Are UK-based investors too exposed to the FTSE 100?

Investors tend to invest more in their own markets than in global equities. The term “home bias” refers to this phenomenon.

It is the same in the UK as well. It is common for people to invest in companies they are more familiar with, there may be a perception that overseas markets are riskier and more difficult to access.

Having a home bias isn’t necessarily a bad thing – it reduces currency risk, and markets are increasingly linked – no country was spared Covid or the 2008 recession.

UK investors have generally benefited from having a home bias in the last year.

The FTSE 100 is up 0.58% over the last 12 months as of this writing. Over the same timescale, the S&P 500 (US) has dropped 14.79%, the Nikkei 225 (Japan) is down 6.10%, the CSI 300 (China) is down 20.83%, the DAX (Germany) is down 11.51%, and the CAC 40 (France) is down 7.14%.

In contrast, if you examine the UK stock market over a longer period, it has generally lagged behind its global peers.

Consider the performance of the last five years. There is a 0.15% decline for the FTSE 100 (although dividends have helped a bit); whereas the S&P 500 is up 54.72%, the Nikkei 225 is up 24.97%, the CSI 300 is down 6.19%, the DAX is up 10.66%, and the CAC 40 is up 24.86%.

	1 Year	**5 Years**
FTSE 100	0.58%	-0.15%
S&P 500	-14.79%	54.72%

Nikkei 225	-6.10%	24.97%
CSI 300	-20.83%	-6.19%
DAX	-11.51%	10.66%
CAC 40	-7.14%	24.86%

Table: Figures correct as at 15th November 2022.

The weakening pound has also been a boon for overseas investors.

Select Wealth Managers state *"Due to the FTSE's large exposure to the UK, investors have minimal exposure to 'New Economy' tech companies, whilst having large exposure to 'Old Economy' stocks such as Shell, BP and British American Tobacco".*

It will have adversely affected investors' returns when they miss out on the extraordinary growth of some of the big tech companies.

Apple now has a market capitalization of $2.5 trillion, compared to Shell (the largest company on the FTSE 100) which has a market capitalization of £171 billion ($203 billion).

The market cap of Apple currently exceeds that of the entire FTSE 100 combined.

As demonstrated by the recent mini-budget, a high level of exposure to one country can also increase political risk.

What should investors do?

Having funds split between different sectors and countries can help reduce a portfolio's volatility and lower the chance of having too much exposure to a particular industry or country.

If you need help, you can consult with a regulated Financial Adviser who will be able to make a recommendation based on your individual circumstances.

The value of investments and the income from them can go down

as well as up and you may not get back the amount originally invested.

HM Revenue and Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.

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