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The FTSE 100 turns
40 – two cheers!

What four decades of UK equities can teach us.

THE FTSE 100 TURNS 40 - TWO CHEERS!

At the start of 2024, the UK's FTSE 100 Index – which covers the top 100 stocks listed on the London Stock Exchange weighted by their market capitalisation – turned 40. It is the most commonly cited UK equity market index by the media, often referred to as the 'Footsie' or the 'index of the leading 100 companies'. You will no doubt have heard news readers making somewhat meaningless statements such as the 'The Footsie was up by 23 points today'. By and large they refer to the price index, which does not include dividends paid.

It took over from the FT30 which was a subjectively selected portfolio of 30 companies equally weighted, which had been around since 1935. So, the story goes, 100 stocks were selected as it was a nice round number and also because it was the maximum number of securities that could fit on the screens of market terminals at the time!

The FTSE provides a good case study of equity market characteristics. Over that time period^[1] the index (no costs deducted) turned £100 into around £2,300 before inflation, or £790 after inflation, when dividends were reinvested (i.e. total return). That is a pretty good reward and in line with the long-term returns since 1900. Brave and patient investors were richly rewarded. The price index delivered 4.6% a year relative to average inflation of 2.9% for the period. Reinvested dividend income makes a material difference to outcomes. The best performing company was actually British American Tobacco, which delivered around 16% p.a. Those holding cash received about 1.8% p.a. after inflation, although since the start of the Global Financial Crisis (11/2007) holders of cash would have seen their purchasing power fall by over 25%. It is risky being a long-term holder of cash.

As recently as the start of January 2020, £1 invested in the FTSE 100 had the same value as £1 invested in global developed markets over the period under review. In the past three years, the so-called 'Magnificent Seven' mega-cap tech stocks have driven the performance of the global markets. Over the period 1/86 to 12/23 period, the best annual return was 42% in 1989 and the worst was -28% in 2008 (although in total the market fell 40% from peak to trough). The worst month was October 1987 when the market fell 26% or so. Ouch!

Forty years is a long time in both life and markets. The make-up and influence of the market has changed quite considerably over time. Two key statistics stand out. Only around one third of the original FTSE 100 constituent names remain today, even taking account of various reincarnations of firms following mergers and acquisitions^[2]. Some companies got relatively smaller and fell out of the index, some went bust, others delisted and a few decamped to other markets. The other point of note is that in 1984 when the FTSE 100 was born, the UK market represented ≈7-10% of global markets depending on how it is measured^[3]. Today, that sits at a paltry 4%. At the end of 2023 Apple Inc. has a market capitalisation larger than the whole of the UK stock market!

Today there appears to be quite a bit of negative sentiment surrounding the structure of the UK equity market, which is in part driven by the relative surge in the value of US stocks over the past few years. In part this reflects the sector differences between the UK and the US market. For example, the UK has around 23% in financials, 12% in energy and just over 1% in technology companies, whereas for the US these numbers are 13% in financials, 4% in energy and a very material 29% in technology companies. The performance of different sectors ebbs and flows, but it does make good sense to be globally diversified to ensure that you own a broad swathe of global capitalism.

Hip, hip...for the UK market!

[1] Total return index data were only available from 01/1986

[2] Haill, O. (2024), FTSE 100 at 40 years old: how many of the original companies remain on the index? <https://www.proactiveinvestors.co.uk/> accessed 17-01-2024.

[3] The World Bank (2024) Market capitalization of listed domestic companies (current US\$)

RISK WARNINGS

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