

5 charts: The investment case for UK equities

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1. The share prices of UK companies don't reflect their growing profits

An unloved stockmarket

- The UK may be the most undervalued major stockmarket in the world today
- Companies listed in the UK are cheap in absolute terms, relative to their own history and compared to other developed markets
- Negative sentiment means that the share prices of UK companies have recently stood still – or even fallen – even though their profits have grown. In time, however, the share prices of UK companies will reflect their rising profits (and attractive dividends)

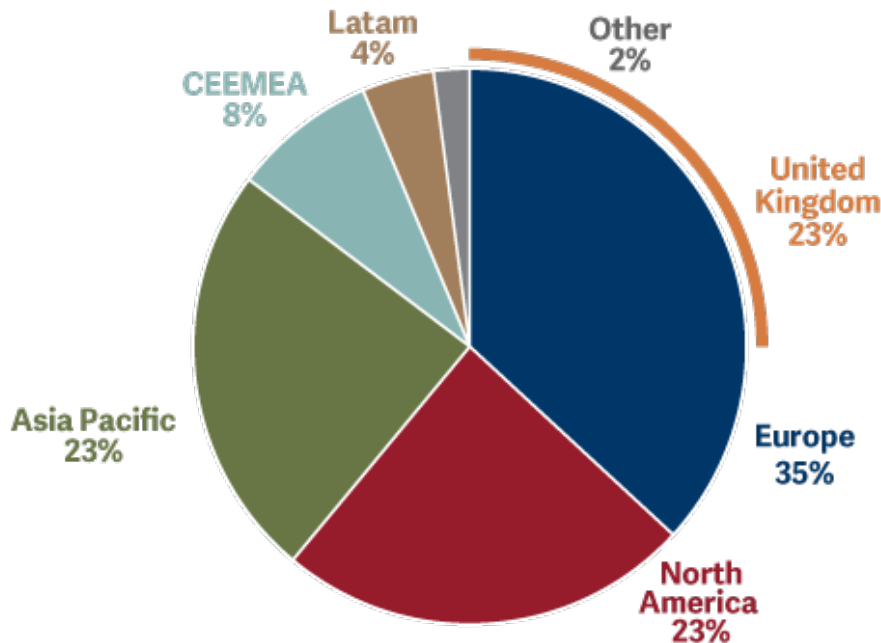


Source: Goldman Sachs, 'Global Equity Views: Fat & Flat strikes back' as at 27 June 2023.

2. Beyond borders: The FTSE is a global index

A high proportion of earnings are derived from overseas

- One of the legacies of the UK's history as a trading nation is that its stockmarket is dominated by companies that find their many of customers and sales overseas:
 - global banks (such as HSBC and Standard Chartered)
 - telecoms companies (like Airtel Africa and Vodafone)
 - pharmaceutical companies (AstraZeneca and GlaxoSmithKline)
 - global airlines (such as IAG, the owner of British Airways and Iberia)
- Around 77% of the FTSE 100's aggregate earnings are derived overseas



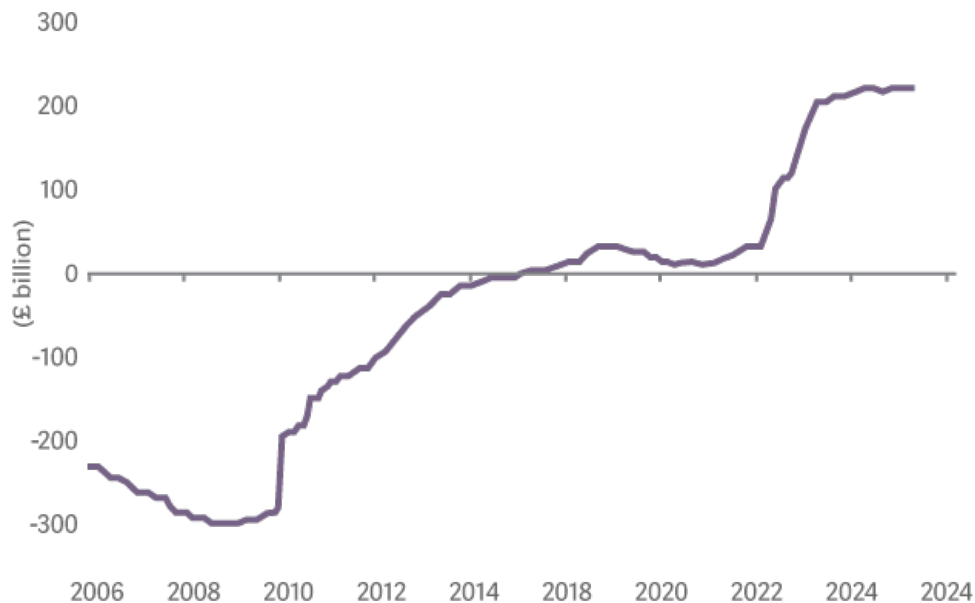
Source: Goldman Sachs Global Investment Research, 8 December 2022. Reference to specific shares or companies should not be taken as advice or a recommendation to invest in them.

3. The UK economy has been stronger than the headlines suggest

Sentiment can weigh heavy on share prices

- The Bank of England no longer anticipates a recession this year – or next
- The pain of higher mortgage costs is focused on those households that actually have a mortgage; most households don't. Only about 30% of households in the UK have a mortgage.*
- Bank deposits more than offset mortgage debt and those deposits (c.£1.8 trillion) are now earning a useful level of interest income

Household deposits less loans in banks



Source: Lazarus Economics, Bank of England. *www.ons.gov.uk, 27 February 2023. Reference to specific shares or companies should not be taken as advice or a recommendation to invest in them.

4. The UK is home to a surprising number of world-leading, innovative companies

Old companies with a new future

- There is an idea that the UK stockmarket is dominated by 'old economy' industries. But that's not the whole story.
- Over the past decade, a number of leading companies in the UK have invested in their technology and reinvented themselves:
 - For example, Next is no longer 'just' a high-street retailer but a provider of e-commerce solutions – from online sales through to distribution – to third-party fashion brands
 - Once a publisher of academic textbooks, Pearson now provides online education to students worldwide
- The UK's scientific research excellence translates into a number of exceptional companies. Oxford Instruments – a business conceived in Oxford University's physics department – is a leader in high-tech areas such as compound semiconductors, quantum computing and life science

Global Innovation Index 2022



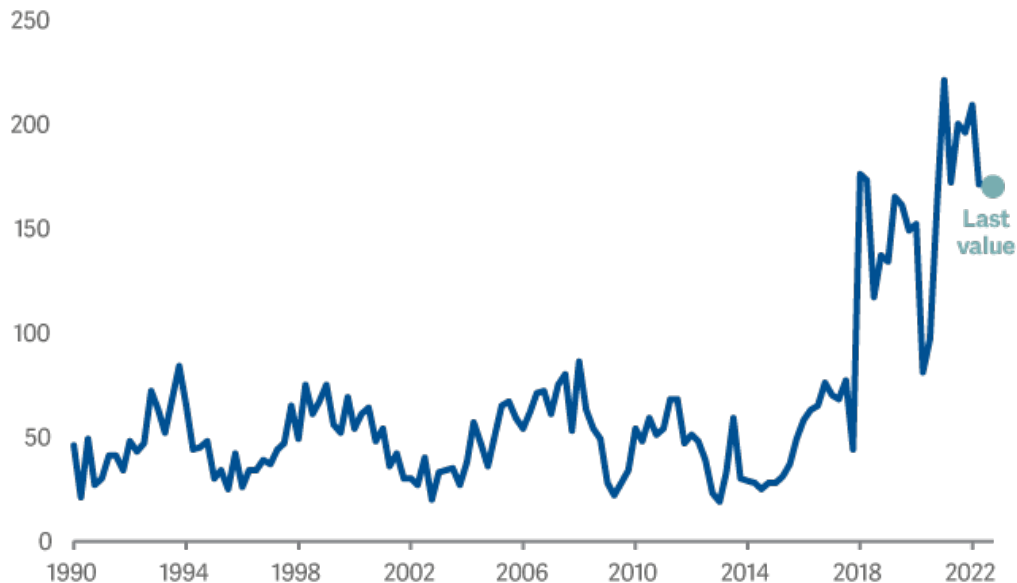
Source: [WIPO Global Innovation Index 2022](#). The Global Innovation Tracker measures the pace of technological progress and adoption based on elements of the economy that enable and facilitate innovative activities as well as looking at the outputs that are the result of innovative activities within the economy. Reference to specific shares or companies should not be taken as advice or a recommendation to invest in them.

5. Three types of investors are already exploiting a buying opportunity in the UK

The UK discount won't last forever

- With valuations low but profits rising, three types of buyer are exploiting the discount on which UK companies trade:
 - Bigger companies – taking over their smaller, UK-listed counterparts
 - Private equity – putting its cash to work in an undervalued market
 - UK plc – companies buying back and cancelling their own shares
- Eventually, the connection between profits and share prices will be re-established: the UK discount won't last forever.

Number of inward UK company acquisitions



Glossary

Equities: Equities is another name for shares in a company.

In absolute terms: When something is measured by itself and not considered in comparison to something else.

Forward price-to-earnings: Forward price-to-earnings is a ratio used to value a company's shares. It is calculated by dividing the current market price of a company's shares by the company's projected earnings per share. In general, a high p/e suggests that investors are expecting higher earnings growth in the future compared to companies with a lower p/e. Different companies' p/e's can then be compared, though it is important to remember that p/e's vary significantly between different industries as each industry can have much different growth prospects. The p/e is sometimes referred to as the 'multiple', because it shows how much investors are willing to pay per currency unit of earnings. For example, if a company is currently trading at a multiple (p/e) of 18, the interpretation is that an investor is willing to pay £18 for £1 of current earnings.

Dividend: A dividend is the amount, usually expressed on a per-share basis, that a company pays to its shareholders (or that a fund pays to its investors) from after-tax earnings.

FTSE 100: The FTSE 100 Index, also called FTSE 100, FTSE, or, informally, the "footsie", is a share index of the 100 companies listed on the London Stock Exchange with the highest market capitalisation. It is one of the most widely used stock indices and is seen as a gauge of business prosperity for business regulated by UK company law. The index is maintained by the FTSE Group, a subsidiary of the London Stock Exchange Group. FTSE stands for Financial Times Stock Exchange.

Private equity: Private equity is an alternative investment class that invests in or acquires private companies that are not listed on a public stock exchange.