THE RIO CLUB

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UK MARKET

The FTSE 100 has made gains following my forecast, thank you to all members who have commented on yesterday's report.

The FTSE 100 rose 0.7% to 7016 points on the back of better-than-expected UK retail sales data and a look ahead to the key UK purchasing managers' index surveys. UK retail sales rose 9.7% year-on-year in June, beating the 9.0% rise expected by economists.

In company news, Vodafone shares gained 2.2% after the telecoms company said it is on track to meet its full-year guidance after first-quarter revenue rose. Also, Natwest climbed 2.1% after the bank said it has agreed a non-binding memorandum of understanding with Permanent TSB Group Holdings PLC, as part of its phased withdrawal from Ireland.

For those who asked for more specific information the FTSE-100 was down 14% for 2020, this was unlike most equity indexes such as the S&P 500, Nikkei, China A50 and Nasdaq, that were up 16%, 16%, 23% and 44% respectively. So thats why I pointed out yesterday that the FTSE is arguably one of the best value equity markets globally, from a valuation-focused investment point of view.

The 1-yr forward PE on the FTSE-100 is 13x, compared to 20x for the S&P 500 or 24x for the Nasdaq-100, or even the default "cheap Japanese equities" with a PE of 18x. To put it differently, based on 1-yr forward PE, the Nasdaq-100, S&P500 and Nikkei trade at a premium of +84%, +54% and +39% to their UK counterpart.

The FTSE-100 is predominantly an index skewed towards value rather than growth names. It has heavy exposure towards cyclicals like financials and commodities which should do well in an inflation and rates-rising regime.

And don't forget that although Sterling has recovered from its Brexit lows it is still at multi-decade lows – just the 40-year quarterly average for GBP/USD is around 1.60, a +14% (unlevered) move from these 1.38/9 levels.

The Bank of England has moved from potentially entertaining negative rates around 2020 year-end's Brexit deadline to discussions being around tapering and a more hawkish policy. That should be good for Sterling and as such I remain bullish on the UK currency, those looking for a double dip may sell USD to Sterling and invest in RIO Regular Sterling - it could prove very rewarding!

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