globalmatters Weekly
momentum
global investment management

Honey, I shrunk the listings

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The shrinking number of companies listed in developed markets is raising concerns in some quarters of the investment industry. The statistics are striking. In the US, there has been a 40% drop in the number of listed companies since 1996. The numbers are even more acute here in the UK, which has seen a 60% reduction over the same period, and a staggering 75% drop since the 1960s[1].

Institutional investor allocations to private equity have grown from 6.4% in 2014 to 10.1% at the end of 2023[2], a significant increase in available capital for private businesses, denting the public market's status as the best route to raise capital by virtue of its much higher levels of liquidity. However, there appears to be several reasons other than the greater availability of private capital to motivate a business to choose to stay private.

Firstly, the reporting burden of a public business has become more onerous over the decades, with the time and cost associated with maintaining a listing and meeting reporting requirements, deemed unworthy of the benefits by many company management teams. The Quoted Companies Alliance, a not-for-profit organisation representing small and mid-sized publicly traded companies in the UK, found that the average word count of a listed UK company's annual reports had grown 46% over the five years to 2022[3]. This additional reporting burden may be easily absorbed by the largest listed companies, but the knock-on effect of this is the setting of standards that smaller, less resourced firms are finding harder to keep up with.

While high quality disclosure and transparency should be part and parcel of public life for a company, this may be a disincentive to today's business models at the earlier stages of their lifecycle. An increasing number of new companies' most prized assets are intangible in nature, and higher levels of disclosure compared to life as a private business may put them off making the switch to a public listing. Disclosing the location and detail of , a resource company's mining assets, does not enable competitors to replicate that asset, but a software business may be reluctant to disclose too much information that offers clues to their success.

Intuitively, it follows that companies with the highest profitability and best growth prospects are likely to attract the most interest from private investors. Those who struggle to raise funds privately may see public offerings as a last resort, raising questions as to the longer-term effect this might have on the average quality of listed public market companies.

While public equity investors and the beneficiaries of public market investing may lament the declining opportunity set, it is worth considering their own role in another reason behind companies' reluctance to list. An intense short-term focus on earnings releases places pressure on management teams to play the earnings expectations game, distracting them from managing the business and making decisions for the long-term. Coupled with, at times, unnecessary one-on-one meeting requests by a long list of shareholders, no wonder staying private has appeal.

For retail investors, access to the burgeoning private markets sector is increasing. The listed closed end market has traditionally offered small investors access to privately held illiquid assets including the likes of venture capital and private debt, while regulatory regimes are also introducing open ended structures such as Long-Term Asset Funds in the UK. Enabling wider access to private markets to counter the trends occurring in the publicly listed space is positive, as this potentially gives investors exposure to those higher growing, profitable businesses that are choosing to remain private. Improvements are likely required in both markets, however. In private, a larger cohort of investors may demand more transparency from their investee companies, particularly those investors who are used to the disclosure received from their public market counterparts. For public markets, the old incentives such as a raised public profile and access to capital have eroded somewhat. Pragmatic changes need to be considered around reducing the burden of reporting for companies while promoting the benefits of a public market listing.

> **"There appears to be several reasons other than the greater availability of private capital to motivate a business to choose to stay private."**

Sources: [1]Schroders plc. [2]McKinsey Global Private Markets Review 2024. [3]Quoted Companies Alliance – 'A Never-Ending Story'

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Market Review - week ending 27 September 2024

- Global equities rose 1.4%
- Chinese equities surged 17.2%, driven by new stimulus measures from Beijing, including cuts to the required reserve ratio and key interest rates, which also boosted global emerging market performance
- Brent crude fell 3.4% to $71.98 per barrel
- Gold rose 1.4% to $2,658.24 per ounce, driven by expectations of US rate cuts

US

- US equities rose 0.6%
- Flash Purchasing Managers' Index (PMIs) indicated ongoing economic resilience, with the composite PMI coming in at 54.4 (vs 54.3 expected), showing continued economic strength into September. However, the Conference Board's consumer confidence reading for September fell to 98.7 (vs 104.0 expected), marking its largest drop in three years
- Weekly initial jobless claims for the week ending 21 September dropped to 218k (vs 223k expected), the lowest since May, while annual GDP revisions showed stronger economic performance, with Q1 revised up to 1.6% and full-year 2023 growth revised to 2.9%
- August Personal Consumption Expenditure (PCE) inflation came in below expectations at 2.2% year-on-year (vs 2.3% expected), with core PCE matching forecasts at 2.7%

UK

- UK equities rose 1.2%
- Q2 GDP showed growth of 0.5%, while the preliminary composite PMI came in at 52.9 (vs. 53.5 expected), indicating a modest slowdown in activity

Europe

- European equities rose 3.1%
- The Euro Area flash composite PMI fell back into contractionary territory at 48.9 (vs 50.5 expected), raising concerns about the region's economic health. France and Germany's PMI numbers were also below 50 as well, signalling contraction
- Germany's Ifo business climate index dropped to 85.4 in September, the lowest in eight months
- The Euro Area M3 money supply grew by 2.9% year-on-year in August, its strongest since January 2023

Rest of the World/Asia

- Global emerging market equities rose 6.2%
- Japanese equities rose 4.7%, and Chinese equities rose 17.2%, supported by fresh stimulus measures from Beijing
- The People's Bank of China (PBoC) announced several policy easing steps, including cutting the required reserve ratio (RRR) by 0.5% and reducing the 7-day reverse repo rate to 1.5%. Additionally, the PBoC cut its medium-term lending facility to 2%, the largest reduction since its inception in 2016
- China's official manufacturing PMI improved slightly to 49.8 in September (vs 49.4 expected), though it remained below 50 for a fifth consecutive month, while the Caixin PMI saw a sharper contraction at 49.3 (vs 50.5 expected)
- Japan's industrial output in August fell by 3.3% month-on-month, while retail sales rose by 2.8% year-on-year, exceeding expectations

Past performance is not indicative of future returns. Source: Bloomberg Finance L.P., returns in local currency unless otherwise stated.

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Market Performance - week ending 27 September 2024

		Cumulative returns			
Asset Class / Region	**Currency**	**Week ending 27 September**	**Month to date**	**YTD 2024**	**12 months**
Developed Markets Equities					
United States	USD	0.6%	1.7%	21.2%	35.6%
United Kingdom	GBP	1.2%	-0.8%	10.7%	13.6%
Continental Europe	EUR	3.1%	0.6%	12.0%	21.7%
Japan	JPY	4.7%	2.0%	18.4%	18.9%
Asia Pacific (ex Japan)	USD	6.2%	7.7%	19.7%	29.9%
Australia	AUD	0.0%	2.3%	11.6%	21.2%
Global	USD	1.4%	1.9%	19.0%	33.2%
Emerging Markets Equities					
Emerging Europe	USD	2.8%	1.7%	14.8%	31.8%
Emerging Asia	USD	7.1%	8.1%	21.6%	30.2%
Emerging Latin America	USD	1.7%	1.1%	-11.6%	5.8%
BRICs	USD	9.0%	10.7%	20.7%	25.4%
China	USD	17.2%	19.2%	24.4%	20.4%
MENA countries	USD	1.6%	2.3%	2.8%	8.5%
South Africa	USD	6.6%	9.1%	24.4%	41.6%
India	USD	1.1%	3.9%	21.0%	33.6%
Global emerging markets	USD	6.2%	7.0%	17.2%	27.1%
Bonds					
US Treasuries	USD	0.0%	1.5%	4.2%	10.5%
US Treasuries (inflation protected)	USD	0.0%	1.6%	5.0%	10.3%
US Corporate (investment grade)	USD	0.0%	1.9%	6.0%	14.4%
US High Yield	USD	0.1%	1.6%	8.0%	15.9%
UK Gilts	GBP	-0.6%	0.1%	-0.3%	7.1%
UK Corporate (investment grade)	GBP	-0.3%	0.4%	2.6%	10.8%
Euro Government Bonds	EUR	0.6%	1.2%	1.9%	9.3%
Euro Corporate (investment grade)	EUR	0.5%	1.2%	3.8%	9.7%
Euro High Yield	EUR	0.3%	1.0%	6.7%	12.6%
Global Government Bonds	USD	0.5%	2.0%	3.1%	11.3%
Global Bonds	USD	0.4%	1.8%	3.8%	12.9%
Global Convertible Bonds	USD	2.5%	3.7%	6.1%	14.4%
Emerging Market Bonds	USD	-0.1%	1.8%	7.8%	18.1%

		Cumulative returns			
Asset Class / Region	**Currency**	**Week ending 27 September**	**Month to date**	**YTD 2024**	**12 months**
Property					
US Property Securities	USD	-0.2%	1.8%	14.1%	33.3%
Australian Property Securities	AUD	-1.2%	6.0%	22.4%	39.2%
Asia Property Securities	USD	7.4%	7.6%	7.1%	14.7%
Global Property Securities	USD	1.7%	3.9%	13.6%	31.7%
Currencies					
Euro	USD	-0.2%	0.9%	0.8%	6.2%
UK Pound Sterling	USD	0.4%	2.0%	4.9%	10.4%
Japanese Yen	USD	0.9%	2.6%	-1.2%	5.0%
Australian Dollar	USD	1.4%	2.2%	1.1%	8.7%
South African Rand	USD	2.2%	4.2%	6.8%	12.3%
Swiss Franc	USD	0.8%	1.0%	-0.4%	9.3%
Chinese Yuan	USD	0.5%	1.2%	1.3%	4.2%
Commodities & Alternatives					
Commodities	USD	1.2%	2.6%	5.6%	-1.9%
Agricultural Commodities	USD	2.6%	5.2%	4.9%	2.6%
Oil	USD	-3.4%	-8.7%	-6.6%	-25.4%
Gold	USD	1.4%	6.2%	28.9%	41.7%

Source: Bloomberg Finance L.P. Past performance is not indicative of future returns.

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