	0.43
Feb '26	5.44	4.89	0.55
Mar '26	6.06	5.42	0.64
Apr '26	6.15	5.56	0.59
May '26	**5.93**	**5.37**	**0.56**

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

Category	Mkt Val (£bn @ May 26 & 23, 20)			Weight (%)
Gilts (66)	1,688	1,342	1,592	74.8
Non-Gilts (1,228)	568	538	661	25.2
AAA (136)	119	115	142	5.3
AA (152)	69	70	87	3.0
A (450)	177	149	181	7.8
BBB (490)	204	203	250	9.1

Category	Mkt Val (£bn @ May 26 & 23)		W't (%)	Dur'n (yrs)
Gilts (66)	1,688	1,342	74.8	8.2
< 5 Yrs (15)	549	420	24.3	2.7
5–15 Yrs (24)	689	442	30.5	7.6
> 15 Yrs (27)	450	481	20.0	15.7
Non-Gilts (1,228)	568	538	25.2	5.3
< 5 Yrs (554)	293	260	13.0	2.6
5–15 Yrs (474)	204	194	9.0	6.7
> 15 Yrs (200)	72	84	3.2	12.8

Tables 2d, 2e: € Market Size and Maturity (May 26)

Category	Mkt Val (€bn)	Weight (%)
Sovereigns (560)	8,243	56.1
Non-Sovereigns	6,462	43.9
AAA (1,450)	2,341	15.9
AA (728)	835	5.7
A (1,932)	1,697	11.5
BBB (2,220)	1,589	10.8

Category	Mkt Val (€bn)	Weight (%)
1 – 3 Yrs (1,867)	3,615	24.6
3 – 5 Yrs (1,849)	3,223	21.9
5 – 7 Yrs (1,317)	2,351	16.0
7 – 10 Yrs (1,051)	2,429	16.5
10+ Yrs (806)	3,086	21.0

Table 2f: Breakdown of £ Index-Linked Market

Category (Number of issues)	Mkt Val (£bn @ May 26 & 23)		W't (%)	Dur'n (yrs)
Gilts (34)	558	544	100.0	13.4
< 5 Yrs (4)	101	95	18.1	2.4
5 – 15 Yrs (11)	227	191	40.8	8.9
> 15 Yrs (19)	229	258	41.1	22.8

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

Month End	US (%)	Euro (%)	Sterling (%)
Jan '26	6.49	5.02	7.33
Feb '26	6.56	5.02	7.35
Mar '26	7.00	5.93	8.34
Apr '26	6.74	5.52	8.13
May '26	**6.74**	**5.40**	**8.12**

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

£ Gilt Market "main" & "Green" Issuance

- £1.00bn, $^{3}/_{8}$% 2030 (4.19x, 4.28%, n/a, Jul '20)
- £4.83bn, $4^{1}/_{8}$% 2031 (3.36x, 4.65%, 21%, Mar '26)
- £1.25bn, $^{1}/_{8}$% IL 2031 (3.75x, 0.65%, 0%, Jan '23)
- £4.00bn, $4^{1}/_{8}$% 2033 (3.38x, 4.55%, 0%, Apr '26)
- £1.73bn, $1^{1}/_{8}$% IL 2035 (2.99x, 1.46%, 8%, Jan '26)
- £4.00bn, $4^{7}/_{8}$% 2036 (3.45x, 5.03%, 0%, Apr '26)
- £1.00bn, $1^{1}/_{8}$% 2039 (4.04x, 5.09%, n/a, Aug '23)

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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