



A Franklin Templeton Company

UK Equities: Time to Get Excited

November 2025

Key Takeaways

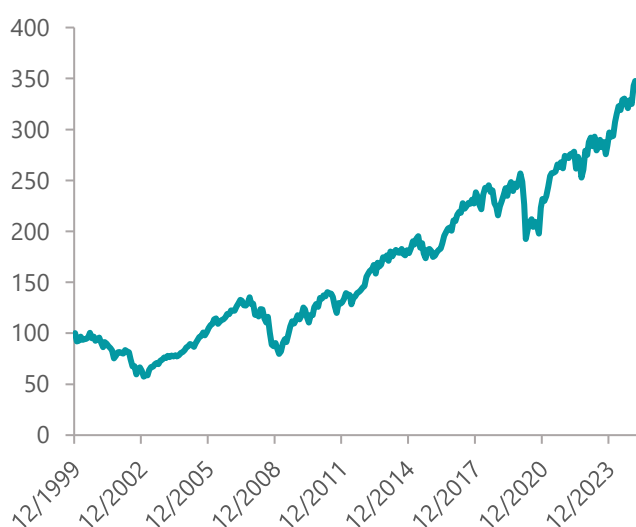
- ▶ The FTSE All Share has averaged an annual return of almost 15% over the past five years, yet the market remains attractively valued compared to global peers.
- ▶ Against a backdrop of supportive monetary policy and ongoing rate cuts, larger-cap stocks have surprised by outpacing mid and small caps over 2025.
- ▶ The U.K.'s reliable dividend yield and increasing prevalence of share buybacks continue to provide robust shareholder returns, while government initiatives may boost domestic investment and support further market recovery.

Strong Year for UK Equities

United Kingdom equities have been one of the top performers in global equity markets over 2025, with the market providing a return of almost 20%.¹ This isn't a one-year phenomenon: the FTSE All Share Index has returned almost 15% annually for the past five years.² Yet it's a market that continues to look like a good value by any international comparison.

At the larger end of the market, the FTSE 100 Index, with its global powerhouses across banking, health care, mining and energy industries, has been charging ahead. The benefits of an internationally exposed market, a steady pound sterling and attractive valuations have not been overlooked by investors. Large U.K. companies have continued to demonstrate earnings growth, which has been further enhanced by the increasing use of share buybacks. And investment performance hasn't been confined to the larger end of the market. The charge from the FTSE 100 has outpaced mid and small cap stocks, although all three market caps have produced positive returns for the year.

Exhibit 1: FTSE All Share – Total Return (Indexed)

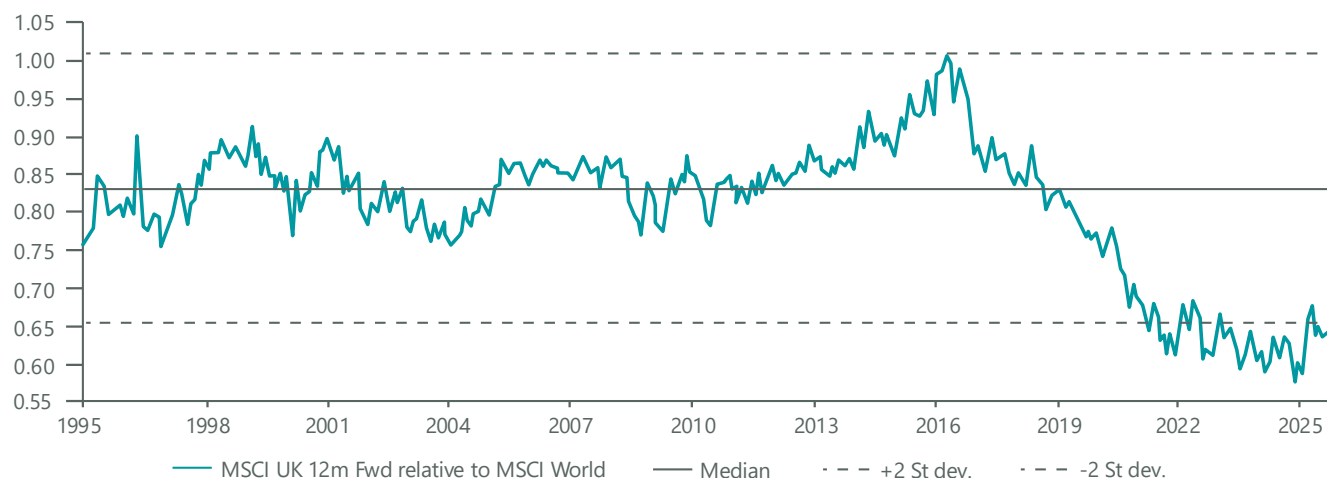


Source: Bloomberg as of Oct. 31, 2025.

¹ Source: FactSet as of Oct. 31, 2025.

² Source: FactSet as of Oct. 31, 2025.

Exhibit 2: MSCI UK 12m forward P/E relative to MSCI World



Source: JP Morgan as of Nov. 3, 2025.

Foothills of Recovery

The exciting part of the U.K.'s recent performance is that, looking forward, many of the same past drivers of returns remain in place. Although U.K. equities have had a strong year, ClearBridge believes we are only in the foothills of a market recovery. Like a coiled spring, the U.K. economy has been on the verge of a recovery for a couple of years. Inflation has peaked and should continue to reduce over the course of 2026, real wage growth has offset inflationary pressure, the interest rate cutting cycle has begun, and savings rates are elevated; yet stuttering confidence and an uncertain political backdrop have been roadblocks to a fully-fledged U.K. resurgence.

Interest rate cuts are normally an early sign the economy is moving toward a domestic recovery. Throughout 2025 the Monetary Policy Committee (MPC) voted for three rate cuts; we await a fourth possible cut in December. Against this backdrop, based on historic market performance, we would have anticipated mid and smaller cap stocks to outperform large caps. This hasn't materialized. Blue chip stocks have continued to outpace the broader market due to several reasons:

- **Autumn Statement 2024:** The late 2024 budget was the largest tax raising in decades, targeting companies through higher National Insurance contributions and a higher national minimum wage. This hit many domestic companies hard, squeezing company margins and putting downward pressure on U.K. company growth expectations.
- **Renewed inflation and delayed interest rate cuts:** The increased tax burden also helped fuel a secondary spike in inflation, as companies passed on some of these additional costs to the consumer. As a result, the MPC has been divided and more tentative in the pace of rate cuts.
- **Negative domestic sentiment:** The doom and gloom sentiment that has shrouded the U.K. has certainly weighed on mid and small cap stocks. Challenges remain, but there are many reasons to be optimistic, and it's easy to envisage improving U.K. sentiment in the year ahead.

Domestic Economy: What's Next?

On first impression, the Autumn Statement 2025 is less inflationary and puts less pressure on employers than last year's disastrous budget. The Office for Budgetary Responsibility (OBR) projects the U.K. will continue to benefit from falling inflation, which we believe will pave the way for further rate cuts and open the door for an injection of consumer confidence. Elevated levels of aggregate savings in the U.K. provide a further boost of optimism.

At a company level, resilient corporate earnings have resulted in healthy cash generation levels and strong balance sheets. Looking ahead, there is little reason to see anything different as management teams expertly navigate an uncertain environment. Aggregate earnings per share growth is forecast at 10% in 2026,³ which we believe is realistic. Over the past couple of years, the U.K. market has become hypersensitive to earnings misses, with negative market swings following profit warnings often significantly larger than the accompanying earnings downgrade. Realistic company guidance should help limit some of these market moves and may also aid positive sentiment for U.K. markets through increased confidence in corporate forecasts.

Given many U.K. companies are not overleveraged and remain profitable, management teams have been looking at the best ways to return excess capital to shareholders. The U.K. market is famous for its reliable dividend culture and U.K. equities have provided a yield of almost double the global average over 2025. With valuations appealing, management teams are also increasingly using excess cash for share buybacks, buoying shareholder return.

Exhibit 3: Percentage of FTSE All Share Index Constituents that Repurchased at Least 1% of their Shares in Each Year

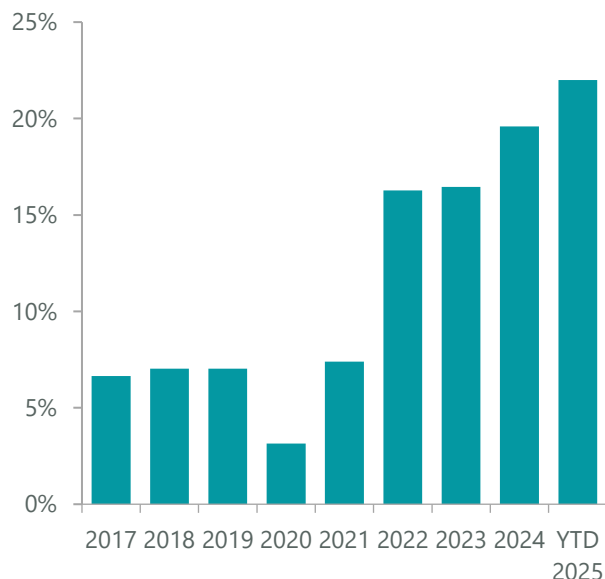


Exhibit 4: Dividend Yield Across the Globe

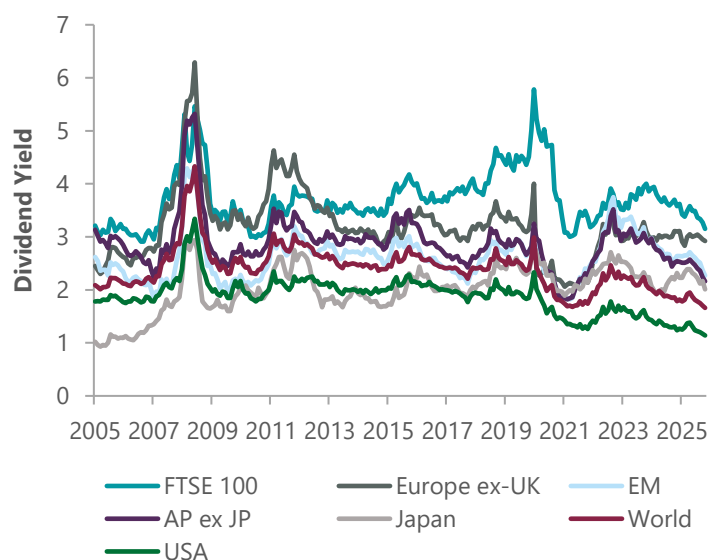


Exhibit 3 Source: Bloomberg as of Oct. 28, 2025. Exhibit 4 Source: FactSet as of Nov. 11, 2025.

UK Investment Flows

U.K. equities have experienced multiple decades of outflows from U.K. wealth managers moving toward global benchmarking, and insurance companies and pension funds likewise globalizing their previously large domestic allocations, all of this putting downward pressure on returns of U.K. assets. The government is currently exploring ways to reverse this trend. The Mansion House Accord, signed in May 2025, is a voluntary agreement by significant defined contribution pension providers to invest more in the U.K., particularly in private markets. Further, the government has included a “reserve power” in the Pension Schemes Bill currently passing through the House of Commons; this provides the government a legal mechanism to compel pension investments into U.K. assets if voluntary efforts are not sufficient. Finally, the U.K. certainly has the inherent potential to attract international investors, who may observe improving fundamentals as well as some of the most attractive valuations globally.

³ Source: Bloomberg as of 12 November 2025.

Valuations

Looking across global equity markets, the U.K. still looks attractively valued, especially compared to U.S. and global valuations, which are currently above their 90th percentile price range. Moreover, international companies and private equity firms continue to target U.K. companies for acquisition, further reinforcing the value opportunity the U.K. equity market offers.

Looking across the U.K. market cap spectrum, following the significant outperformance of U.K. large caps, we believe the largest valuation opportunity lies in small and mid cap companies.

Time to Get Excited

With attractive valuations, resilient corporate fundamentals, robust shareholder returns and a supportive policy backdrop, we believe U.K. equities are poised to offer compelling opportunities for investors in 2026 and beyond — making now an exciting time to consider allocating to this dynamic and undervalued market.

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