



FTSE fortunes: The Brexit effect one year on

KPMG-created indices show stark divide between UK and foreign-focused stocks since EU vote

June 2017



At a glance:

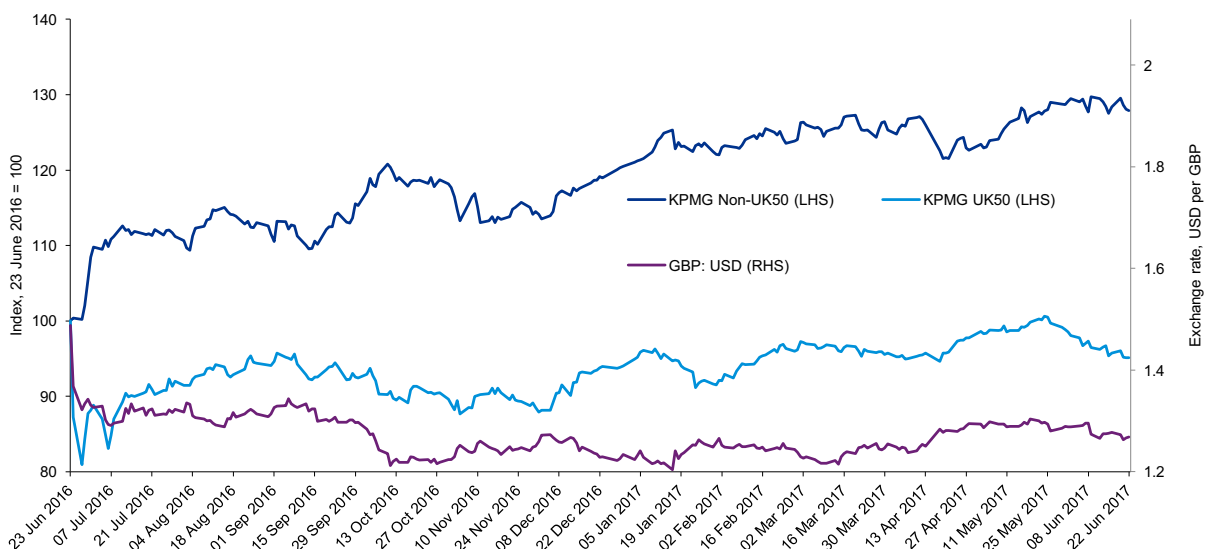
- KPMG non-UK index has outpaced world's big indices, but only in sterling terms
- KPMG UK50 index down 5% since EU referendum
- Could a 'softer Brexit' shrink the gap between the two?

After last year's Brexit vote, KPMG created two indices to measure the impact of the vote on listed companies' share price performance. Internationally-focused FTSE100 stocks have had a stellar year as the weaker pound inflates their dollar and euro-denominated earnings. Many, more UK-focused, stocks in the FTSE250 in particular, have not.

To measure the impact of Brexit – both on sentiment towards UK stocks and exposure to foreign exchange movements – we have created two indices:

- The **KPMG Non-UK50** is made up of the UK's largest listed firms from the FTSE 100 and 250 that derive more than 70% of revenues from abroad.
- The **KPMG UK50** includes the largest listed firms from the FTSE 100 and 250 that derive more than 70% of their revenues from the UK.

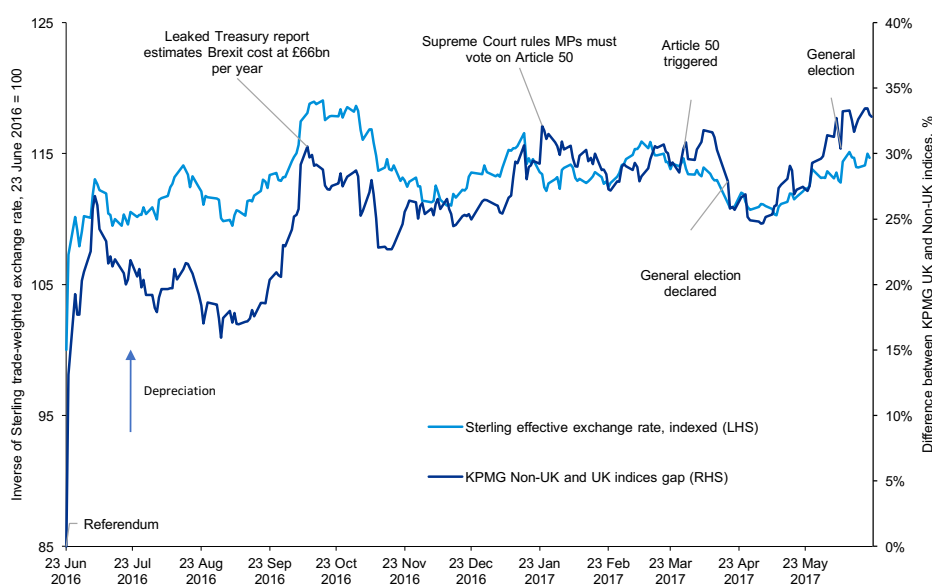
KPMG UK50 and Non-UK 50 indices



Source: Thomson Reuters, KPMG analysis



Gap between UK and Non-UK indices and effective exchange rate



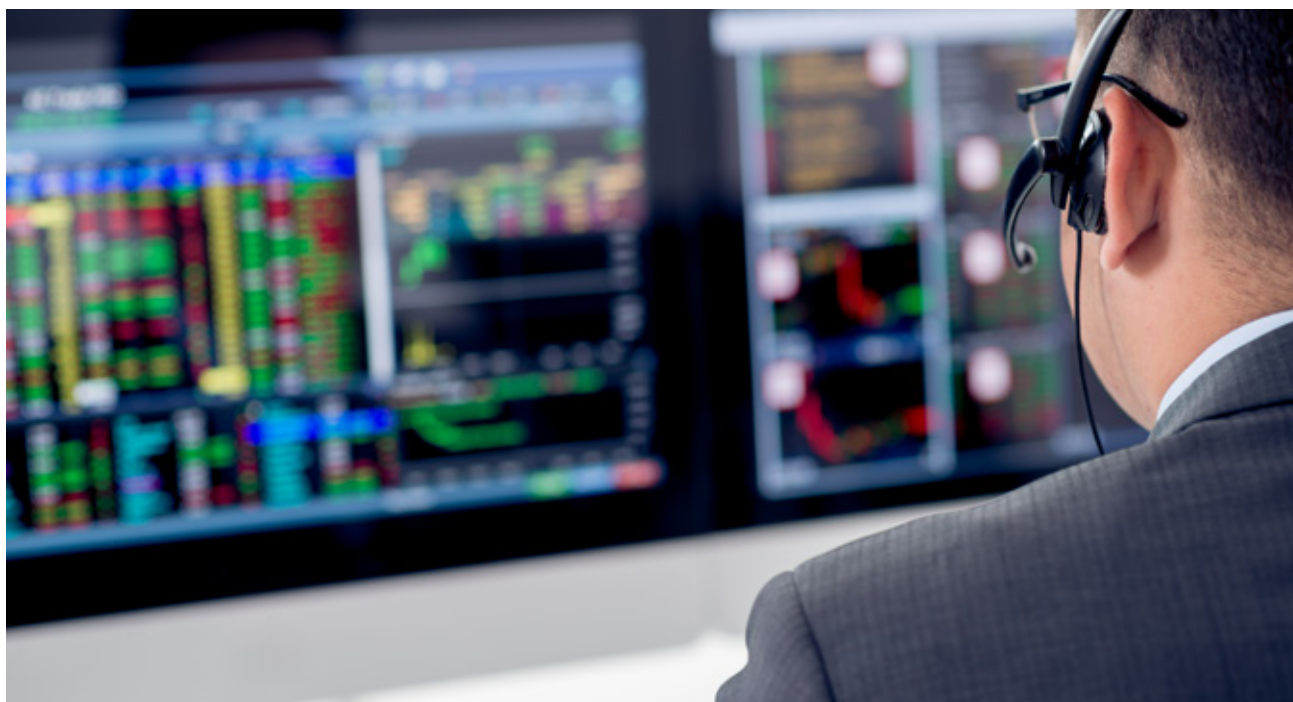
Source: Bank of England, KPMG analysis

One year on from the referendum, the **KPMG Non-UK50** index has risen by 28% - thanks in part to the pound's 13% fall against the euro and 15% decline against the US dollar. That is a significant outperformance against the FTSE100 as a whole, which has still climbed an impressive 17%. In contrast, the **KPMG UK50** index ended up 5% below its initial value – a 33 percentage point difference. That difference has been as little as 16 points last August to 32 percentage points in late January, but has averaged 26 points over the 12 month period.

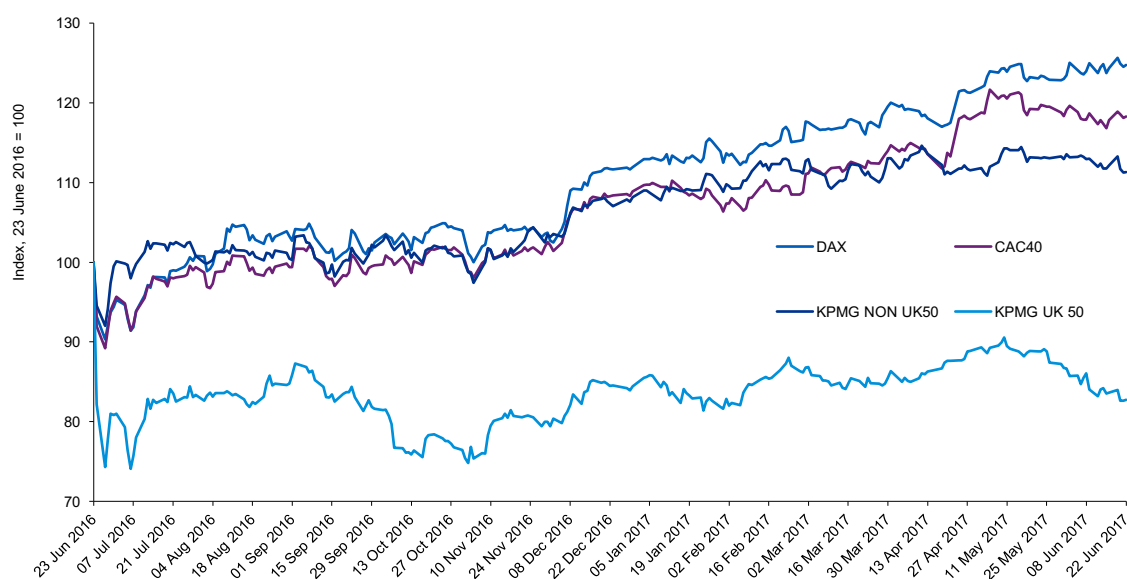
Since the general election, the two indices have been relatively stable: a 2.3% drop for the KPMG UK50, and an increase in the KPMG Non-UK50 of 0.1%. The drop in the pound due to political uncertainty since the 8 June vote helps explain the 2.4 point difference. More generally, the indices of UK and non-UK indices have followed the fortunes of the Brexit process; the following chart shows that the gap between the indices closely tracks the UK trade weighted exchange rate. As the peaks show, this measure is very sensitive to Brexit related developments.

Since the end of April, the gap between the KPMG UK and Non-UK index has widened, rising alongside a depreciation of the trade-weighted exchange rate. This has been driven by a depreciation of sterling against the euro.

A string of positive economic data and the clearing of political risk connected with the election in France has brightened the economic outlook for the Eurozone. Meanwhile a weakening of UK data, particularly the slowdown in consumer spending in the first quarter of 2017, has added further lustre to companies which derive a significant proportion of their earnings from abroad.



KPMG indices, re-based in euro with comparator indices



Source: Thomson Reuters, KPMG analysis

The performance of the **KPMG Non-UK50** has also been impressive by international standards. In fact, it has outperformed most of the world's main indices, including the DAX, Nikkei225, FTSE100, CAC40 and the S&P500.

For investors in Europe however, when converting their investments back in to euros, and therefore stripping out exchange rate fluctuations, the **KPMG Non-UK50** performs less impressively, as this graph shows.

Once rebased, both the **KPMG UK50** and KPMG Non-UK50 indices underperform the CAC40 and the DAX.

For the time being, both economics and politics seem set to drive the fortunes of our two indices. If the market continues to perceive the election outcome as heralding some 'softer' form of Brexit then the pound may strengthen alongside hopes for the UK economy.

That would lessen the advantage of companies with a heavy element of foreign earnings and provide a boost to UK-focused firms.

We will be publishing the performance of the two indices at the start of the month from August. Time will tell whether the gap between them narrows.

KPMG's macroeconomics team

The macroeconomics team at KPMG advises clients on the impact the future economic environment can have on their business, combining economics with data analytics to assist them with their strategy.

With the economic environment expected to remain diverse and unpredictable, risks as well as opportunities for growth across the world are more difficult to identify. At the same time, the rewards for the few who unearth those risks and opportunities are significant.

The macroeconomics team helps clients identify risks and opportunities in their current and future markets.

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