# Always look on the bright side of life

**We argue that optimism is more likely to serve investors better than pessimism...**

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If you have ever received an email from the National Lottery entitled "Congratulations, you have won a prize", you will know that victories are not always as sweet as they first look. Sir Keir Starmer looks pretty pleased with himself these days, but £3.40 is not going to fund many new teachers, let alone make a dent in the NHS backlog, and this is approximately the fiscal headroom the OBR has estimated he will have to work with after my generous donation of my recent winnings.

A lot of commentary about the recent election has focussed on the daunting task facing any new government; we all have a list of pet projects we want funded, but we all know taxes are just too high. If only the government would just tax less and provide better public services, like they do wherever tall, handsome and intelligent foreigners live perfect lives, then we wouldn't be quite so angry. But maybe, just maybe, things aren't quite as bad as they seem on a wet Monday morning after half an hour with the latest rantings of the British press? Certainly, I would argue an attitude of pessimism about the economy is unlikely to be helpful to long-term investment returns, and there is plenty to be optimistic about.

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## 1. The UK stock market is not UK business

Lots of blood-curdling warnings of the death of the UK stock market are available for free on the internet. It is important to remember when consuming them that the UK stock market only contains a small proportion of the businesses operating in this country. There are many reasons to want to maintain a strong stock market, not least the jobs and the taxes it brings, but "the decline of the UK stock market" does not represent a decline in UK businesses. According to government statistics, there were 8,000 large businesses in the UK in 2023 (defined as those with more than 250 employees). There are only 563 members of the FTSE All Share.

In fact, there is a trend in the developed world for companies to shun public listings for longer and longer. There is plenty of capital in the world looking for investment opportunities, and there are economic advantages to staying private for investors and investees. The UK is a particularly popular place for companies with private owners to launch themselves or raise capital. For example, in the fintech sector, one of the disruptive parts of the global tech ecosystem, British companies attract more funding than those in France, Germany, China, India, Brazil and Canada combined (Source: KPMG, as of 2023). Fintech is an obvious area where AI could be expected to be intimately involved, so this could prove to be a particularly exciting industry over the coming years. In the investment trust space, the Growth Capital sector has seen share prices sell off as higher interest rates have hit confidence in asset prices and funding requirements. However, the shares of trusts like **Schroder British Opportunities (SBO)** are now trading on significant discounts. SBO is heavily invested in technology-related sectors, particularly in the private segment of its portfolio.

## 2. UK businesses are not the UK economy

A simple rule of thumb some international investors like to use is to consider UK large caps a global index, but UK small and mid-caps a proxy for the British economy. However, c. 50% of revenues

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earned by FTSE 250 companies are earned overseas. It is certainly worth bearing in mind this perception, as it is likely to influence flows into the 250 (particularly through passive funds). However, it is simply not the case that we need to see a strong UK economy for FTSE 250 stocks to deliver exceptional returns. A good example of an international stock listed on the FTSE 250 is Oxford Instruments, which designs and manufactures high-tech tools for work at the atomic and molecular level, used across life sciences, semiconductor manufacturing and quantum technology. As of its latest annual report, 24% of its revenues came from Europe (including the UK), 29% from North America and 45% from Asia. The stock is a top ten holding in **BlackRock Throgmorton Trust (THRG)**.

What this means is, we don't need strong UK GDP growth to see strong returns to UK-listed (or unlisted) businesses and to those investing in them. It is easy for these things to be run together in the public imagination – it is often useful to create this confusion for people campaigning on an issue – but investors are more likely to be successful over the long run by making the distinction and looking for those companies which can deliver growth irrespective of moves in top-line, one country GDP.

## 3. The UK economy remains one of the most dynamic in the world

Mark Twain is supposed to have said: "There are three kinds of lies: lies, damned lies and statistics." A bit of googling suggests he attributed the phrase to Disraeli in his autobiography, but didn't come up with it himself. There is actually a **website** devoted to the question of where it came from. It's a popular phrase nonetheless, which we might attribute to the fact that generation after generation has noted that arguments based on statistics often end up being far less convincing than they first seem. Anyone who has studied a little bit of statistics will know how easy it is to lie with numbers.

One nice trick is to take a volatile or cyclical indicator and quote long-term results after a sudden move in one direction, depending on whether you want it to look bad or good. For example, if a country had just seen annualised inflation of 10% and wage growth of 0%, following five years of inflation around 2% and earnings around 4%, you could say "Real wages flat over five years." It would be technically true, but also very misleading. A popular trick after the Brexit referendum was to quote GBP/EUR declines since the referendum, or just before. This ignores the massive run up in GBP over 2015, with the post-referendum declines leaving sterling around where it was versus the euro in the 2010-2014 period.

Differing incentives mean that while in the financial services industry, these tricks might often be used to emphasise good returns or a positive outlook, in the press, they are most likely to be used to emphasise the negative. Doom and gloom sells, for whatever reason. The thing about doom and glom though, is it tends to lead to low valuations, while having little effect on reality, and therefore GDP and earnings growth. Trusts like **Schroder UK Mid Cap (SCP)** and **Mercantile (MRC)** have plenty of domestic and international businesses with great long-term prospects, and yet they trade on a double discount: low company valuations and a double digit discount of the share price to NAV. The UK remains a wealthy country with decent growth versus its European peers, a strong labour market, plenty of sources of capital for business and expertise in high tech and healthcare industries. From a long-term perspective doom and gloom should be seen as a sign it might be time to buy, not sell, in our view. If Labour does win the election, their inheritance will be better than many are currently claiming. Indeed, it may even be that a change of government, even to the supposed anti-business Labour Party, could be the excuse the world is looking for to draw a line under the past few years and start piling back into UK equities.

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