Lloyds TSB

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Lloyds TSB Assetwatch is part of a series of research reports helping savers understand individual asset performance and its impact on how they plan their savings. Assetwatch tracks the value of nine asset groups, UK Shares, International Shares, UK Bonds, International Bonds, Cash, Commercial Property, Residential Property, Commodities and Precious Metals.

Precious metals are 2010's top performing asset

Silver continues to shine brightest in 2011

Precious metals were the best performing asset class for the second successive year and the fourth time in the past five years, according to new research by Lloyds TSB. In 2010, investors enjoyed a return of 42% from precious metals. Continued uncertainly over the prospects for the global economy contributed to the increase in the price of precious metals as investors sought to maintain the value of their investments.

Commodities were the top performing asset class over the first two months of 2011, providing a return of 7.5%. Within commodities, cotton recorded the largest price gain since the start of the year with a price rise of 38%, driven by a combination of increasing demand from Asia and greater supply side pressures as flooding affected some of the major cotton producing countries.

Silver outperformed the other precious metals in 2010 with prices rising by 80%; more than two and a half times the increase in gold prices (29%) and four times the rise in the value of platinum (20%). In addition to its position as a safe haven investment, pressures on the supply side and high demand for industrial uses contributed to the strong rise in the price of silver. Silver continued to shine brightest into 2011 with prices rising by 9.3% over the first two months of the year.

All nine asset classes analysed delivered positive returns over the past year with five asset classes delivering double-digit growth in 2010. Commodities (30.0%) achieved the second highest returns, followed by UK shares and Commercial property (both 14.5%).

Precious metals have also recorded the highest return over the past decade (365%), followed by residential property (198%) and commodities (176%).

Suren Thiru, economist at Lloyds TSB, commented:
"It is unsurprising that precious metals were the top performing asset class in 2010. Investors looked to protect the value of their investments amid the renewed uncertainty over the global economic outlook including the debt concerns in the Eurozone and rising inflation. Silver continues to outshine gold and platinum with the relatively low value of silver providing greater scope for larger gains as well as offering investors similar benefits to those of gold."

"Going forward, the level of demand from emerging economies, particularly from China and India, is likely to remain an important determinant of many assets prices as well as the pace at which the global economic recovery continues."

Additional findings

- **Holding cash provided the lowest returns (0.6%) in 2010**. UK residential property[1] (1.2%) delivered the second lowest returns with UK house prices weakening by 3.2% over the past year as the supply shortages that helped to push up prices in the second half of 2009 unwound.

- **UK equities outperform international equities**
  UK Shares (14.5%) outperformed International Shares (10.6%) in 2010. UK equities (22%) and international equities (19%) recovered strongly over the second half of 2010, more than offsetting the losses made over the first six months.

- **UK bonds perform better than international bonds**
  UK bonds delivered a total return of 7.9% in 2010; more than double the return from international bonds (3.4%). Investor confidence in the UK government's fiscal austerity plan contributed to the strong performance of UK bonds.

- **Cotton records the largest commodity price rise**
  Cotton was the top performing commodity in 2010 with a price rise of 92%.There was also a significant rise in food commodity prices over the period.

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

Asset class returns, December 2009- December 2010

As at December 2010	% Change 2009-2010	% Change 2000-2010
Precious Metals	42.3%	365%
Commodities	30.0%	176%
UK Shares	14.5%	43%
UK Commercial Property	14.5%	88%
International Shares	10.6%	13%
UK Bonds	7.9%	68%
International Bonds	3.4%	50%
UK Residential Property[1]	1.2%	198%
Cash	0.6%	49%
Average	**13.9%**	**117%**

Source: Datastream, Lloyds TSB calculations.

EDITORS' NOTES:

1. 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 (includes dividends)
   International Shares: MSCI World Total Return Index – Local currency (includes dividends)
   Commodities: Reuters CRB Commodity Price Index
   Precious Metals: Reuters CRB Precious Metals Index
   UK Commercial Property: IPD Total Return Index, time weighted. (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

2. Total returns data have been used with the exception of Commodities and Precious Metals, which are for price changes only.

3. 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.

4. 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.

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. 2011 data is measure at February 28th.

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