

UK EQUITIES: IS THE UNFASHIONABLE BECOMING FASHIONABLE AGAIN?

Despite a host of political concerns, the UK is once again looking like an increasingly attractive investment opportunity, writes Andrew Manners.

Is it too early to chalk up a victory for the contrarians? With the Brexit saga showing few signs of abating, it is certainly hard to believe that UK stocks have done so well of late.

The FTSE 250 index, for instance, is just a shade behind the S&P 500 year-to-date (as at early March), while the global facing FTSE 100 has also fared pretty well, despite the US dollar remaining flat for the year. And with prime minister Teresa May looking to extend the Brexit negotiations before the deadline on 29 March, UK equities – so long an ugly duckling – look well positioned for a comeback.

In fact, the comeback could already be underway: UK Equity Income and UK All Companies were two of the top five performing sectors in February, according to the Investment Association, returning over 2% each. That reflects a turnaround in sentiment toward UK equities as well, with a recent

Lloyds poll showing a sharp bounce last month after a torrid January.

Moreover, with valuations still attractive after a punishing few years, and dividends still sky high compared to the rest of the world, UK companies could well have further to run as 2019 draws on. UK companies currently trade at a cyclically adjusted 10-year P/E ratio (Cape) of 15.5, making them as cheap as both China and emerging markets.

How should investors look to cash in on the turnaround then?

While UK equity income has had a reasonable start this year, it has been small cap, value, recovery and special opportunity funds – all sectors that were hit hard during the sell-off last year – that have hit their stride.

These funds have also tended to do the best over time too (see chart below), albeit with more volatility, underlining the fact that the UK remains an excellent hunting ground for contrarian investors and savvy stock pickers.

For those on the hunt for bargains, therefore, it appears the UK is looking increasingly attractive once again. ●

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RANK	NAME	RATING	TR	CONTRIBUTING FUND
1/159	David Cumming		77.95	Aviva Investors UK Listed Equity High Alpha Aviva Investors UK Opportunities
2/159	Keith Ashworth-Lord	CITYWIRE / AAA	53.26	CFP SDL UK Buffettology General
3/159	Gerard Callahan	CITYWIRE / AA	50.97	Baillie Gifford UK Equity Alpha
4/159	Matthew Tillett	CITYWIRE / AA	46.32	Allianz UK Opportunities
5/159	Kevin Murphy & Nick Kirrage	CITYWIRE / A	44.89	Schroder Recovery Schroder Responsible Value UK Equity
7/159	Andrew Lyddon	CITYWIRE / AA	44.73	Schroder Responsible Value UK Equity
8/159	Hugh Sergeant	CITYWIRE / AA	43.76	River and Mercantile UK Equity High Alpha River and Mercantile UK Recovery
9/159	Guy Walker & Steven Magill	CITYWIRE / AA	42.63	UBS UK Opportunities
11/159	Henry Dixon & Jack Barrat	CITYWIRE / A	39.96	Man GLG Undervalued Assets Professional
13/159	Nick Train	CITYWIRE / AA	38.93	LF Lindsell Train UK Equity
14/159	Alex Savvides	CITYWIRE / AA	38.90	JOHCM UK Dynamic
15/159	Fraser Mackersie		37.96	Unicorn UK Growth
16/159	John Jay	CITYWIRE / A	35.58	MI Brompton UK Recovery
17/159	Anthony Cross & Julian Fosh	CITYWIRE / AA	35.58	Liontrust UK Growth Fund Liontrust Special Situations Liontrust GF Special Situations Liontrust GF UK Growth
19/159	Richard Penny		34.60	FP Crux UK Special Situations
20/159	Bob Brown, Alan Beaney & Oliver Brown	CITYWIRE / A	34.48	MFM UK Primary Opportunities