

## Investor behaviour is conditioned by markets



In this insight note, Gervais Williams, Chair of Equities at Premier Miton, explores how globalisation has driven large gains in share prices, particularly among the giant US technology companies. However, with the rise of nationalism a new investment narrative is beginning to take shape.

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For further information on the risks of investment and glossary terms please refer to the end of the document.

### Why growth stocks have led the way

During globalisation, companies that generated most of their return via capital appreciation have greatly outperformed. Capital appreciation is the increase in the value of an investment, excluding any income received, exceeding the original amount paid for that investment. Specifically, the large US technology companies, known as the Mag7, have generated immensely strong earnings growth. Alongside, there has been a giant rise in the valuations of these companies. Overall, it has become highly consensual for many global equity portfolios to have very large amounts invested in the Mag7.

Extreme investor enthusiasm like this is not unknown. When a popular meme persists for years, individual companies can sometimes outperform larger companies by giant percentages. In 2000 for example, with the extreme excitement regarding 3G mobile phone spectrum licences at that time, the Vodafone share price rose so much that it became 13% of the UK stock market index. But when incredibly popular companies' share prices peak however, they are then prone to underperform very badly. In the case of Vodafone, at the end of December 2025 its share price was 83% below its 2000 peak. Please note that past performance is not a reliable indicator of future returns.

### Is the globalisation era ending?

With the electorate voting against globalisation in increasingly large numbers however, prudent investors are wondering whether they should start to question the amount they hold in the Mag7 before the companies' share prices peak. Don't misunderstand us. We are not saying that today marks the end of the Mag7 dominance. Some of the companies in the Mag7 could still see their share prices climb much higher in the coming months or even quarters. But prudent investors are starting to recognise that nationalism is displacing globalisation and are adjusting their portfolio positioning accordingly.

To date, perhaps one of the main reasons why investors have delayed profit taking (selling shares) on Mag7 positions, is that they are unsure as to which other companies to buy instead. We are convinced

that companies that pay an income could be the prime beneficiary. Why? The return characteristics of these companies are so very different from companies such as those dubbed the Mag7.

## How dividends work

Fundamentally, the key metric when selecting a company that pays an income is its initial dividend yield at the time of investment. The yield shows how much a company pays out in dividends each year relative to its share price. It's a way to measure the income you can expect to earn from owning a company, expressed as a percentage. For a trust, this is the payment of income to its shareholders. If the share price falls, the yield will rise and vice versa. Note alongside that the potential dividend growth rate is also highly relevant. If a company's dividends grow well, it will not only pay out larger dividends than similar companies with lesser dividend growth, it is often the case that its share price also increases at a faster rate. Please note that in certain market conditions, companies may reduce or even suspend paying dividends until conditions improve. This will impact the level of income distributed.

One final point. Those buying companies that pay out an income who don't need the cash dividends will often use it to add to their holdings. Hence, they don't just get a growing income on the shares that they hold, but drip, drip, drip, over time, they also get the extra income on the shares they have bought with the income they reinvested. This layering of a dividend income stream is known as dividend compounding. Companies that succeed in paying out persistently growing dividends can therefore generate quite exceptional returns. For example, the Plus500, a global fintech firm that provides online trading services, share price has increased 26-fold since it listed in 2013. But when the value of its reinvested dividends is included, it has generated a 79-fold return.

## New challenges for companies and governments

It was the open border policy during globalisation that was probably the key driver of the quite exceptional stock market returns. Open borders led to labour costs progressively falling, such that corporate profit margins have gradually risen to exceptionally high levels. The exceptionally buoyant period for most corporates lasted for decades.

Most governments have grown to rather like globalisation. Like corporates, they appear to have become somewhat addicted to near-unlimited access to low-cost debt. For now, they hope to hold up the risk of a potential recession, given it would come with a step down in tax revenues. Hence, government spend has been increased via bigger budget deficits until the current inflationary pressures pass. Fortunately, this extra spend has coincided with a massive surge in AI data centre capital expenditure (money invested by a company to acquire, upgrade, and maintain physical assets such as property, land, technology, or equipment). So, despite higher interest rates, both factors have offset what otherwise might have been a global recession. Meanwhile, in stock market terms, the globalisation momentum has been kept going for now...

But unfortunately, persistent budget deficits are already causing problems for governments, and it isn't possible to open new data centres any faster. Hence as immigration restrictions have started to constrain the supply of labour, manpower costs are now edging up, and corporate profit margins are coming under pressure.

Currently, corporates are keeping profits rising by cutting staff. But when the next downturn comes, unemployment could surge, as corporates cut hard to offset what might be a quite severe profit recession. Alongside, many governments could be forced to cut expenditure as well, as unemployment benefit costs crowd everything else out. The bottom line is that the next recession looks like it could be a bit of stinker.

## The case for income paying companies

When corporate cashflow comes under this kind of pressure, companies that pay an income have disproportionate advantages.

1. First, since they generate cashflow surpluses (the amount of money a company has left over after paying all of its operating expenses), even when profit margins decline, they could be more resilient than most others.
2. For those that continue to generate surplus cashflow, as overstretched companies reduce or cut spending, strong companies can move into the vacated markets. In other words, the tougher it gets, the greater the potential for strong companies that pay an income to accelerate earnings growth.
3. If a wave of companies goes under, those with strong cash flow could scoop up valuable businesses, debt-free, from receivers. Because few firms can handle the working capital needs, some of these takeovers might cost as little as £1. For the buyer, that could mean a big boost in value.

Hence, when the next recession comes, expect persistently cash generative companies to surprise, as many could accelerate their earnings growth. Better still, this trajectory will greatly contrast with those that are overborrowed or are persistently loss making. Meanwhile, with nationalism, as profit margins decline, weak corporates appear set to lose out badly. Some companies will sell non-core businesses at distressed prices to repay debt. Alongside, persistent loss-makers or the highly overleveraged will risk insolvency.

## Why income paying companies could shine in a downturn

To conclude, we anticipate we are on the threshold of a radical change in investors behaviour. As highlighted previously during globalisation, money often flowed into companies that delivered large profits through rapid price growth which has led to a portfolio bias to holdings in large companies listed on the US stock market.

As the return pattern of stock markets change to reflect nationalism however, companies that pay an income could start to shine and gain a bigger edge over others, and there are already signs of this shift taking place. And progressively from here, as income paying companies accelerate their earnings growth, we expect much greater performance.

It is hard to understate the scale of the current watershed moment. The bulk of the UK stock market happens to comprise of companies paying an income. Over 2025, note that the UK stock market outperformed the US stock market. Logic implies that the new pattern is set to become endemic. In our view, the UK stock market is now set to outperform the US exchange considerably.

As the pattern change becomes more obvious, we expect it to be followed by an equally significant change to how investors allocate their money. For the avoidance of doubt, our expectation for UK outperformance is not linked to the prospects for the UK economy, or the UK government being any better than others. Rather it is related to the nature of the global stock market universe, and how much the UK's stock market characteristics contrast with others such as the US.

Lastly, in our view, the impact of nationalism won't be limited to immigration control and trade tariffs. We believe that, in time, nationalism will also be reflected in a change in our attitudes to our collective savings. By bringing our capital home from overseas, we'll boost the funding of our local companies. This will enhance the creation of local skilled employment and productivity. So, expect nationalistic politicians to start using slogans like "UK savings for UK jobs".

The bottom line is that we believe the UK stock market appears primed for a powerful new growth phase. Whilst the future may be marked by numerous business closures, the good news is that the UK

stock market could return to its core purpose. Not just in terms of generating premium returns versus international comparatives, but also, for non-savers as well, in terms of generating extra skilled employment. Alongside, as productivity growth improves, successful companies can then fund wage rises above inflation. And in time they will pay extra tax take to the government as well. Overall, when the UK stock market works well, our collective savings are used locally to enhance the wellbeing of the whole electorate.

## Risks

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

Typically, there is less risk of losing money over the long-term (which we define as over 5 years) from an investment that is considered low risk, although potential returns may also be lower. Investments considered higher risk typically offer greater opportunities for better long-term returns, though the risk of losing money is also likely to be higher.

Forecasts are not reliable indicators of future returns.

## Glossary

### Asset

Different groups of investments such as company shares, bonds, commodities or property.

### Capital

Describes financial assets, particularly cash, or other assets, such as shares, owned by a person or organisation.

### Equities

Another name for shares (or stock) in a company.

### Index

An index is a method of tracking the performance of a group of shares, bonds, other assets or factors. For example, the FTSE 100 Index is made up of the 100 largest companies on the London Stock Exchange.

### Share price

The amount it would cost to buy one share in a company; it is not fixed but fluctuates for many reasons, including the success of the company and market conditions.

## Important Information

### This is a marketing communication

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