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Richard Hallett's UK Market Update

August 2019

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Richard Hallett

Richard Hallett is the Investment Manager of the **Marlborough UK Multi-Cap Growth Fund**.

Brexit uncertainty continues to act as a drag on the UK economy, holding back business investment and undermining consumer confidence.

The economy has shown a degree of resilience and is continuing to grow, but at a lower rate than before the referendum, with GDP forecast to rise by only around 1.2% in 2019. On a more bullish note, weaker sterling, while increasing import costs, makes exporters' goods and services more competitive in international markets and increases the value of overseas earnings.

In reality though, the global backdrop may have greater significance than Brexit for the UK equity market, given its international nature, with FTSE 100 companies generating more than 70% of their earnings overseas.

US-China trade tensions have weighed on stock markets around the world and the UK has been no exception. However, despite this dispute, the underlying economic picture in these two giant nations is encouraging. Chinese GDP growth has slowed but still remained at an enviable 6.2% year-on-year in the second quarter of 2019. In the US too, economic indicators are positive and unemployment is close to a 50-year low.

The prospect of further financial stimulus, including interest rate cuts by the Fed, which is concerned about a softening in global growth, may further support equity markets. The European Central Bank has signalled it may act too, as could the Bank of England in the event of a no-deal Brexit.

In the meantime, UK equities remain at a discount to comparable markets, despite a healthy rebound in the first half of 2019, and profit warnings have increased, particularly in domestically focused sectors such as retail, industrials and construction.

The unloved nature of the UK market is though, allowing stockpickers who use a selective approach to buy companies with robust growth prospects at attractive valuations. We see a particular opportunity in companies that are benefiting from long-term structural growth trends, driven by factors such as technological advances and shifts in demographics.

Companies like these, which tend to be global in nature, have the potential to grow

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through the business cycle, irrespective of wider economic conditions. Investing in them when valuations are depressed relative to competitors listed elsewhere could prove rewarding for investors willing to adopt a patient approach.

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