

COVID stocks wane as war hits

An IR Society event in February considered the economic outlook for UK companies and investors over the coming year. Here, Robert Irvin presents the discussions.

With the benefit of hindsight, 22nd February was perhaps not the most fortuitous day to host an IR Society session looking at ‘The Year Ahead’. However on reviewing the discussion, many of the themes still hold true despite a tumultuous three weeks, in which a recent comment piece in *The Times* titled ‘We need to start talking about nuclear war’ does not seem as farfetched as it once did, or as we might like it to be!

At a macro level for the UK, it was all about the ‘year of the squeeze’, as the strong recovery seen post-pandemic as the economy bounced back, meets the historic speed limits of growth, once we have made up ground lost to COVID. Whilst noting that incomes are going to be hit, savings built up during COVID of c.8% of GDP should help smooth consumption – although energy costs are the biggest component impacting incomes, which have only have been exacerbated in recent weeks. As we fear, inflation will remain high, with more in the pipeline, but should moderate as it annualises. Whilst expectations have increased recently for interest rates, it was also noted by the panel that the market regularly gets its expectations wrong, with the recent MPC report saying that 1.5% base rates would be sufficient to get inflation under target in the medium term.



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“The UK continues to trade at the lowest PE compared to global markets”

Zooming back to minerals

Looking at the markets, it was noted that the only asset for investors to have owned in the last 20 years was gold, up 531%. Interestingly, the change in outlook over the last year was highlighted by the

market cap of Exxon and Zoom equalising before reverting to Zoom now being 10% of Exxon’s value. This reflects the wane of a COVID darling, as much as the shift out of growth as a style along with value stocks returning to vogue. For the UK, which continues to trade at the lowest PE compared to global markets for the last 30 years, the change in fashion of investor styles is seen as a positive for our UK listed companies.

International investors united?

At a company level, ESG was seen as continuing to be the dominant and evolving theme, which was also reflected in the Q&A. Whilst auditors are becoming more involved in aspects of ESG standardisation, which will likely be welcomed, it will likely increase demands on IROs to help bridge the gap between the different parties. Maintaining a clear view on consensus as well as sticking close to all stakeholders was also seen as an important role for IROs.

Perhaps the most notable point from the Q&A was the report that international investors are demonstrating a willingness to look at the UK equities for the first time in a long time. Long may that continue. In the meantime since the event, I note that gold is up whilst the FTSE is down ... ■

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