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Business

UK stocks deserve more love, says Fidelity manager

Alex Wright believes that good returns can still be squeezed from the London market, writes **Patrick Hosking**

UK stocks may be unloved, misunderstood and hobbled by myths but there are great returns to be squeezed from them, according to one of the biggest professional stockpickers focused on the London market.

Alex Wright, a Fidelity International fund manager who has more than £4 billion of client money invested in UK equities, argues there is good value in the sector generally — and even more opportunity for investors prepared to shop around in unfashionable sectors, such as banks and tobacco, or take risks with companies that have been oversold.

A bear on Wall Street who thinks America is heading for a nasty correction, Wright is a classic "value investor", excited by cheap stocks in what is still a cheap market.

He would say all this, of course. His livelihood depends on investors having continued faith in his two main UK-focused funds: the £3.2 billion Fidelity Special Situations Fund and the £1.1 billion listed investment trust Fidelity Special Values.

His views may give hope, however, to the army of brokers, lawyers and consultants in the City driven to despondency by the number of retail investors who have given up on British stocks in recent years and allocated more of their savings overseas.

The UK market may not be as cheap as it was a year ago but it is still not expensive, Wright argues. "The market is on just under 12 times prospective earnings. The long-term average is about 14 times," he says as we meet in the Fidelity headquarters next to St Paul's Cathedral. "In absolute terms the UK market is cheaper than average, though not super-cheap."

It is still dramatically less expensive than developed markets overseas: the S&P 500 in America trades on 21.9 times expected 2025 profits, Europe (excluding the UK) is on 13.9 times and Japan is on 14.6 times. "So on a relative basis, the UK looks really attractive."

It was not always like this. People sometimes think UK stocks have always been shunned but that is one of the many myths about London, says Wright, whose main fund was once managed by Anthony Bolton, a City star of the 1980s and 1990s.

UK stocks were actually valued highly both in the pre-financial crisis era before 2008 and for a while after the crisis as investors flocked to buy decent yielders such as Diageo, Unilever and BAT in the new era of rock-bottom interest rates. It was the internationalisation of markets that drove prices higher, in particular the arrival of the giant US institutions such as Capital, Wellington and Wright's sister company Fidelity Investments on to the registers of UK blue chips.

The idea that the UK market's recent struggles are due to traditional British pension funds de-risking out of equities and into bonds is another myth, he argues. "That was pretty much done by 2015. That's not the reason."

The real blow was the Brexit vote in 2016, he says, which persuaded all those US investors to pull money back out again. "It wasn't people in the UK trying to understand it, it was people in the US trying to understand it, and they just didn't, so they divested." The more recent switch to the US by UK retail investors dazzled by tech then added another blow.

Myth No 3 is that UK stocks have massively underperformed since the depths of Covid. Wright grabs a chart to show that since October 2020, UK stocks have actually performed in line with global markets. "Nobody's noticed," he says, apart from some overseas institutions starting to return, and private equity groups making takeover bids for UK companies.

His own performance is better still, after a tough phase before 2020. Special Values has actually outperformed the tech-heavy Nasdaq by 12 per cent since August 2020, he says. It is up by 22 per cent in the past year. Special Situations has delivered an annual total return of 7.3 per cent over five years, against a benchmark of 3.8 per cent.

Alex Wright's view goes against the tide of retail investors who have given up on British stocks; he is sceptical about the US market

Wright, 46, is one of the five biggest active money managers focused on UK stocks, but while heavyweight rivals such as Nick Train at Lindsell Train and Anthony Cross at Liontrust often invest in pricier growth stocks, Wright confines himself to the bargain basement. By some measures he is by far the biggest UK value investor in London.

A favourite trade is to buy a London-listed but global player for a fraction of the price its New York-listed competitor trades at. His biggest holding, the tobacco group Imperial Brands, trades on seven times earnings while Philip Morris International and Altria are respectively on 20 times and nine times.

The same applies to the unloved UK banks, which have had a cracking year in share terms. Shares in NatWest and Standard Chartered have risen as investors recognise that the valuations have been just too low. Wright's biggest sectoral bet today is insurers, including Aviva, Just Group and Phoenix Group.

Another approach he commonly adopts is to buy into companies where investors have been scared by the threat of costly class actions and overreacted. He has a big stake in Reckitt Benckiser, which he thinks has been oversold over fears of a large litigation bill for its infant formula. In the same way he made a good return on GSK when fears about a hefty legal bill over the heartburn drug Zantac temporarily depressed its shares.

He is not bothered by the dire performance of some recent floats in London and very rarely buys at the IPO stage. His last attempt at that, buying into the Ithaca Energy float in 2022, was a disaster, he admits.

He concedes as well that some of his outperformance is simply down to completely shunning some of the weightiest but least impressive (to him) companies in the UK market. BP, he argues, has been badly managed for years. "It's been great not owning it over the last decade, absolutely great for our performance, actually."

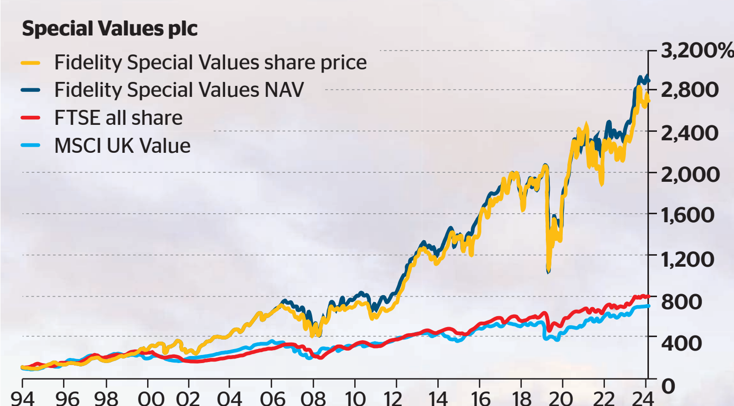
One big anxiety today is the frothiness in the US. He thinks the US market is significantly overvalued and that there are a lot of signs of irrational exuberance in fringe-type assets like crypto that "demonstrably do not have any intrinsic value. That is speculation, and the only way that those things can continue to go up is you need more speculators."

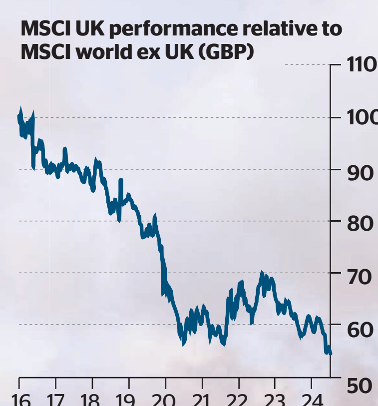
The US tumbled by 20 per cent in 2023 because of similar worries, only to surge back up, but Wright is far from comforted. He points to the two-year gap between the short-lived drop in stock prices in 1998 that was triggered by the Long-Term Capital Management collapse and the much bigger crash in tech stocks from 2000 to 2003. Perhaps the 2023 slide was a warning tremor heralding a bigger reversal in 2025, he suggests.

"The signals really don't look good. Warren Buffett once said that ultimately, markets do badly when they forget that companies grow their earnings at 7 per cent per annum, because generally that is what they've done over time. So any performance better than 7 per cent on a market level is just stealing future performance. And the US has stolen years of performance, whereas the UK is sort of chugging along at what it's always done."

So speaks a growth-sceptical, contrarian fund manager talking his own book. It doesn't, of course, mean he can't be right.

Values driven





Financials | Other GDP sensitive | Defensive

Top ten holdings	Sector	%
Imperial brands	Tobacco	4.4
Standard Chartered	Banks	3.5
Reckitt Benckiser	Consumer goods	3.4
Keller Group	Construction and materials	3.1
NatWest	Banks	3
Direct Line Insurance	Insurance	2.9
DCC	Support services	2.9
Just Group	Insurance	2.9
Coats	General industries	2.9
National Grid	Utilities	2.8

Sources: Fidelity International, LSEG Datastream and Fidelity Special Values

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