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The benefits of the home market

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The UK stock market has been in the doldrums in recent years – a combination of Brexit, political turmoil and the pandemic have seen steep outflows from UK funds since 2016. Instead, retail investors have flocked to companies and markets further afield. Meanwhile the last two decades have seen pension schemes reduce their UK equity weightings and move into global funds, or de-risk into bonds and liability matching strategies.

Yet there are compelling reasons why investors could benefit from investing in UK equities. Concerns over the UK economy may have fuelled many investors' reluctance to invest here, but not only is the picture improving, with only a mild recession now predicted, the UK has shown real signs of resilience.

While we've been in the slow lane of growth since 2016, with some structural headwinds, if you look strategically at what has happened to many domestic companies, they have massively enhanced their market positions. One metric I look at is sales and earnings pre-Covid versus post-Covid and many of the companies we invest in are much bigger businesses as they exit Covid. Covid forced some hard decisions, and in some ways was a clarifying factor for firms.

Meanwhile many British companies listed on the UK stock market are also international, doing business around the globe, offering investors the chance to benefit from other markets without the foreign exchange currency risk.

Such companies also reflect our history as a major trading nation. We have companies whose origins date back more than 100 years, such as Unilever, Shell, Smith and Nephew, Standard Chartered, all of which were established when we were one of the pre-eminent trading nations. The international markets that many such firms now operate and trade in, in particular "emerging markets" such as India, offer significant potential for growth.

One such example and a company that we invest in through the EIT is Haleon, the consumer healthcare business, which chose to list on the LSE in March 2022. Haleon has well-known brands sold globally, in particular in VMS (vitamins, minerals and supplements), pain relief and oral care.

Haleon's brands have science-based claims that are endorsed by health practitioners and backed up by consistent marketing. Its geographic footprint is properly global with strong incumbent positions in the likes of Europe and America but also in India where per capita consumption is a mere pinprick compared to the US. There is a long trajectory of growth ahead.

Another is Weir, the mining technology group, which is headquartered in Glasgow. Weir has a long history, established in the 1870s, and is genuinely international. It has service centres in over 60 countries close to its customers at the mines, and has grown its aftermarket spares revenues by 7% per annum on average, over the period 2011 to 2022.

Approximately 70% of the UK stock market's revenue comes from non-sterling currencies. The balance comes from a strong cohort of domestically-orientated companies such as NatWest, M&S and Dunelm and Greggs, to name but a few.

While the investing narrative of the last decade or so has been around the drive to go global, if investors consider that the most basic purpose of most savings and investments is typically a bridge through to being prepared for future costs, such as retirement, there is a strong logic for favouring your home market because most of your liabilities, bar the odd holiday, are priced in sterling.

While it is the case that UK equity market flows have been one way since Brexit, many corporates have been taking the other side and quietly buying in their shares. One has to wonder which of the two is best placed to judge the medium-term prospects: the seller or the buyer in this instance?

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https://www.liontrust.co.uk/benefits-of-investing/guide-financial-words-terms

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