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Back British! Why being patriotic could be a good investment

Oliver Brown
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Just whisper it quietly (as shouting from the rooftop is such an un-British thing to do), but we may be at the foothills of a significant period of UK market outperformance.

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This will be good news for those who have persevered with the UK market over the past decade, but watched with envy a period of stellar outperformance by the US market, led by its technology sector.

Why do we believe that now is the time for patriotism to be rewarded? For us, investment principally boils down to valuation coupled with expectations. This means the UK market, trading on a price-earnings ratio of 11 times, is relatively cheap and at the lower end of its valuation for the past 40 years.

What's more, there are many good quality companies in traditional sectors (banking, oil, mining and consumer staples) that are steadily growing profits and dividends, while trading at a discount to their US peers.

A good example is BP, which was trading at a 40% discount to the likes of US-listed Exxon Mobil at the start of this year. We believe this discount to be partly a result of its listing venue, with the recent outperformance year to date due largely to active investor Elliott management taking a 5% stake as it seeks to encourage the company to improve performance.

> **"Expectations for the UK economy are so subdued that even modest levels of growth will be deemed positive by markets"**

This activist campaign has partly closed the discount – though we don't suggest it should trade on a similar valuation to its US peers, given its substandard financial performance. However, we do believe the 40% discount had been way too much.

While the FTSE 100 has had a solid start to the year, rising more than 5%, mid- and small-cap performance have been pretty muted. Valuations are compelling, but this more UK-led focus has acted as a headwind on concerns over UK growth prospects. The IMF expects growth of around 1.5% this year, but many are sceptical that even this can be achieved.

Our view, though, is that expectations for the UK economy are so subdued that even the modest levels of growth seen in January's GDP figures will be deemed positive by markets, giving overseas investors the impetus to view the UK with a fresh perspective. This, coupled with a new(ish) centrist government, which can't be said about all parts of the world, means the UK once again looks like a stable place to invest.

At RC Brown, we have a particular focus on equity capital raisings where listed companies issue new shares in order to grow their businesses. What better way to support UK companies? Admittedly, 2022 and 2023 were quiet for fund raisings as investors took a risk-averse approach, fuelled by the Ukrainian invasion and the inflation in its wake.

However, 2024 saw a real pick-up in equity fundraising, and this year we are seeing a growing pipeline of potential fund raises with welcome signs that the IPO market is opening for business too.

> **"We don't expect the government to introduce major legislation that will act as a bazooka for our UK market"**

In recent years, we have seen many companies disappear from the London market – acquired by private equity or overseas buyers who have exploited the modest valuations on offer. There have also been a few FTSE 100 companies that switched their primary listing to the US in the hope of a higher valuation.

So, we view it as a real positive – aided by some recent reforms – that a posse of companies now plan to list in London. In December, French media company Vivendi chose London as its venue for the listing of Canal +. Meanwhile, Chinese fast-fashion retailer Shein and Metlen Energy and Metals are both believed to be aiming for a London IPO later this year and a place in the FTSE 100.

This expected return to a higher level of equity capital raisings – with £20bn a year as a healthy figure – should be a welcome boost, as new companies coming to the market and the issuance of new shares stimulate investor interest.

Of course, patriotism or 'backing British' is a personal choice, but in the case of the UK market, there is plenty of scope for a re-rating with tailwinds building behind the UK economy, and further interest rate cuts expected this year.

Sadly, we don't expect the government to introduce major legislation that will act as a bazooka for our UK market, but if it did, the scrapping of stamp duty or mandating UK pension schemes to have a minimum investment in UK equities, say 10%, could really propel the UK market and leave investors with the feeling that patriotism really can pay off.

Oliver Brown is investment director at RC Brown Investment Management