UK EQUITIES:

the stars align for a period of strong returns

momentum
global investment management

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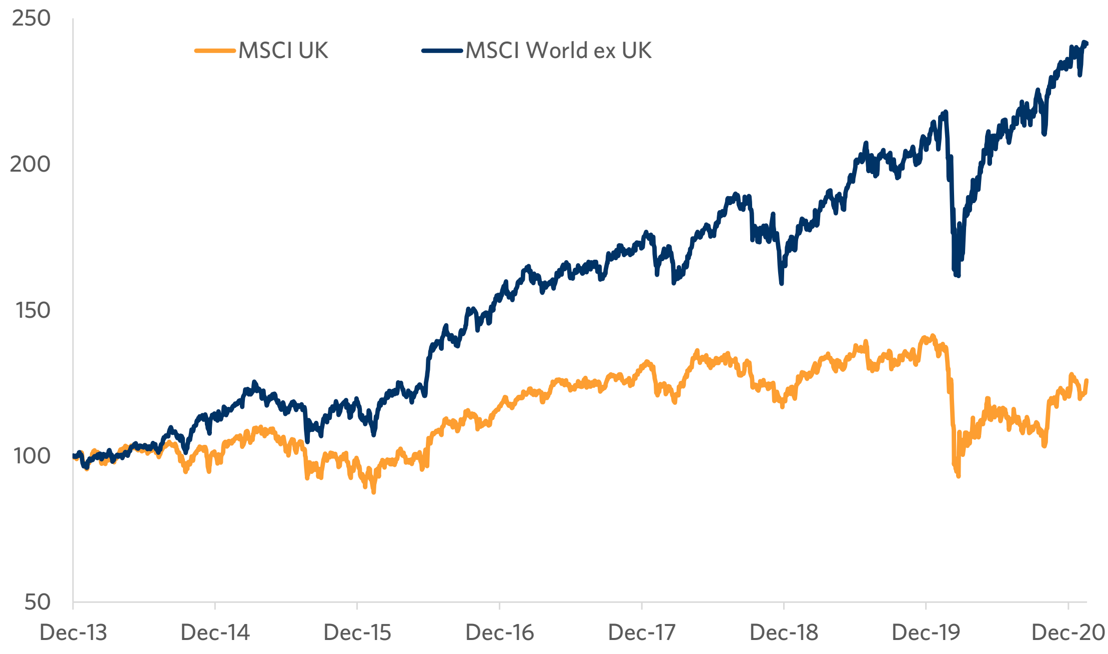
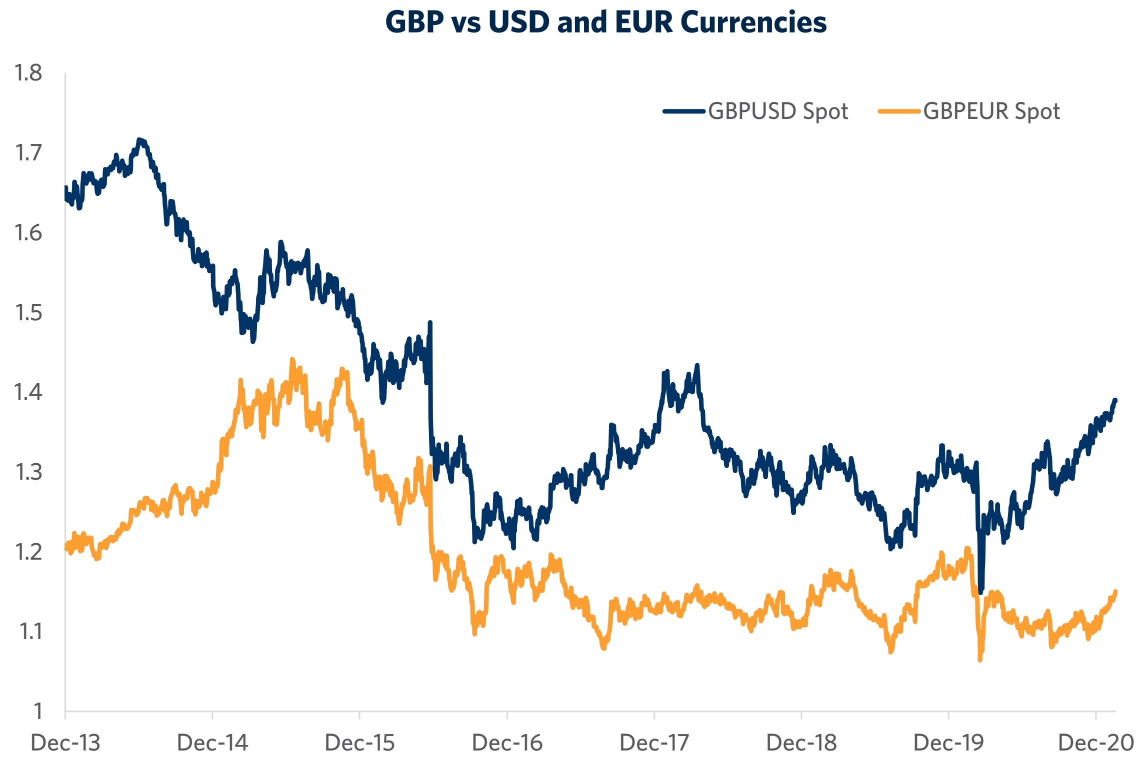
After years of sustained poor performance, both in absolute terms and relative to global equities, the UK is poised for a revival and presents an excellent opportunity for investors. The end of a long period of political uncertainty for the UK, and the aligning of an exceptionally favourable combination of prospects and valuation metrics, has given rise to an unusually attractive opportunity to buy into what is arguably the most undervalued market in the world, underpinned by a currency which is well supported following a long period in the doldrums. Here are 12 reasons why:

UK vs. World ex UK Returns (GBP terms)



Source: Bloomberg, Momentum Global Investment Management

1. The broad UK equity market has made little progress over the past 20 years, with particularly marked underperformance against global markets in recent years: **UK equities have become substantially under-owned and undervalued.**
2. Intense political uncertainty and worries about the economic impact of Brexit have discouraged businesses and investors for five years, leading to weak business investment and persistent portfolio outflows. **These uncertainties have been lifted,** first by the Conservative party landslide election victory in December 2019, and then, on Christmas Eve last year, to the surprise of many, the conclusion of the EU-UK Trade and Co-operation Agreement, which brings an end to the question of Britain's relationship with Europe and enables the UK to move on.
3. **The EU-UK deal provides for tariff and quota free trade;** while there are some teething issues as the new arrangements bed in, the deal is good for the UK, reaffirming its place as an attractive base for European manufacturing. Although the deal included little in terms of the service sector, freed from the EU regulatory orbit the UK is well placed to retain and strengthen its position as a global financial centre, with a regulatory system tailored in future for its unique requirements.



Source: Bloomberg, Momentum Global Investment Management

4. The UK's leadership position in sectors such as fintech, life sciences, medical research, AI and electronic systems, combined with its established advantages of geographic location, language, legal system, property rights, flexible labour force, and an open economy with a long history of trading globally, provide **attractive long term growth opportunities.**

5. The government is moving at pace to fulfil its ambition of reinvigorating 'global Britain'. Sixty-two trade agreements have already been signed, an application has been submitted to join the Trans-Pacific Partnership of 11 Asia-Pacific nations, and trade negotiations are advanced with the biggest prize of all, the US. While the UK is highly unlikely to become 'Singapore-on-Thames', **the omens for an acceleration of trade with faster growing economies beyond Europe are encouraging.**

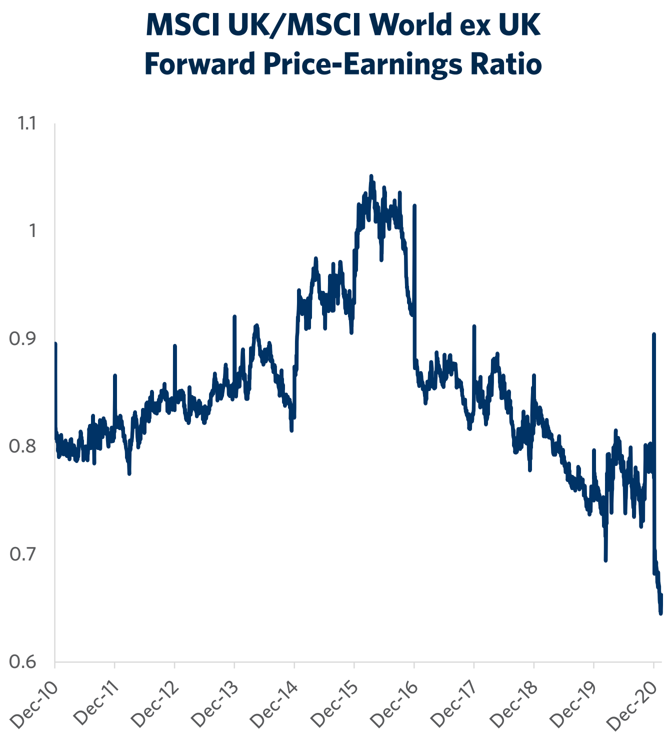
6. The UK has suffered disproportionately in the Covid pandemic, GDP collapsing by almost 10% in 2020. Several factors have contributed, including the outsize contribution of services to GDP, around 80%; it has been services that have suffered most from lockdowns and social distancing. **With the extraordinary success of the vaccine procurement and roll-out programme, the UK is on track for the whole adult population to be inoculated by May.** This puts the UK far ahead of many other nations and will enable restrictions to be gradually lifted from early March 2021. By the second half of the year life will return to a degree of normality.

7. **This will release massive pent up demand by households and provide the confidence for businesses to invest.** Bank of England data suggests that households have built up additional savings through lockdowns over the past year of £170bn, amounting to some 9% of GDP. Businesses are also cashed up and ready to invest, with excess savings of £100bn; while some businesses have failed as a result of the pandemic, and others will close before the crisis has run its course, the economic impact is minor and most of the closures are very small businesses. The pandemic was an exogenous shock which caused activity levels to collapse but did not result in a material reduction in the productive capacity of the economy. **Recovery will be dramatic as lockdown is eased: the Bank of England is forecasting UK GDP to return to pre-pandemic levels by Q1 2022, real growth of 14% between the first quarters of 2021 and 2022*.**

*Bank of England Monetary Policy Report February 2021

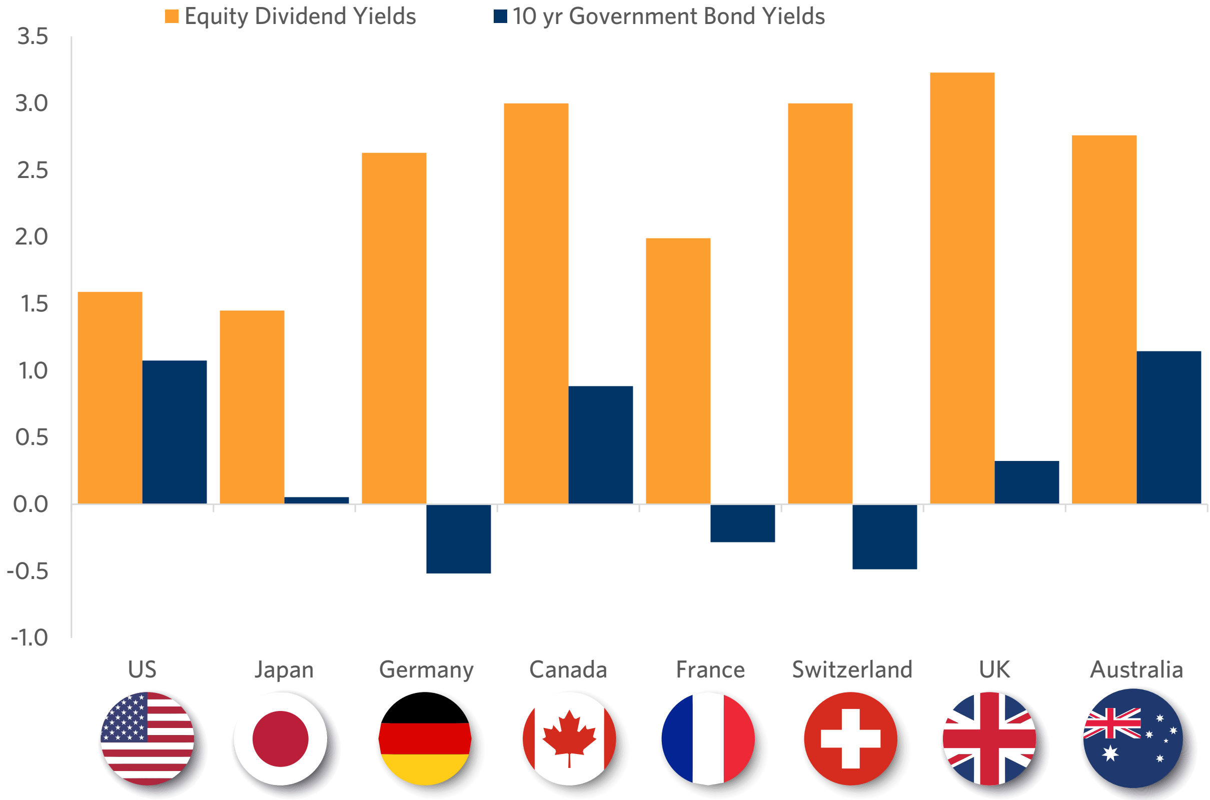
8. Confidence in this recovery is boosted by policy support. The Bank of England is clear that **current ultra-loose monetary policy will continue for a considerable time ahead,** well beyond the end of this year, while the government's fiscal policy will shift from emergency levels of support through the pandemic to growth initiatives as lockdown ends. **There will be no return to fiscal austerity.**

9. **The coming boom will be reflected in corporate profits,** especially in those sectors which have been most damaged by the pandemic.



Source: Bloomberg, Momentum Global Investment Management

10. UK equities are under-valued following their long period of poor performance. The prospective PER on the market of 14.6 compares favourably with that on global equities of 22.2. Furthermore, **the market offers the highest dividend yield, at 3.2%, of all the major markets,** this despite an aggregate cut in dividends of over 40% in 2020 – with the prospect of a significant portion of those cuts being restored in 2021.

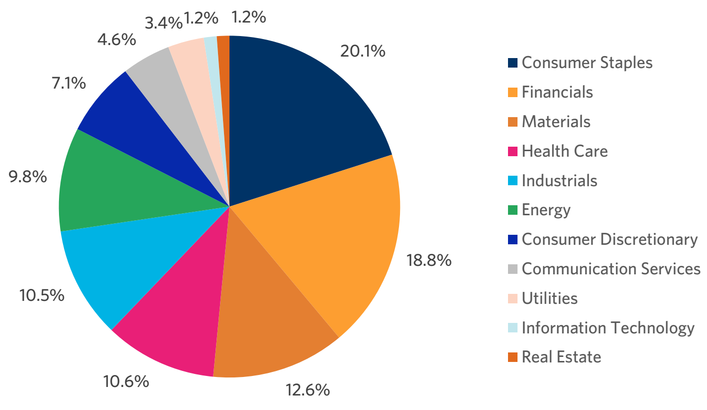


Source: Bloomberg, Momentum Global Investment Management

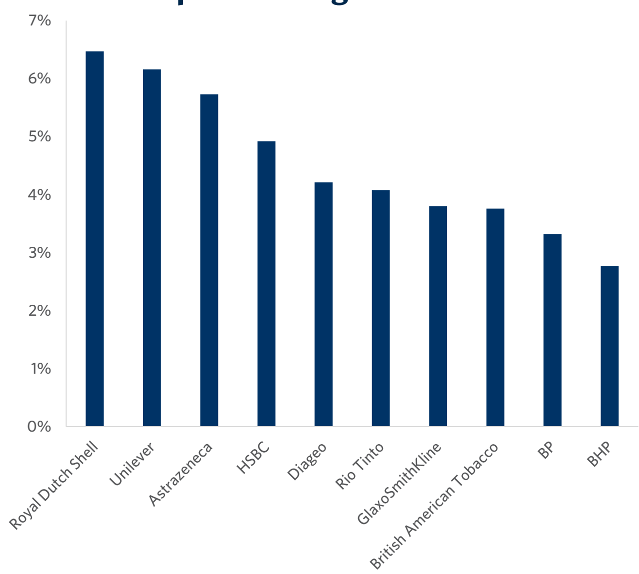
11. This valuation anomaly and unusually attractive opportunity has not been missed by corporate buyers and private equity. **M&A activity has soared** to $29bn in the first 2 months of 2021, up from less than $9bn in the first 2 months of 2020 and the highest since 2000.

12. The composition of the UK market, with a relatively high proportion of those companies which have been most damaged by the pandemic, which held the market back in 2020, will now be a powerful tailwind as recovery takes off in the months ahead.

Sector Weights of MSCI UK



Top 10 Holdings of MSCI UK



Source: Bloomberg, Momentum Global Investment Management

We reflect our optimism in the UK's prospects and this unusually positive combination of factors by maintaining overweight positions in UK equities across our portfolios.

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