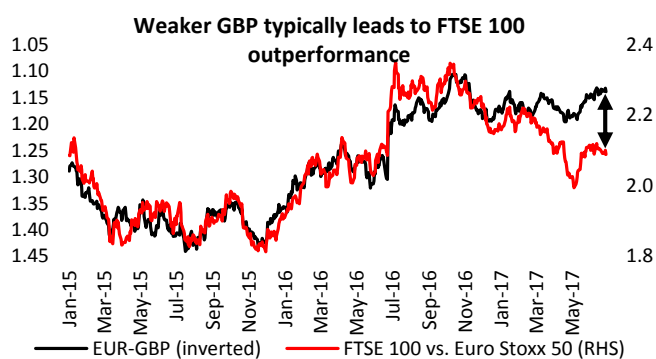


Closing our hedged UK equities call

- We close our hedged UK equities overweight with a gain of 11.1% and move the market down to neutral
- The call was initiated in September (see link) with the view that continued political uncertainty surrounding Brexit would weigh on sterling
- This in turn would boost earnings for UK-listed large caps deriving (in aggregate) 70% of their revenues from outside of the UK
- The performance of UK equities tends to closely track the sterling-euro exchange rate (see chart below). I.e. when sterling weakens vs. the euro UK equities outperform Eurozone equities. More recently however, the relationship has broken down
- Although sterling will likely remain under pressure, it is now less clear that this alone will be sufficient for investors to increase their holdings of UK equities

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Source: Thomson Reuters

Relationship between sterling and the equity market no longer holding

Softening macro data coupled with high levels of political uncertainty has pushed sterling lower. However, recent hawkish comments by BOE governor Mark Carney have prevented further weakness in the exchange rate for the time being. Valuations for the market remain attractive and it is worth noting that global funds are underweight UK equities. However, unless the weaker sterling and FTSE 100 outperformance relationship reasserts itself, the major tailwind that the market has enjoyed has faded. **We therefore remove our currency-hedged overweight recommendation on UK large cap stocks and bring the market back down to neutral.**

Investment Strategy Note

9 July 2017



Sources

All information in this report has been obtained from the following sources except where indicated otherwise:

1. Bloomberg
2. Wall Street Journal
3. RTTNews
4. Reuters
5. Gulfbase
6. Zawya

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