

## Miton UK MicroCap Trust plc – Outlook for 2022

Trust manager: Gervais Williams



Gervais Williams, manager of the Miton UK MicroCap Trust, provides his thoughts on the outlook for the trust in 2022.

To date, ongoing stock market appreciation has been driven by a mix of premium global growth, which has been principally driven by the rapid growth of the Chinese economy and the appreciation of asset valuations, which has been driven by declining long-dated bond yields. When stock markets rapidly appreciate, often the best performing stocks are those with the greatest volatility. Typically, these high-Beta stocks as they are known, are either growing faster than others, or those with geared upside potential due to major debt.

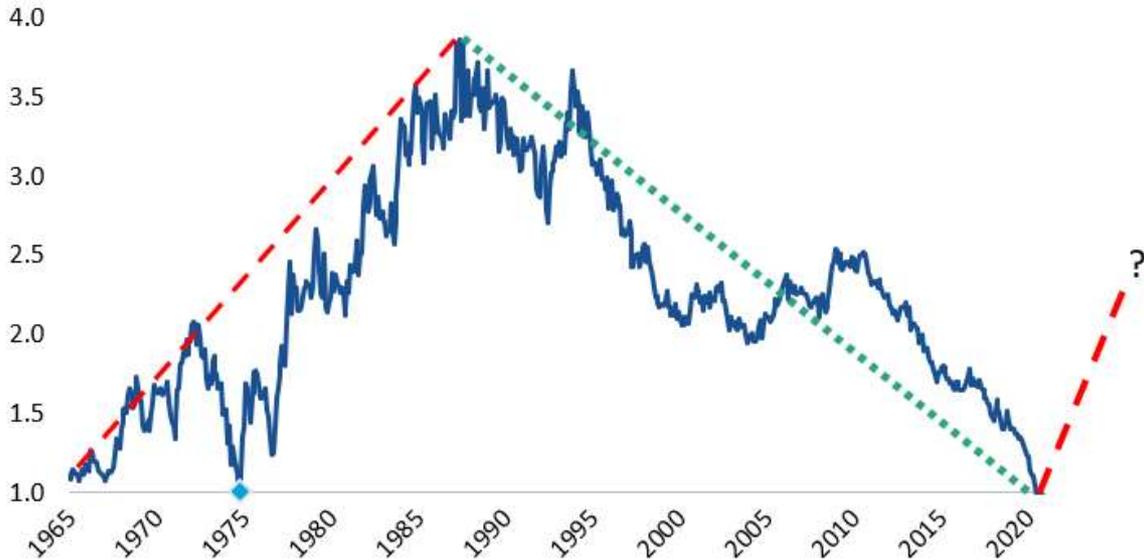
Going forward for 2022, we believe the current slowdown in the Chinese economy will prove to be structural in nature. Just as happened in Japan in 1989, China's giant debt burden combined with its aging demographics will lead to a sudden cessation of its growth trajectory, in our opinion. Alongside, after the pandemic stimulus, long-dated bond yields are now close to zero, so they have very little scope for any further appreciation in asset valuations either. At some point, the favourable valuation trend could even start to reverse.

During 2022, we anticipate that these challenges will become more apparent, and in general most corporates will find it harder to sustain growth. At a time of rising wage pressures and borrowing costs, companies with negative cashflow that are reliant on the stock market for funding, or those that turn out to be over-levered, tend to be particularly vulnerable.

In contrast, younger companies often have a natural advantage during more unsettled periods. Their demand is typically related to immature markets, that are driven by structural trends rather than the fluctuations of the global economy. Many of the holdings in the Miton UK MicroCap Trust are younger businesses with what we consider to be ongoing growth potential, even if the trajectory of the global economy declines.

Furthermore, being quoted, micro-caps have access to institutional capital that can fund acquisitions of over-levered, but otherwise viable, businesses from the receiver. Hence some quoted micro-caps actually thrive during more unsettled economic periods. We believe the prospects for the Miton UK MicroCap Trust remain strong, even if the prospects for asset markets, and the global economy become more unsettled in 2022. During similar conditions in the past, the same pattern was evident, when UK quoted micro-caps notably outperformed all other areas of the UK stock market.

The UK FTSE All-Share Index vs the US S&P 500 Index



Source: Refinitiv datastream.

The performance information presented in this article relates to the past. Past performance is not a reliable indicator of future returns.

**Risks**

The value of investments may fluctuate which will cause fund prices to fall as well as rise and investors may not get back the original amount invested.

Investment in smaller companies is typically higher risk than investment in larger companies. Shares in smaller companies can experience greater levels of volatility.

Future forecasts are not reliable indicators of future returns.

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