



# The Fantastic Footsie

It's not all Doctor Doom for UK markets.

Update  
10 June 2026

The forthcoming, star-studded Avengers: Doomsday movie, which will follow on from the Endgame film, is reportedly set to see three different universes from the Marvel stable collide. The plot is, of course, being guarded, but it looks set to pitch the heroes against villains, featuring Doctor Doom, who first hit our screens in the 2012 version of The Fantastic Four.

The role of Doctor Doom is set to be played by Robert Downey Jr., but in the meantime, we're being treated to a who plethora of Doctor Doooms when it comes to the UK economy and, like the seeming invincibility of Victor von Doom, their arguments seem compelling.

The closure of the Strait of Hormuz has shut off around 20% of oil supply, seeing oil and gas prices surge once more. This has, ultimately, put pressure on economies worldwide. The UK has felt that, thanks to a reliance on imported oil and gas and because our electricity prices are generally set by the global gas price. Indeed, the International Monetary Fund (IMF) in April said the conflict would hit the UK harder than other advanced economies, revising growth forecasts for 2026 as a whole down to 0.8% from 1.3% previously.

We've also seen renewed political instability, something many may have hoped had dissipated (at least temporarily) after the last general election. The potential for a shift further left has spooked markets and pushed UK borrowing costs to their highest in decades. The yield on the 30-year gilt remains over 5.5%, while the 10-year gilt is around 4.8%.

This confluence of events has served to dampen investor sentiment towards our fair isle, at the same time an apparent ceasefire with Iran has reignited animal spirits across the Atlantic and lit a fire under the artificial intelligence trade, pushing US bourses back to record highs, as well as buoying emerging markets along the way.

## Cheap as chips

Despite all of this, things aren't as bad as the doomsayers would have you believe, in our view. Stunningly, UK GDP growth in the first quarter of 2026, at 0.6%, led all other G7 nations, including the US, which clocked in at 0.5%. Most recently, the IMF has noted the resiliency with which the UK has navigated recent months, revising up its 2026 growth forecast to 1%.

So, while headlines are doom and gloom, the UK itself and the companies that make up its listed stock markets are quietly

### Analysts:

David Brenchley

david.b@keplerpartners.com



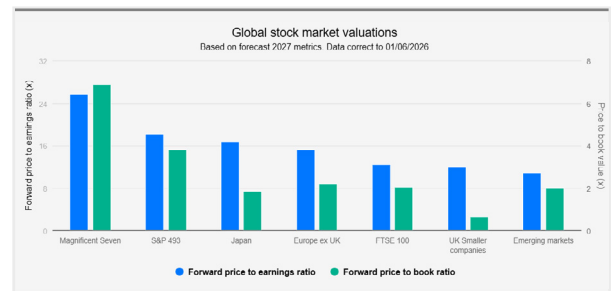
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progressing. Perhaps the key factor here, though, lies in the cheapness of UK plc. While no longer the rock-bottom valuations we saw a few years ago, as a rising tide has lifted all boats, the UK remains attractively valued versus both its own history as well as other markets, particularly those that have undergone bigger re-ratings.

The forward price-to-earnings ratio for 2027 of the FTSE 100 and Deutsche Numis Smaller Companies ex ITs plus AIM Indices on 30/04/2026 were just 12.3x and 12x respectively, well below most other markets, as you can see from the chart.

Fig.1: UK Markets Remain Cheap



Source: Bloomberg



The outlook is undoubtedly tough, but we would argue that low valuations are largely pricing in the negative newsflow. This provides a margin of safety, but also means any positive newsflow, no matter how small, that makes headlines could have a big impact to the upside.

In addition, a divergence between the perceived winners and losers has opened an opportunity for stockpickers to distinguish between the two. Many domestically exposed and cyclical sectors are trading at depressed levels, offering select investment opportunities, while traditionally defensive areas have rerated significantly and may now offer limited upside.

The relative de-rating of UK small and mid-caps, which tend to be more attuned to the UK economy, has led to this particular segment now somewhat counterintuitively having a c. 400 basis points yield premium over its large-cap counterpart. The MSCI United Kingdom Index's yield on 30/04/2026 was c. 3.1%, versus a c. 3.5% yield from the MSCI UK Small Cap Index.

## A contrarian tilt

Indeed, a focus on large-caps has seen the SMID-cap arena continue to be overlooked. This shows up in the poor relative performance of UK SMIDs versus blue-chips. In our view, this offers an attractive hunting ground for contrarian investors.

On that note, **Fidelity Special Values (FSV)** stands out as a good option here, in our view, given manager Alex Wright's contrarian, value-focused investment style, as well as his ability to fish right across the market-cap spectrum.

FSV's performance tends to be driven by bottom-up stock selection, rather than any top-down events. This provides resilience when positive developments are being overlooked and enables FSV to outperform across different market cycles and environments.

Additionally, Alex and co-manager Jonathan Winton have at their disposal the depth of Fidelity's research capabilities, which alongside the nimbleness of the investment trust wrapper, allow them to position the portfolio to take advantage of where the out-of-favour opportunities are today.

Profits have been taken from high-performing stocks where the contrarian thesis has started to play out, such as the big tobacco brands, gold miners and defence-related names. Cash has been deployed to selectively increase exposure to GDP-sensitive stocks, one of their four 'supersectors' used to analyse portfolio exposure. This includes industrials names, recruitment firms and building materials suppliers, where stock-specific opportunities

have combined with depressed industry volumes, offering multiple catalysts to support a turnaround.

Overall, we think that FSV's contrarian style is coming into its own in a world that is becoming harder to navigate. The c. 10% discount the trust was trading on 18 months ago has dissipated, but that's no reason to think twice, in our view. In fact, we think the premium rating is justified by performance: FSV is top of the charts in the UK All Companies sector in both share price and net asset value total return terms over one-, three-, five- and 10-year timeframes (to 29/05/2026).

FSV's one-year share price total return to 28/05/2026 of 23.75%, meanwhile, has beaten the 22.5% return from the FTSE All Share, albeit the NAV's 18.6% is slightly down on the benchmark. Still, the longer-term performance is better, with NAV gains in the five years to 07/06/2026 at c. 65.9% versus the benchmark's c. 64.7%.

As in most superhero and villain films, the highly intelligent Doctor Doom generally proves a worthy adversary for the likes of Reed Richards and the rest of the Fantastic Four, yet he has his weaknesses, primarily his own arrogance, which tends to be part of his own downfall.

It's possible that the UK economy and stock market doomsayers may meet their own downfall should conditions turn against them. If that's the case, we think FSV provides patient investors willing to take the contrarian view with good-quality management, deep resources and an attractive portfolio, alongside strong performance and an attractive c. 2.2% yield, putting it in the perfect position to take advantage.

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