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The UK: Providing a new opportunity?

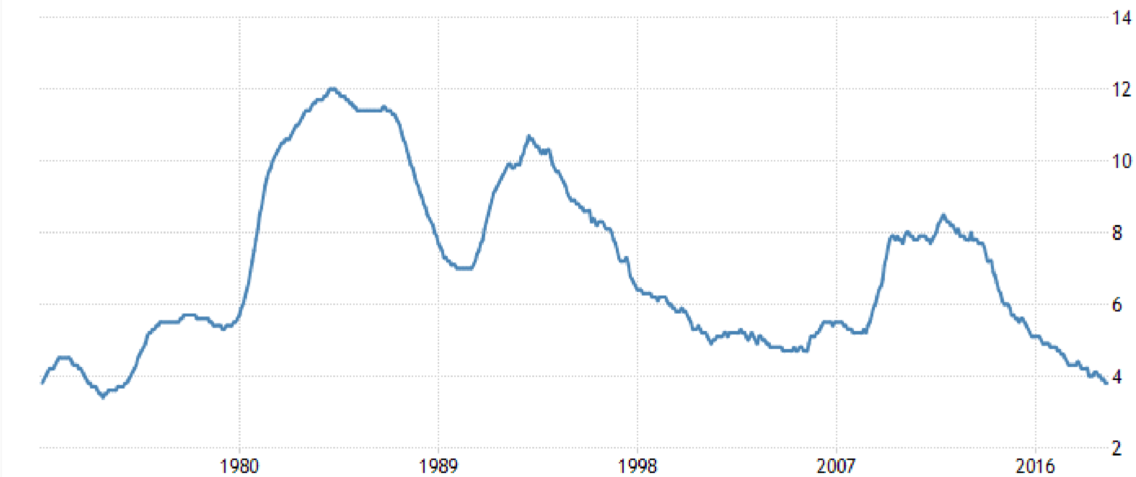
In a recent meeting with a global fund manager we spoke at some depth on the resilience shown by the UK economy, specifically, with the headwinds caused by BREXIT, the ailing UK High Street and concerns surrounding an evident slowdown in global growth.

Of late, there has been a multitude of headlines reporting on company closures, particularly in the retail sector where, from the beginning of 2017 to June 2019, 114 companies have closed affecting 4,909 stores and 90,496 employees (‘*Information from the Centre of Retail Research’)*. Within the manufacturing sector, meanwhile, British Steel entered insolvency in May of this year putting 4,500 jobs at risk and numerous companies – car manufacturers in particular – have announced plans to move operations offshore.

With manufacturing accounting for just 9% of GDP, however, the service sector is by far and away a more important contributor to output. Here, several of the world’s largest financial institutions have either indicated or confirmed they will be relocating some or all of their UK based operations to financial centres in mainland Europe.

In this environment one wouldn’t expect to see UK employment statistics at record levels. The latest data indicated that the UK unemployment rate is at a 44-year low, coming in at 3.8%, with the number of individuals looking for work dropping 34,000 to 1.3 million and the number of people employed in the UK at a record high of 32.75 million. Pay data is also buoyant, with an average earnings increase of 3.1%, faster than the inflation rate though lower than the 3.3% print from the previous period.

UK unemployment rate



Source: tradingeconomics.com I Office for National Statistics

It would be a mistake to read too much into headlines of potential doom for the UK economy, where it is the job of the media to sell papers (and generate clicks) or depict a certain narrative. That said, the tribulations indicated at the beginning of this week's comment may yet have to feed through into the official data (there tends to be a lag) and the forthcoming releases could very well indicate the fears above are real.

However, I was presented with a book at a conference I attended at the tail end of 2017. *'Deep Thinking'* was written by former world chess champion Garry Kasparov about his involvement in the development of artificial intelligence and a section details how economies progress with technological enhancement whereby some industries see growth and others diminish depending on various factors.

The UK is arguably going through a period of such change away from its traditional industry of banking, steel, energy and automobiles, moving instead to be a leader in technology. Over the past year alone, for example, the UK technology sector produced 13 'unicorns' – privately-owned technology companies that are valued at more than $1 billion – more than any nation besides the US or China and more than a third of Europe's fastest growing tech firms are based in the UK. As an industry, tech-related businesses employ millions of people in the UK, which, importantly, are not all based in London, providing a broad distribution across the country.

Through our offshore portfolios, led by the Guernsey team, we gained exposure to this rapidly growing area in November of last year by participating in the initial fund raising of an Investment Trust specialising in providing pre-IPO capital investment to established and start-up companies within the UK. To date that holding's share price is up 23% in Sterling terms (19.7% in USD / 20.6% in EUR) and has been an excellent contributor to performance within the equity allocation of our multi-asset UCITS vehicles and private client portfolios.

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