



Roll up, roll up

UK mid-cap stocks are still on sale.

Update
12 June 2026

We recently bought a pizza oven, as the first item that will eventually make up part of the outdoor kitchen in the garden of our new house. The choice was between Gozney and Ooni, two British brands that are popular worldwide; the research painstaking (for me, at least). Most reviews suggested Ooni's Karu 12 Pro had the edge performance-wise, but wasn't quite as aesthetically pleasing.

We decided that while the Gozney was £100 more expensive, we preferred the look, so had agreed that we'd buy it as soon as we got back from our holiday in Italy. While there (where we, surprisingly, ate no pizza at all), I noticed that Ooni was having a sale and suddenly the Gozney had become £300 more expensive. We pivoted and bought the Ooni. The bottom line was that getting 30% off the RRP was too good to pass up.

When shopping, I'd argue that most of us would walk past a shop offering wares at full price when the outlet next door was offering a 30% sale on similar products. Yet, when it comes to the stock market, animal spirits often lure us to the overpriced stock markets and those companies that are on sale are shunned.

On the surface, it makes sense. Take our own domestic, mid-cap stock market as an example. In the five years to 11/06/2026, the Vanguard FTSE 250 UCITS ETF (VMIG) has returned a paltry 17.8%, trailing the US, Japan, Germany and global emerging markets.

It's only just outperformed the Vanguard LifeStrategy 40% Equity fund, which has returned 16.1% despite having both a structural overweight to the UK as well as 60% of its assets in bonds at a time when that particular asset class performed historically poorly. In fact, given the FTSE 250's five-year price return has been just over 1%, most of VMIG's returns have come from dividends.

When set against its large-cap counterpart, the Vanguard FTSE 100 ETF (VUKG), performance of the UK mid-cap index is uninspiring, with five-year returns from the blue-chip bourse at c. 72.7% - underperformance of c. 55 percentage points.

Storm clouds have gathered

This isn't all that surprising, of course. The FTSE 250 is more geared into the UK economy than the FTSE 100 and, as we **mentioned in a recent article**, the outlook for the UK economy is cloudy.

The UK will, for instance, be one of the hardest hit from the closure of the Strait of Hormuz, which has shut off c. 20% of

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global oil supply. Renewed political instability has seen gilt yields rise, while the roaring artificial intelligence trade has stymied returns thanks to our lack of chipmaking capabilities.

Despite all this, there is undoubtedly good news out there that would suggest to us that UK mid-caps should bounce back before too long (how long is anyone's guess, of course). The economy isn't in as bad nick as many suspect. The UK's GDP growth of 0.6% in the first quarter of 2026 was higher than all other G7 nations. Overall growth in 2026 of 0.8% isn't great, but it remains on par with other major economies such as France, Germany and Japan.

Don't forget, despite the FTSE 250 being more domestically oriented than the FTSE 100, UK mid-caps still derive more than half of their revenues from abroad, so the UK economy remains only part of the story when it comes to the stock market.

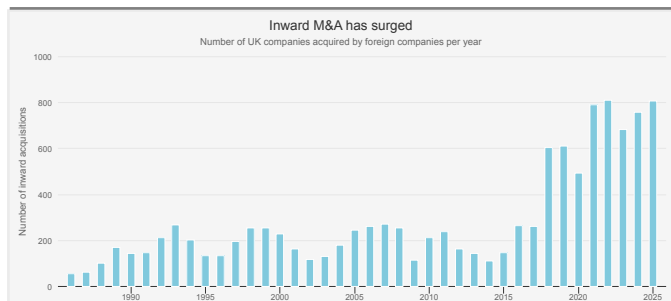
Interestingly, while public market investors seem to have given up on UK plc, private buyers have not. Quite the opposite, in fact. Indeed, even though UK investors have pulled a net c. £74bn out of UK equity funds, according to the Investment Association, UK firms are being snapped up at an alarming rate.



Should they all complete as planned, the total value of UK takeovers so far in 2026 is £39.3bn. That's 33% more than the total value of deals for the whole of 2025, which clocked in at £29bn, according to the investment platform AJ Bell. Considering we're not yet even halfway through the year, that's impressive. There have been 28 announced deals so far, which is a run-rate of more than one per week.

That shows up, too, in deals for all UK companies – not just those listed on the stock market. Between 1986 and 2017, the average number of inward acquisitions (foreign companies acquiring UK companies) was 180 per year; since 2018, that number has risen to 693, according to the Office for National Statistics (ONS). The post-pandemic average is 769.

Fig.1: Coming Over Here, Buying All Our Companies



Source: Office for National Statistics

Half-price sale – now on

We think that there are two reasons why foreigners are interested in snapping up UK firms: because we are still the home to world-class, market leading companies, and because they are trading at extremely cheap valuations.

It is the final point that I want to hammer home today. According to Vanguard's website, on 30/04/2026, the companies held within VMIG (which, don't forget, includes some investment companies) had an average price-to-earnings (PE) ratio of 10.4x and a price-to-book (PB) ratio of 1.2x. On a PB basis, the FTSE 100 (2.2x PB) was almost twice as expensive as the FTSE 250, while the S&P 500 was almost four and a half times more expensive.

AJ Bell's analysis of the 22 deals to take UK public stocks private where the terms have been announced publicly, the average premium offered relative to the undisturbed share price is 45%. In simplistic terms, this suggests that there are many UK companies that are, essentially, on a 50% discount.

Normally, when we see a half-price sale, we throw ourselves into the bargain bin and look for the best deals on items we don't even need. When it comes to the stock market, we seem to be fleeing an area with said 50% off and running flocking to the areas that are most expensive.

Yet, for the reasons discussed, we think this is the worst possible time to be abandoning UK mid (and small) caps. Indeed, it's possible that we are in the middle of what could be a generational opportunity to build wealth and help turn the tide for UK capital markets.

We would certainly urge shareholders in **Schroder UK Mid Cap (SCP)**, which recently agreed to propose a tender offer to try to draw a line under a campaign by Saba Capital, to stay the course. It makes complete sense for Saba to tender its shares, but, in our view, for ordinary investors tempted to participate, it would be akin to throwing the baby out with the bathwater.

SCP is well placed to capture what we see as an inevitable re-rating of UK mid-caps. Managers Jean Roche and Andy Brough have constructed a portfolio of c. 50 names focused purely on the FTSE 250, which they believe offers a mixture of leaders from niche or growing industries.

So, too, is **Mercantile (MRC)**, where managers Guy Anderson and Anthony Lynch invest predominantly in mid-caps, with historically around three quarters of the portfolio in FTSE 250 companies. Guy and Anthony's bottom-up process focuses on company fundamentals to identify high-quality businesses, generating positive momentum and that are available at attractive valuations.

One option that scours the whole of the market is **Fidelity Special Values (FSV)**. Managers Alex Wright and Jonathan Winton take an unashamedly contrarian and value-focused approach. Recently, that has seen them take profits from the big tobacco brands, gold miners and defence-related names and recycled into GDP-sensitive stocks such as industrials names, recruitment firms and building materials suppliers, playing into the mid-cap theme somewhat.

Sure, just as the first three pizzas we tried to make with our new Ooni ended up on fire, a calzone and disintegrated in the middle respectively, there are risks to investing in UK mid-caps. Yet, the failure of our pizzas were user error and nothing to do with the oven. Likewise, the cheapness of the FTSE 250 is not the fault of UK plc, but because it's been shunned by public market investors.

The Ooni was a bargain and as soon as we get used to cooking with it, we'll be churning out delicious pizzas on a weekly basis. It's surely only a matter of time, too, before investors see it was a mistake to sell down their UK stocks and start to pivot.



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