



## FTSE playing footsie with its 1999 record

**Break Up, break out or break down? It's December 30th 1999, the FTSE 100 has just closed at a record high of 6,950.60. At the time the world was full of promise as it entered a new millennium only for everything to be turned on its head as we suffered the 2000 Dot-com crash. Today Greek contagion and UK deflation concerns have had the index treading water at the 930 – 940 mark with brief breakthroughs past 950. It seems we are just waiting for that final risk-on indicator to push the index to new highs. Economists, strategists and chartist await with bated breath, all ready to wax lyrical on what this means for not only the UK stock market but the UK economy should we break old highs and push further into new territory.**

Fundamentally one might be able to draw the conclusion that more than 15 years later, the FTSE 100 has only managed to reach its previous peak telling us we haven't moved an inch up the valuation scale for 15 years. We reached this point in 1999 with the tech bubble and dropped sharply, we reached this point again in 2007 with the financial crisis and again dropped sharply. But with the FTSE briefly breaking the 6,950.00 high in February should we be asking 'third time lucky'?

It's certainly worth noting the disparity between the large cap FTSE 100 index, and the more mid cap-FTSE 250 and the FTSE All-Share when looking at returns. Despite the headline index not moving higher in 15 years we cannot discount the dividends that would have been held if we owned the underlying companies directly. If we account for these the index would actually be 66% higher. Of all the UK stock market indices the FTSE 100 is probably the least representative of the UK economy given global nature of the companies it holds such as Mexican mining company Fresnillo. Research data from Capital Group has shown at present 77% of company earnings from the 100 index are actually generated outside the UK. The FTSE 250, for example, an index of the next 250 largest company's sees a far higher percentage of UK domestic business, the return here has over the past 15 years has grown at 302% with dividends re-invested. The relative depressed growth of FTSE 100 against its peers could be considered an indicator of the performance of the global economy, and we have all seen the challenges many countries still face.

In 2000 Irrational valuations during the "tech bubble", a China led commodity boom (look where that's ended up) and then in 2007 the debt fuelled spending spree the world went on all served to inflate the FTSE only for it to come crashing back down.

This time around there are many factors working in our favour; On valuation grounds the index looks more attractive; Research by Hargreaves Lansdown shows that back in 1999 the index was trading at x27 times earnings, today it is much lower 16x; in 1999 interest rates were at 5.50%, today they are a historically low 0.5%. By definition the composition of the index changes over time; the current 18% exposure to energy and basic resource companies, for example, has acted as a drag on the index given the recent rout in oil and commodity prices. Negate the effects of these and the index would have powered through current levels.

In a post 2008 environment in a world of global economic stimulus and artificially stimulated growth European Indices, the German and French stock markets broke through their millennium peaks in 2007 and now trade 45% to 65% higher whilst the S&P 500 is trading up 2.27% over its 1999 close.

The debate here is can the FTSE this time around shrug off the macro headwinds and look to the global consumers increasing wage packets, low price inflation and tax reliefs from falling oil prices to push it through into uncharted territory at 7,000 and beyond. Many global investors are now using the FTSE play as a bet on the global market due to the index's ever increasing international revenues. Ignoring the longevity of the present stock market rally (dating back to April 2009) we believe there is still more to be had from this equity run.

Investors appear to be stepping over our politician's attempts to create another perplexing Westminster coalition and rolling up their sleeves and buying into companies in the belief that valuations might not be particularly cheap but they are not significantly overstretched and somewhat more attractive than saving at the local high street bank generating significantly more yield than sovereign bonds. This in turn could drive our index on to further highs. If only our Greek friends would stop rocking the Eurozone boat and making everyone sea sick we could watch this self-propelling cycle with a little more clarity. We remain long term optimists based on present fundamentals.

Our job at TAM is to evaluate both sides of any forecast. Whilst the FTSE is trading at an all-time high and

we believe that over the medium term it has more ground to gain as economic indicators point to a broadly healthier global economy we must, however, consider at all the options. History dictates there is a pivot point here we must watch with care.

Should our hopes of a global breakthrough not crystalize and indications of a possible 3rd retreat from the 1999 peak begin to take hold we are more than ready to structure our portfolios slightly more defensively via reducing a portion of our overseas investment risk and seek to protect our client's positions in the down turn with an increased play into the FTSE index and possibly go underweight equities for the first time in a very long time.

**In conclusion, election woes aside we believe there is ample opportunity for the FTSE 100 to move higher over the course of the year and as such we are keeping the faith. Whilst we see a short term dance played out around present levels at all-time highs we favour the FTSE 100 breaking up into new territory from here, notwithstanding some contingency planning.**

**So watch this space as we are, we think, at crucial inflexion points!**

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