

Press Release

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Halifax Assetwatch tracks the value of nine asset groups over the past decade. The asset classes are UK Shares, International Shares, UK Bonds, International Bonds, Cash, Commercial Property, Residential Property, Commodities and Precious Metals.

Precious metals were the top performing asset class of the 2000s

- Precious metals were the best performing asset class over the noughties with a 242% rise
- UK residential property¹ provided the second highest return of any asset class (187%)
- Over the past decade, residential property has outperformed both UK shares (18%) and UK bonds (70%)
- In 2009, eight of the nine asset classes delivered a positive return

Precious metals were the best performing asset class over the past decade, according to research by Halifax. Between December 1999 and December 2009, **precious metals** (gold, silver and platinum) increased in value by 242%, providing investors with an average annual return of 13.1%. The return significantly outpaced inflation with retail prices in the UK increasing by 30% over the decade (average 2.7% per annum (pa)). All three precious metals recorded significant price rises: gold (277%), platinum (230%) and silver (227%).

Despite the significant decline in house prices between August 2007 and April 2009, **UK residential property¹** provided the highest return of any asset class apart from precious metals. The total return (house price growth and rents) during the decade was 187% (11.1% pa).

During 2009, eight of the nine asset classes - the exception was commercial property - delivered a positive return for investors. In contrast, just three asset classes - UK bonds, international bonds and cash - recorded a positive return in 2008.

Suren Thiru, economist at Halifax, commented:

"Precious metals were the top performing asset during the noughties, largely reflecting increased demand from China and India for industrial uses and jewellery. Prices of these metals were also boosted by safe-haven investment flows into gold, in particular, during the financial market crisis.

"Looking forward, the prospects for domestic assets prices will be driven in part by the extent and pace with which UK and global economic conditions improve. Monetary and fiscal policy decisions, the outcome of the General Election and the strength of demand from China and India are all likely to be important determinants in 2010."

¹Based on house price changes and rental income (net of typical maintenance costs, void periods and irrecoverable costs of letting a property).

OTHER FINDINGS

THE PAST DECADE: 1999-2009

Precious Metals: Gold price hit new record in late 2009

Over the past decade, **gold** outperformed the other precious metals. The average price of gold rose by 277% between December 1999 and December 2009, delivering an average annual return of 14.2%. This compared with an average 12.7% pa increase in the price of **platinum** and an average 12.6% pa rise in the price of **silver**.

The price of gold has been boosted by investors looking to safeguard the value of their investments through the recent turmoil in the financial markets, the weakness of the US dollar and fears over future rises in inflation. As a result, gold performed relatively well in 2008 with prices rising by 3.1%. This was in contrast to many other assets - e.g. UK shares (-29.9%) - which saw a sharp decline over the same period. In December 2009, the price of gold reached a new record high of US\$1,212 per ounce.

Property: Residential property comfortably outperformed commercial property

Over the past ten years, **residential property** provided an average return of 11.1% pa. This was almost double the 5.8% pa average return from **commercial property**. Investors enjoyed an average return of 13.6% pa from commercial property until 2006. Returns from commercial property, however, subsequently declined by an annual average of 9.3% during 2007-2009.

Commodities*: Lead recorded the biggest price rise

Lead was the best performing commodity in the noughties with a price rise of 401% (17.5% pa), driven by a combination of increasing demand from Asia and supply side pressures. **Coffee** was the worst performing commodity, recording just a 2% price rise over the whole period.

Shares: UK shares outperform international shares

UK Shares, with a total 18% return over the past decade, outperformed **International Shares** (-8%) for UK investors. Equity prices were hit by a number of significant shocks during the past decade with the total returns from UK and international shares falling by 30% and 38% respectively at the height of the financial crisis in 2008.

Bonds: Bonds outperformed shares over the last decade

UK bonds delivered a total return of 70% over the last 10 years (5.5% pa). Bond performance was driven by historically low interest rates and benign inflation over the period.

Cash: Cash performs better than equities but worse than bonds

The return from holding **Cash** was 57% (4.6% pa) over the past decade. This was greater than the return from UK shares (18%), but less than the return from UK bonds (70%).

THE PAST YEAR: 2009

All asset classes - with the exception of commercial property - recorded a positive return in 2009.

Four asset classes - precious metals, commodities, UK shares and international shares - achieved returns above the average over the past decade. Additionally, six out of the nine asset classes delivered a return greater than the rise in retail price inflation (+2.4%). In contrast, just three of the nine asset classes - UK bonds, international bonds and cash - recorded a positive return in 2008.

Precious metals were the strongest performing asset class in 2009 with a price increase of 42%. Commodities recorded the second highest annual return (33%), followed by the total return from UK shares (30%) as the stockmarket bounced back.

*Includes precious metals

Asset class returns over 1 and 10 years

As at December 2009	1 year %	10 year %	10 year average % pa
Precious Metals	42.4%	242%	13.1%
UK Residential Property	8.7%	187%	11.1%
Commodities	33.4%	137%	9.0%
UK Commercial Property	-1.4%	75%	5.8%
UK Bonds	3.7%	70%	5.5%
Cash	1.0%	57%	4.6%
International Bonds	1.0%	57%	4.6%
UK Shares	30.1%	18%	1.6%
International Shares	26.5%	-8%	-0.8%
Average	16.2%	93%	6.1%

Sources: Datastream, Halifax

*Includes precious metals.

EDITORS' NOTES:

- The following indices have been used as benchmarks for the nine asset classes
 UK Bonds: Merrill Lynch UK Broad Market Total Return bond index
 International Bonds- Citigroup World Government Bond Index All Maturities Total Returns (Local currency)
 UK Shares- FTSE All Share Total Return Index
 International Shares- MSCI World Total Return Index – Local currency
 Commodities- Reuters CRB Commodity Price Index
 Precious Metals – Reuters CRB Precious Metals Index
 UK Commercial Property- IPD Total Return Index. (Includes deduction of typical maintenance costs and other associated irrecoverable costs such as management fees, but no adjustment has been made for necessary investment to improve quality to maintain the property in line with current standards).
 UK Residential Property- Total Return from houses including rents reinvested (based on Halifax House Price Index and RPI series on rent). See (3) below for further details.
 Cash – JPM Morgan Cash (under 1 month) Total Return Index
- Total returns data have been used with the exception of Commodities and Precious Metals.
- The total return for residential property has been derived by combining the house price increase from the Halifax house price index with the rental return derived by deflating the RPI Housing rent index against current buy to let rents (source: CLG). Estimated maintenance costs associated with owning a home and voids and irrecoverable costs of letting a property (e.g. management fees, estimated by the IPD to be approximately 33% of gross income) have been deducted from the total return. There is no adjustment for investment in the property to improve its quality to keep it up-to-date with expected standards. This could result in some overstatement of returns.
- UK shares are based on the FTSE All Share index. The index does not specifically make an adjustment for survivor bias. Survivor bias stems from equity indices being based on existing companies. They, therefore, do not explicitly factor in the negative impact associated with buying shares in a company that fails. As a result, equity indices are prone to overestimate returns over time. The periodic rebalancing of the FTSE indices (where every constituent is liquidity screened and those failing the liquidity screen are removed) helps to reduce the extent of such bias. Nonetheless, some caution should be exercised in evaluating stockmarket performance over a significant length of time.

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5. International indices have been measured in local currency terms where possible and assume a fully hedged currency exposure.
6. Data is measured as at December 31st of each year.

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