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UK value stocks represent 'once in a decade opportunity' says fund manager

The largest UK stocks currently offer investors a once-in-a-decade opportunity after a slide in valuations seen only at the nadir of most cycles, Tellworth fund manager **Seb Jory** has said. Following what has been termed one of the most hated bull markets in history, the UK has continued to lag other markets, with Brexit in particular weighing on share prices.

UK value stocks look good on a forward PE basis

Jory, who joined Tellworth in 2017 from **Liberum** as head of data-driven strategies, reckons that on a forward price to earnings ratio, UK equities are experiencing a one-in-ten-year event.

> "The median FTSE 100 P/E is currently in the cheapest 10% of readings since 1996 – i.e. a 1-in-10-year event," he explains. "Long-term investors and asset allocators should therefore be licking their lips. UK equities ostensibly present the sort of value opportunity that managers have been demanding for most of this cycle."

While Brexit remains a clear headwind, Jory says it is being used as a "handy scapegoat" for a default underweight to the UK. "No one wants to have to explain a big UK allocation when there is a chance the country could crash out of the EU without a deal," he says.

The team at Tellworth, which was launched by fund managers **Paul Marriage** and **John Warren** and which is part of multi-boutique business **BennBridge**, believes there are actually several reasons to be positive on UK equities and why there could be a UK value stocks story here.

> "The first is that if one ascribes the substantial UK discount [c. 20% vs. global equities, the highest since the global financial crisis] to Brexit, then a major mitigating factor would be a currency depreciation on 'No Deal' since c.70% of UK's listed revenue is from overseas," Jory explains. "We saw this play out right after the referendum – an eventual FTSE All Share rally. The second is that – disregarding the fundamentals – the market multiple is so low that a significant positive future return is virtually guaranteed."

He adds that as starting valuations are the biggest determinant of long-term returns, UK value stocks present as close to a win/win as we get in markets:

> "We think this is caused by the one-off complexity and 'scare' factor of Brexit, and this presents a fantastic opportunity for investors that can take this type of risk. Ignore it and there is, we think, serious opportunity cost," he says. "The risk-reward on UK equity indices is very attractive currently, and particularly for global businesses and large caps. They should not be ignored by default, indeed the complexities of Brexit are what has caused this opportunity."

Stock picking also remains the key to success as there will undoubtedly be winners and losers, Jory says. This doesn't mean that the UK market is attractive in its entirety. One can make an argument for large cap exporters (FX upside, cheap against similar companies listed elsewhere), domestics (many on sub-7x P/Es, though more exposed to Brexit) and certainly stocks in the unloved **FTSE Small Cap**, which remain on a healthy discount vs. the FTSE 250, though care must be taken to avoid structurally declining value traps.

"However, stocks at the upper end of AIM remain expensive – the 'bubble years' driven by inflows and momentum chasing have only unwound by about half, we think – and the growth style still looks precariously perched, especially if economic growth worsens," Jory says.