KPMG Brexit FTSE indices: Autumn blues

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KPMG-created indices show narrowing of the divide between UK and foreign-focused stocks in recent months.

At a glance

- Weak performance in autumn, with World index outperforming both UK indices
- KPMG UK50 index outpaced KPMG non-UK50 index as the pound rose
- KPMG UK50 index still down 5% since EU referendum, while KPMG non-UK50 34% up

After last year's Brexit vote, KPMG created two indices to measure the impact of the vote on UK stocks and to understand relative sentiment towards UK-focused companies and their more international peers:

1

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.

2

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.

Autumn proved an overall poor season for UK stocks. The strengthening of the pound in September and October saw internationally-focused FTSE100 stocks perform less well than more UK-focused stocks, as the value of their foreign currency-denominated earnings fell.

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Over the past two months

The KPMG Non-UK50 index has fallen by 0.1% – a poor performance in part due to the pound's 3.9% rise against the euro and 2.5% rise against the US dollar (with sterling's trade weighted exchange rate up 4.2% since 1 September). That is a worse performance against the FTSE100 as a whole, which climbed 0.7% since 1 September.

At the same time, the KPMG UK50 index rose by 0.6% in September and October – outperforming its more internationally focused counterpart.

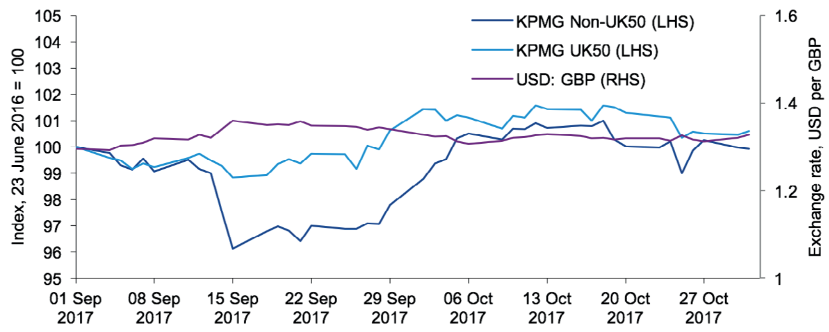
Hawkish signals from the Bank of England in September raised expectations of an imminent rise in interest rates, pushing the pound higher. However, signs of a potentially more disorderly Brexit kept a lid on the pound and supported the recovery of the KPMG Non-UK50 index. The Oil and gas sector, representing the largest share of the KPMG Non-UK50 index, also benefited from a recovery in oil prices since September, supporting the KPMG Non-UK50 index a bit further.

Since the EU referendum last year

The difference between the two indices remains stark: a 4.8% drop for the KPMG UK50, and an increase in the KPMG Non-UK50 of 33.9%. The indices of KPMG UK50 and non-UK50 have generally followed the fortunes of the Brexit process and the pound exchange rate, with the gap between the indices following the movements of the UK effective (trade weighted) exchange rate.

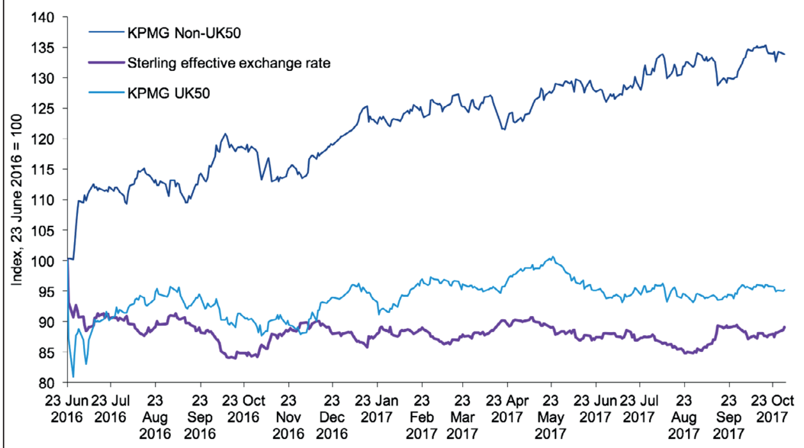
The performance of the KPMG Non-UK50 since the EU referendum vote has been less stellar, however, when the exchange rate effect is removed from the figures. When comparing both KPMG indices in US dollar terms with the FTSE All World index (also in US dollar terms), investors seem to value prospects of companies listed in the UK, even if the majority of their business is overseas, less highly than prospects for overall quoted companies worldwide. Since the EU referendum, the value of FTSE All World has risen by 21.8%, ahead of both KPMG indices in US dollar terms (19.4% for KPMG Non-UK50 and -15.1% for KPMG UK50).

KPMG UK50 and non-UK 50 indices



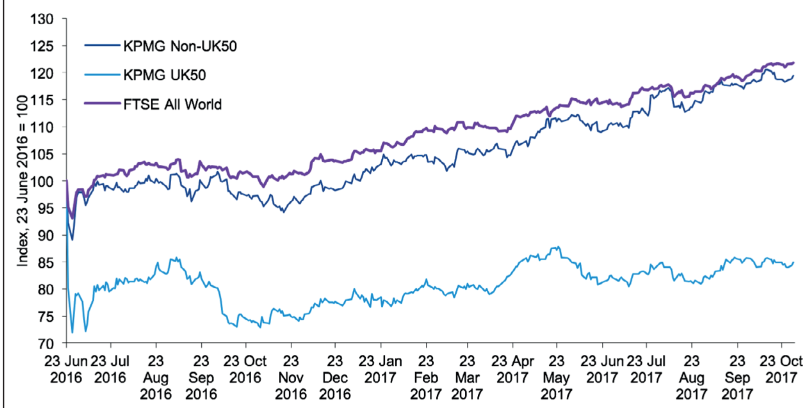
Source: Datastream, KPMG analysis

KPMG UK50 and non-UK50 indices since EU referendum last year



Source: Datastream, KPMG analysis

KPMG UK50 and non-UK 50 in USD and FTSE All World, USD



Source: Datastream, KPMG analysis

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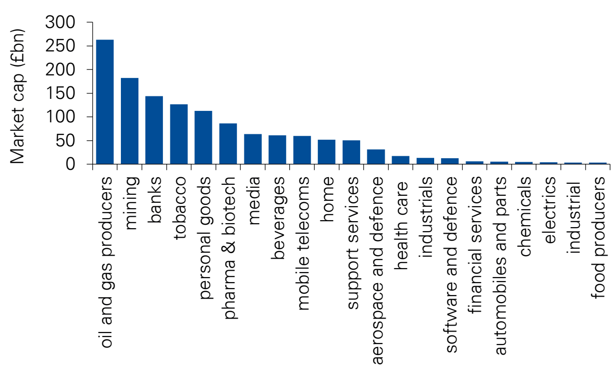
How we created the new indices

KPMG analysed the annual accounts of every company in the FTSE 100 and FTSE 250 to calculate the proportion of their revenues originating in and outside the UK. Companies that earned over 70% of their revenues inside Britain were classified as 'UK companies', while those that derived less than 30% were deemed 'non-UK'.

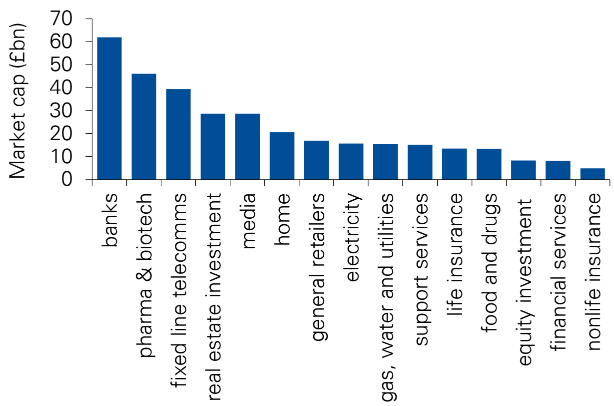
These companies were then ranked by market capitalisation (as of 23 June) and the 50 largest companies included in each index. The indices were weighted by market cap and calculated using the change in market cap of each company over the period from 23 June to 31 October 2016. Both indices were rebaselined to 100 on the date of the referendum, in line with the FTSE 100 calculation methodology.

The number of companies selected for each index took into consideration the range of sectors that are included in each index.

KPMG Non-UK 50 – sector weighting by market cap



KPMG UK 50 – sector weighting by market cap



About 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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