UK Smallcap: times are changing....

UK smaller companies don't need an end to US exceptionalism!

Over the past few years, U.S. markets have consistently outperformed those in the UK & Europe, and 2024 was no exception, confirming the ongoing economic dislocations and growth differentials between the major blocs. Then the world changed at the beginning of April with the announcement of Trump's tariff plan, which unleased some chaotic outcomes, responses and huge market volatility.

Tariff war, US exceptionalism and capital flows...

It feels impossible to gauge exactly how this all ends, given Trump's unpredictable approach, but hopefully common sense prevails, and this doesn't end up being an all-out tariff war. However, it's certainly led to many financial commentators and investors questioning the end of US exceptionalism and the strength of the US$ longer-term.

In any event it is not too far-fetched to suggest that some of the vast amount of capital that has flowed to the US from other countries, including the UK, in recent years, may start to flow out again.

UK smaller companies less impacted by tariffs....

It's clear UK equities offer fantastic value globally, particularly in the smaller companies' space, but importantly it's possible to find companies that are more domestically orientated, with limited exposure to the US economy, perhaps less reliant on global supply chains and therefore less impacted and at the mercy of global tariff policies.

Valuations extremely attractive...

The valuations of UK smaller companies are extremely low and we're already of the opinion that that makes many UK listed companies vulnerable to ongoing takeover approaches, with bid activity likely to escalate even further as we progress through 2025, along with record levels of share buybacks.

UK Small caps - the end of US exceptionalism?

For once the UK stock market and economy looks well placed to be a beneficiary of the end of US exceptionalism that many are now predicting, with weak energy prices, auguring well for a better inflation outlook than the Bank of England feared. However, we feel we don't need to call the end of US exceptionalism for a revival in UK smaller companies to take place. Perhaps recent events will have created enough uncertainty for investors just to question the trend to adopt global asset allocation, at the continued expense of UK equities within their portfolios. It would certainly be great to see some support for our own domestic equity markets.

Overseas buyers, pension funds & Mansion House Accord...

Whilst UK retail funds are still seeing outflows, the chaos unleashed by Trump does offer some grounds for relative optimism, and we detect increased levels of interest in UK markets from overseas buyers and domestic pension funds. There has also been the recent announcement of a major milestone with the launch of the Mansion House Accord, with commitment from seventeen of the UK's largest pension providers to back UK assets and a real focus on revitalising AIM. With valuation levels where they are it wouldn't take much money flow to have a real positive impact on share prices and valuations.

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Amati Global Investors

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Amati UK Listed Smaller Companies Fund

The fund provides a focused (c. 50 holdings currently) yet liquid exposure to the UK smaller companies asset class including AIM, with a team approach that researches all sectors with a view to finding the best quality growth companies.

With lots of high-quality businesses trading at their lowest valuation levels in many years, it will not take much money flow to turn the tide in our favour, and we are increasingly excited about the potential for the portfolio to generate positive returns from here. An end to US Exceptionalism? Who knows but perhaps investors will start to open their eyes to opportunity offered by UK smaller companies!

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Investment in smaller companies can be higher risk than investment in larger, well-established companies. The shares of smaller companies are likely to be more volatile and less liquid than the shares of larger companies; such investments should therefore be regarded as long term. A dilution levy may be applied to the share price whenever the Fund is expanding or contracting, which could have an adverse impact on the return from an investment. There may be occasions where there is an increased risk that a position in the Fund cannot be liquidated in a timely manner and at a reasonable price. In extreme circumstances this may affect the ability of the Fund to meet redemption requests upon demand.

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