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Defence and Attack

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As an Everton FC supporter, it's a bit depressing when the biggest thing one can celebrate around this time every year is not being relegated from the Premier League (although last week's victory over Liverpool was, for once, an unalloyed pleasure). Investors in UK equities might have had similar feelings for most of the last two decades which have been characterised by lacklustre returns with the only redemption being that somewhere in the rest of the world another market is doing worse.

Having said that, the FTSE 100 Index has recently broken out into new territory, surpassing its previous all-time high achieved in February 2023. The one before that had been as long ago as early 2018. And for all the talk of the UK market being dominated by Energy companies, last week's key contributors were a Pharmaceutical company (Astra Zeneca), a Consumer Goods company (Unilever), and a Miner (Anglo American). Indeed, while the US stock market is dominated by Technology, France by Luxury Goods and Germany by Industrials, the UK appears to be a bit more diverse.

Even so, I cannot deny that Oil Producers Shell and BP have between them contributed 140 of the 451 points gained by the index so far this year. Astra Zeneca (101) and Glaxo SmithKline (36) are not far behind when combined. It's been a good year for banks too, with HSBC (44) and Barclays (35) in the mix. The other notable contributors have been Rolls Royce (38), Unilever (36), Anglo American (36) and BAE Systems (32).

Of course, a huge company's share price doesn't necessarily have to move very far to contribute a lot of points to the index movement, given that headline indices are weighted by market capitalisation. It is interesting to note, then, that none of the Top 10 FTSE 100 performers in terms of share price appreciation are in the Top 10 by market cap.

And there really have been some pretty decent moves so far this year. The best share price performance has come from Nat West Group (+45%), although it's sobering to reflect that the shares are still down 95% from the level that they were before the Global Financial Crisis owing to the dilution created by the huge number of shares that were issued to rescue it (then trading under the banner of Royal Bank of Scotland). At least Barclays (+39% YTD in second place) is "only" down around two-thirds from its pre-GFC level.

Next on the list is Rolls Royce (+ 39%, seeing a nice upturn in the aerospace industry and with some option value in its arm developing small modular nuclear reactors). Then comes Anglo American (+39%), which was on the receiving end of a potential bid from BHP last week, highlighting the prospect for increased Mergers & Acquisitions activity that many see as inevitable given relatively cheap valuations in the UK. Another Miner, Antofagasta is next (+36%). It is about the purest play on the price of copper, a commodity that has rallied strongly this year based on a combination of current supply shortages and its important longer term role in the "electrification of everything".

The next five on the list are about as unconnected as one could expect to find. Beazley (+26%) is a specialist insurance company; BAE Systems (+24%) is benefitting from increased levels of defence expenditure; Intermediate Capital (+22%) and 3i Group (+19%) are both effectively quoted private equity companies, and their very different investments have been prospering. Finally, there is Intertek (+17%), whose testing business has been buoyed by signs of a recovery in global trade.

One key component of Everton's survival this season has been a miserly defence (allowing for the odd lapse, as against Chelsea recently – that's a few hours of my life spent shivering in West London that I won't be getting back!). Only (current) league leaders Arsenal have kept more clean sheets, and only three teams, who currently constitute the top three, have conceded fewer goals. Unfortunately, Everton are also the second lowest scorers in the division, with only already-relegated Sheffield United having had less success in locating the back of the net.

Stretching the football metaphor to breaking point, the FTSE 100 is Evertonesque in missing at least one reliable big goal scorer. It almost goes without saying that any club that wins the league will have the services of someone who bangs in twenty or thirty goals a season, and sometimes more than

one – or at least several players who can contribute in the teens, such as seems to be the case with Arsenal this season.

While we have written a lot about the "FAANGs" and the "Magnificent 7" stocks in the US, which have collectively propelled the S&P 500 onwards and upwards over the last decade, the UK just does not have that strength. Out of the Top 20 shares in the FTSE 100, how many could one realistically describe as globally dominant growth stocks? RELX, maybe, as it is potentially a beneficiary of the adoption of generative artificial intelligence? The same might be said of LSE Group (London Stock Exchange). Yes, there are plenty of "quality compounders", in the shape of Astra Zeneca, Unilever, Diageo, and Compass Group, but they are only going to get you into the Europa League or the qualifying stages of the Champions League at best.

The other thing that is common to both high-flying shares and goal scorers is that they are rare beasts and thus demand a big premium in terms of valuation – Price/Earnings ratios for shares, and transfer fees and wages for strikers. Thus, any hint of fallibility can lead to a big fall. Right now, we are in the middle of the first quarter corporate results season, and the evidence so far is that companies that miss their earnings forecasts are being punished far more than companies who beat are being rewarded. More positively, and as usual, the majority of companies are beating expectations.

Worrying headlines were generated last week when Meta's (formerly Facebook) shares fell 10% following a slightly disappointing outlook statement and an increase in spending plans, whilst Alphabet (formerly Google) rose a similar amount as its profits came in ahead of forecasts and it declared an inaugural dividend. The end of the previous week had seen a 10% one-day move (downwards) in chip designer Nvidia's share price on no company-specific news.

Given the fact that Alphabet and Nvidia have market capitalisations above $2 trillion, and that Meta's is currently around $1.1tn, the implied creation and destruction of value at a portfolio level is unprecedented. It is a reminder of the sensitivity of net present values of growth companies to relatively small changes in expected growth and cash flow. But it also reminds us that price discovery in financial markets is as much an art as a science, with sentiment and positioning playing key roles. Sometimes it's best not to pay too much attention to moves like this and to let the dust settle a little.

This week we have results from Amazon and Apple to look forward to, as well as a meeting of the US central bank's rate setting committee, and so there is plenty of scope for more big share price movements. I'll look back at the whole results season and update on the interest rate outlook in a couple of weeks' time (there's a break for the Bank Holiday next week and we'll be sending out the Monthly Digest).

There is one final footballing element to refer to, and that is portfolio construction, or the composition of the team. The great majority of the portfolios we run are balanced, in that they do not rely on a single asset class for their returns. While the long-term evidence suggests that equities do give the best returns, they also come with greater volatility, which many clients prefer to avoid, and this is especially the case when close to or in retirement. Thus, we need a goalkeeper, defenders, creative midfielders and strikers to create the right blend. This can be created by assets ranging from cash and government bonds, through safe income generators to quality compounders and outright growth stocks. Like Premier League managers, we often have to go overseas to find the right solution, which is one reason why we continue to have a greater number of non-UK-listed components in our portfolios.

Economic Commentary

FTSE 100 weekly winners

Anglo American plc	21.3%
NatWest Group Plc	11.1%
Barclays PLC	10.0%
Ashtead Group plc	9.8%
AstraZeneca PLC	9.5%
Unilever PLC	8.4%
Associated British Foods plc	7.7%

FTSE 100 weekly losers

Entain PLC	-6.4%
DS Smith Plc	-5.2%
Legal & General Group Plc	-4.2%
BHP Group Ltd	-3.8%
Schroders PLC	-3.6%
Croda International Plc	-3.5%
Fresnillo PLC	-3.0%

FTSE 100 index, past 12 months

EuroStoxx 600 index, past 12 months

S&P 500 index, past 12 months

All data shown in GBP.

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