

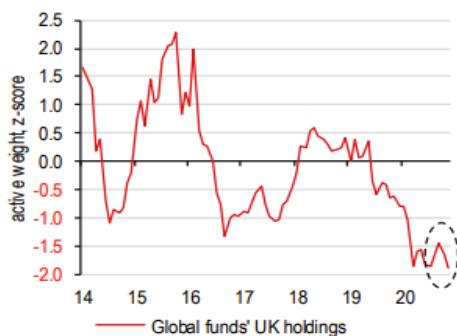
“For last year’s words belong to last year’s language. And next year’s words await another voice.”

When it comes to investing, or nearly anything else for that matter, we are loathed to focus overtly on the turn of the calendar and the start of a new year. It is, after all, just another day. However, given the extraordinary events that took place around the world in 2020, the quote above, from T.S. Eliot’s Little Gidding, seems particularly appropriate as we contemplate prospects for 2021 and beyond.

For UK equity investors specifically, this particular turn of the year does actually represent the beginnings of something new – our new trading relationship with the European Union, forged as is customary these days, in a flurry of last minute activity, despite the c. 4 ½ years of preparation time that has passed since the shock 2016 referendum result.

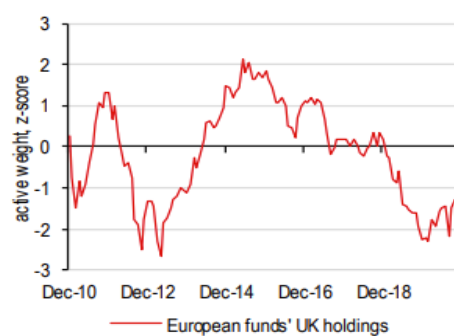
If you believe, as we do, that the uncertainty surrounding Brexit, and the potentially chaotic consequences of a ‘no deal’ exit, has been one of the dominant factors in the poor relative performance of UK equities in recent years then perhaps, just for once, the new year really is time for investors to look afresh at UK equities. Indeed, the charts below would suggest there is plenty of scope for investors to become more positive!

7. Relative to long-term average, global funds’ UK allocation is at its lowest level since 2014



Source: FTSE Russell, Refinitiv Datastream, EPFR Global, HSB calculations

8. European funds UK holdings are also low relative to history



Source: FTSE Russell, Refinitiv Datastream, EPFR Global, HSB calculations

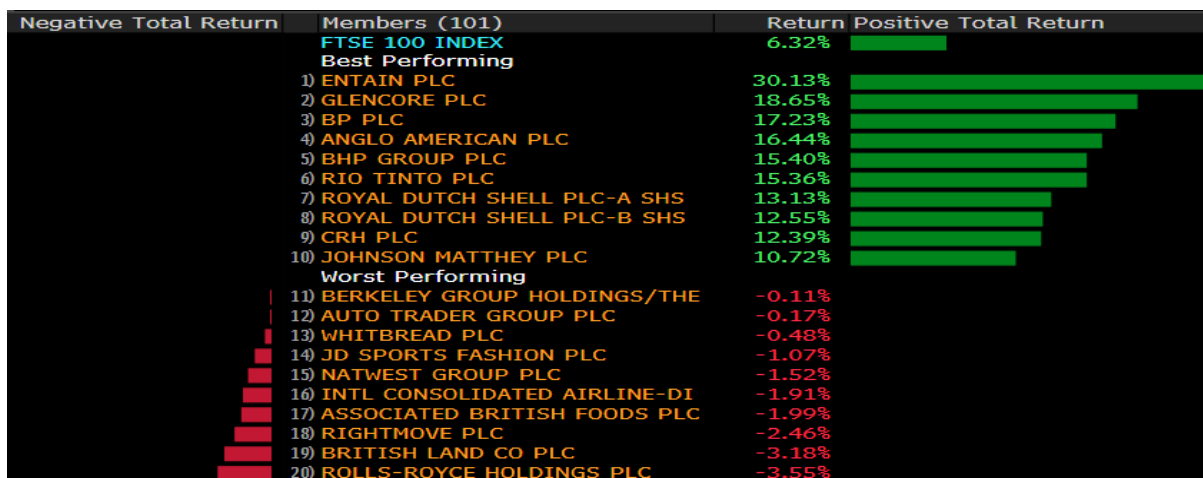
Early in the year as it is, this may be the signal we are seeing from markets already, as the FTSE 100 finished the first full trading week of the year with a gain of +6.3%, one of the strongest moves of all the major global markets.

Of course, it is not only Brexit that has dominated the worry list for UK equity investors. Whilst the dreadful Covid-19 pandemic has had a devastating impact on people and economies around the globe, the UK economic hit seems to have been particularly acute in 2020 relative to most developed nations.

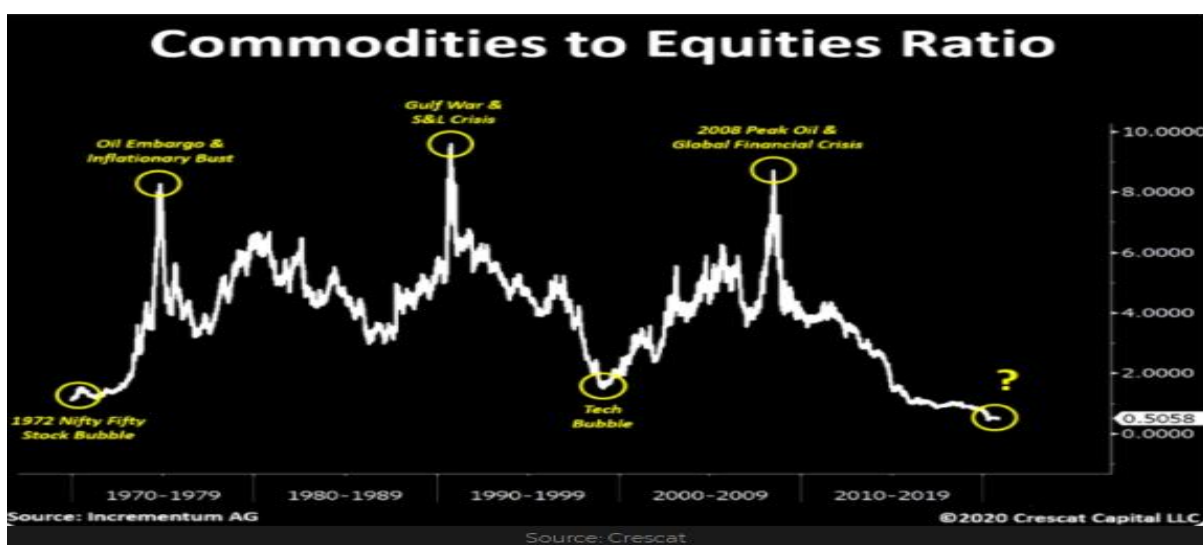
Further, as we write, confirmed Covid-19 cases have been accelerating sharply throughout the UK, leading to renewed, tighter, economic restrictions and building pressure on the Health Service. However, looking forward (whilst in no way belittling the current situation) we see reasons for cautious optimism in the UK’s early approval and accelerated roll-out of several vaccines.

The latest data suggests some 2 million people have already received their first dose, with around a third of all over 80s now vaccinated. If the roll-out continues as planned (best case) the UK will have vaccinated more than 14 million people by mid-February, comprising the over-70s, the clinically vulnerable and health and social-care workers. Just how quickly this progress will enable a reopening of the economy remains to be seen – but a certain degree of optimism is, we feel, warranted.

Another persistent headwind for UK equities in recent years has been the perception of ‘a lack of growth companies’, ‘too many old economy value stocks’ etc. Again, ultra-short-term caveat aside, the FTSE 100 leader board last week was, we thought, fascinating.



The preponderance of ‘old economy’ resource stocks (mining, oil & gas etc) is notable, particularly when you consider the long-term performance of commodities relative to equities in the chart below. The UK, as we know, is heavily exposed to the resource sectors.



Entain Plc (GVC to most of us!) was top of the leader board last week having received a takeover approach from their US joint venture partner MGM Resorts. Indeed, corporate activity in the UK market has accelerated sharply, particularly in the second half of 2020, as the table below from Numis Securities highlights – some 45 deals to the tune of \$47bn in value in 2020.

Quantity	Target	Cash/Stock/ Mix	Acquirer	Tgt Mkt Cap \$m	Date
1	SIRIUS MINERALS	Cash	ANGLO AMER PLC	500	08/01/2020
2	HAYNES PUB GRP	Cash	INFODIGITAL (TOWERBROOK)	140	13/02/2020
3	REDX PHARMA PLC	Cash	REDMILE	40	13/02/2020
4	DAEJAN HOLDINGS	Cash	FRESHWATER	1,732	21/02/2020
5	ALTERNATIVE CRED	Cash	WATERFALL AM	856	25/02/2020
6	HUNTSWORTH LTD	Cash	C,D & R	547	03/03/2020
7	MOSS BROS GROUP	Cash	MRI SOFTWARE	126	12/03/2020
8	INDIGOVISION GRP	Cash	MOTOROLA SOLUTIO	39	17/03/2020
9	PURECIRCLE LTD	Cash	INGREDION	244	09/04/2020
10	CASTLETON TECHN	Cash	MRI SOFTWARE	102	15/04/2020
11	GEORGIA HEALTH	Stock	BANK OF GEORGIA	376	15/04/2020
12	BE HEARD GROUP P	Cash	MSQ CAPITAL	823	24/06/2020
13	CELLO HEALTH PLC	Cash	ARSENAL CAPITAL	236	01/07/2020
14	ROCKROSE ENERGY	Cash	VIARO ENERGY	326	06/07/2020
15	HADRIANS WALL S	Cash	CUBITT TRADE/PETRA	105	22/07/2020
16	HASTINGS GROUP	Cash	SAMPO OYJ-A SHS & RMI	2,182	29/07/2020
17	HML HOLDINGS PLC	Cash	HARWOOD CAPITAL	24	30/07/2020
18	HIGHLAND GOLD M	Cash	FORTIANA	1,440	31/07/2020
19	AA PLC	Cash	/ TOWERBROOK /APOLLO /C T	329	04/08/2020
20	COLLAGEN SOLUTIO	Cash	ROSEN'S DIRECT	40	27/08/2020
21	SDL PLC	Cash	RWS HOLDINGS PLC	841	27/08/2020
22	MODERN WATER PL	Stock	DEEPVERGE PLC	17	28/08/2020
23	G4S PLC	Cash	GARDAWORLD	3,890	14/09/2020
24	WILLIAM HILL	Cash	CAESARS ENTERTAI	3,767	25/09/2020
25	TALKTALK TEL	Cash	TOSCA	1,467	08/10/2020
26	MURGITROYD GROU	Cash	SOV. CAPITAL PARTNERS	83	15/10/2020
27	4D PHARMA PLC	Cash	LONGEVITY ACQUIS & RMI	191	22/10/2020
28	MCCARTHY & ST	Cash	LONESTAR	816	23/10/2020
29	KAZ MINERALS PLC	Cash	VOSTOK COPPER	3,990	28/10/2020
30	HORIZON DISCOVER	Cash	PERKINELMER INC & RMI	386	02/11/2020
31	LIDCO GROUP PLC	Cash	MASIMO CORP & RMI	39	02/11/2020
32	CPL RES PLC	Cash	OUTSOURCING & RMI	370	04/11/2020
33	RSA INSURANCE G	Cash	INTACT FINANCIAL & TRYG A/S	9,460	05/11/2020
34	CODEMASTERS GRO	Mix	TAKE-TWO INTERAC	1,250	06/11/2020
35	SPORTECH PLC	Cash	STANDARD GENERAL	75	06/11/2020
36	URBAN & CIVIC PL	Cash	WELCOME TRUST	661	06/11/2020
37	COUNTRYWIDE PLC	Cash	CONNELL'S / ALCHEMY	108	09/11/2020
38	TELIT	TBC	DBAY/UBLOX	451	19/11/2020
39	GOCO	Mix	FUTURE PLC	716	25/11/2020
40	NUCLEUS FINANCI	Cash	INTEGRAFIN	28	02/12/2020
41	IMI MOBILE	Cash	CISCO	666	07/12/2020
42	APPLEGREEN	Cash	MBO & BLACKSTONE	845	10/12/2020
43	ABBEY PLC	Cash	GALLAGHER	446	10/12/2020
44	CALISEN	Cash	CISCO	1,941	11/12/2020
45	SIGNATURE AVIATIO	Cash	BLACKSTONE/GIP	4,285	17/12/2020
Total Value \$m				46,996	

So, calendar change misgivings aside, we start this new year with a renewed sense of enthusiasm in our outlook for UK equities. The Brexit related uncertainty is resolving, vaccine related optimism is warranted, investor positioning is light and the 'old economy' may just be ripe for a period of performance. It looks to us as though corporates have already twigged that there is tremendous value in many areas of the UK market. If other investors don't respond, expect M&A activity to accelerate further through 2021.

Simon Murphy, Fund Manager, VT Tyndall Real Income Fund, 15th January 2021

Data source (unless otherwise stated): Bloomberg

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