



Silver



The Brexit Decade: How a Vote Reshaped UK Markets

Assessing a decade of UK market performance and the prospects for the next 10 years.



Gold



Bronze



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Important Disclosure

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Key Takeaways

Brexit was a catalyst, not the root cause.



- The UK equity market entered the 2016 referendum with pre-existing structural headwinds—declining domestic pension demand, capital rotating toward US growth markets, and an unfavourable sector mix. Brexit amplified and accelerated these trends, increasing the UK's perceived risk premium and damaging confidence at a critical moment.

The confidence shock had lasting consequences.



- Since the vote, UK equities have suffered persistent annual net outflows (around \$160 billion, cumulatively), a collapse in global benchmark weight, and widespread fund closures, signalling a structural loss of relevance rather than a short-term cyclical drawdown.

Capital didn't disappear—it moved.



- Investor behaviour has been unambiguous: UK allocations were systematically redeployed to the US, while passive strategies gained share as active UK equity economics deteriorated. The result is a market that is under-owned, under-researched, and heavily benchmark-driven.

Macro and political shocks compounded the damage.



- COVID, global inflation, geopolitical conflict, falling FDI, weaker goods exports, and domestic policy missteps (notably 2022) further eroded international confidence. Isolating Brexit's impact is difficult—but there is no serious argument that it did not materially worsen outcomes.

Yet, the narrative is no longer one-way.



- Since 2022, UK equities have outperformed US and global markets, driven by a strong value rotation and resilient dividends—without meaningful multiple expansion.

Valuations still reflect pessimism.



- The UK trades at a 30% to 35% P/E discount to the US, with small and mid-caps the most depressed, relative to history and developed peers. Elevated mergers and acquisitions activity and record buybacks suggest corporate insiders and overseas acquirers see value where public investors remain sceptical.

When Capital Loses Confidence

A decade of headwinds and capital flight following Brexit.

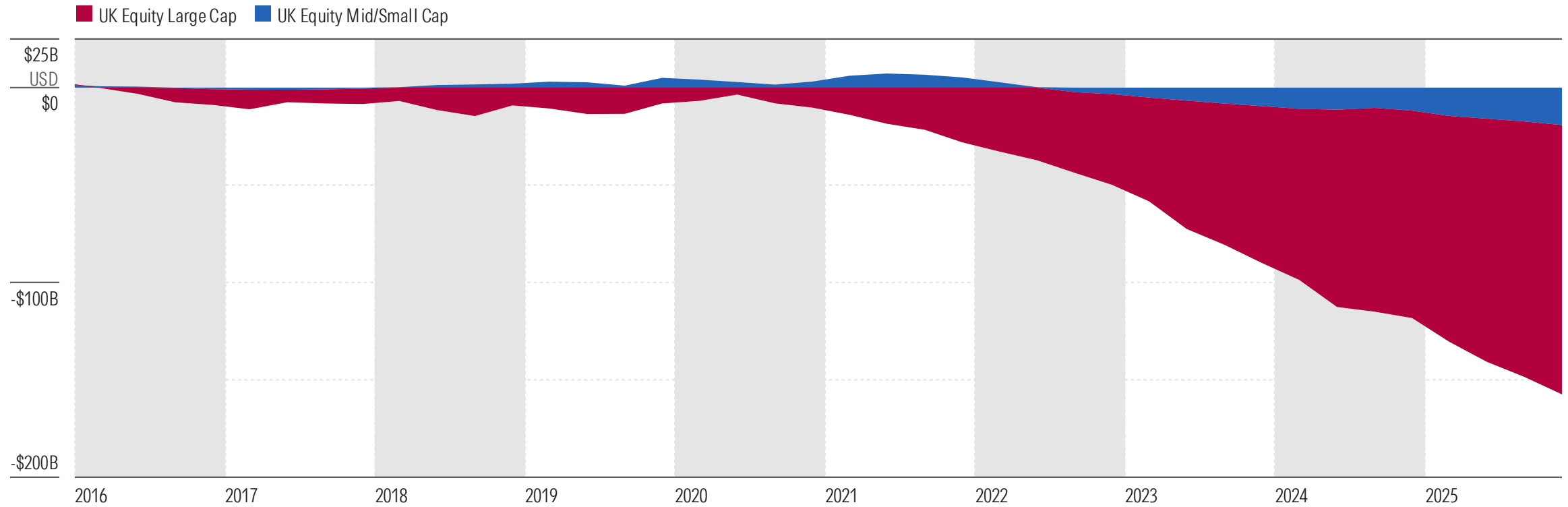
Fund Flows

Investor behavior has been far less ambiguous than the political debate. Flows into UK equity funds came under pressure following the referendum, and since the formal exit in January 2020, that pressure has hardened into six consecutive years of net outflows.

In total, more than USD 160 billion has been withdrawn, and redemptions have been broad-based. Whether this represents a structural loss of confidence or a market investors no longer consider relevant, the scale and consistency of the outflows speak for itself.

UK Equity Cumulative Estimated Net Flows

Worldwide Open End, Money Market, and ETFs, Excluding Funds of Funds and Feeder Funds



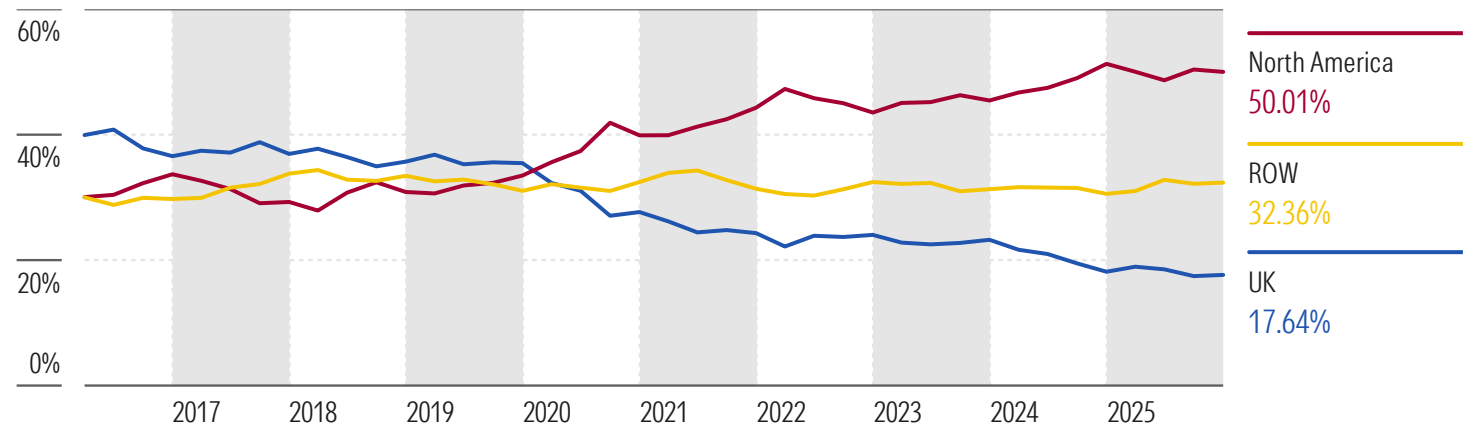
Source: Morningstar Direct. Data as of Dec. 31, 2025.

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Shrinking UK Allocation—Global Portfolios Moving Elsewhere

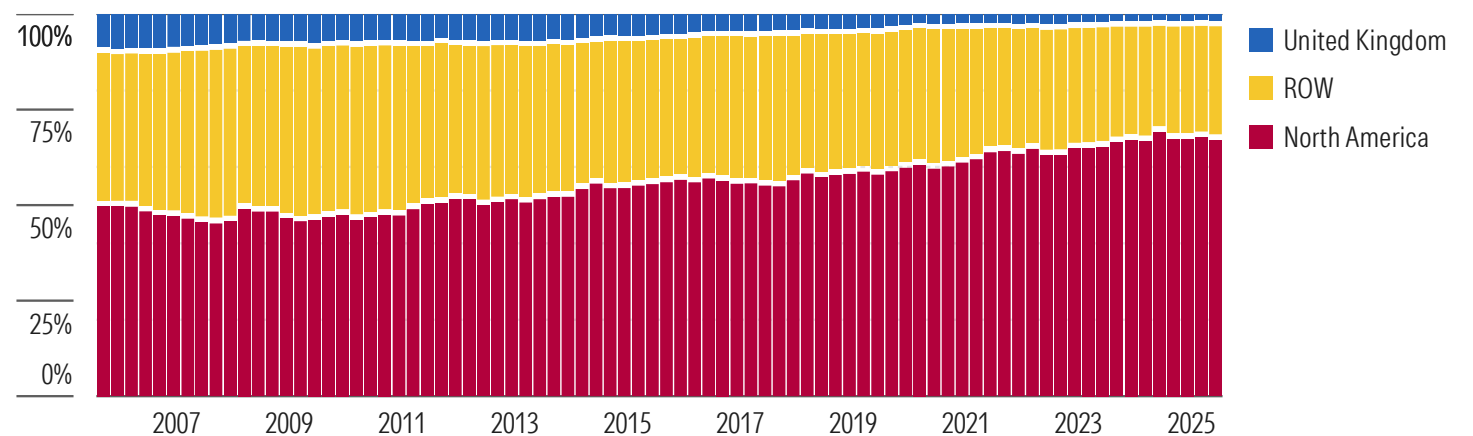
UK investors have historically exhibited a home bias, overweighting domestic equities relative to their global benchmark share. That preference has not merely faded—it has collapsed to the point of near home blindness. In the most aggressive GBP allocation Morningstar Category, average UK equity weights have fallen from 40% to 18%. The capital that is left has not sat idle—it has been systematically redeployed into US equities, which now dominate multi-asset portfolios to a degree that would have seemed extraordinary a decade ago.

Historical Equity Regional Exposure of EAA Fund GBP Allocation 80%+ Equity



The UK's diminishing footprint in global benchmarks tells the same story. From nearly 10% of the MSCI ACWI 20 years ago, the UK now represents just 4%—a halving of its global weight that has mechanically forced index-tracking allocations lower still. For passive investors, this is not a discretionary choice but an automatic consequence of benchmark drift.

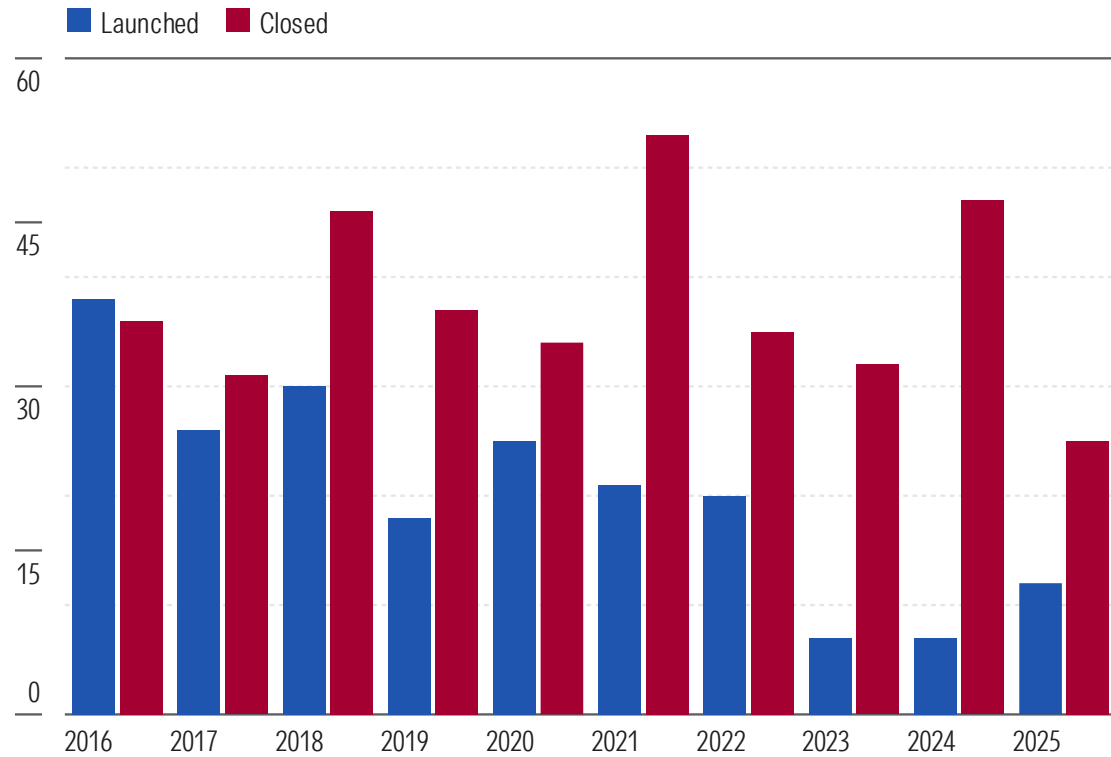
UK Weight in MSCI ACWI Over Time



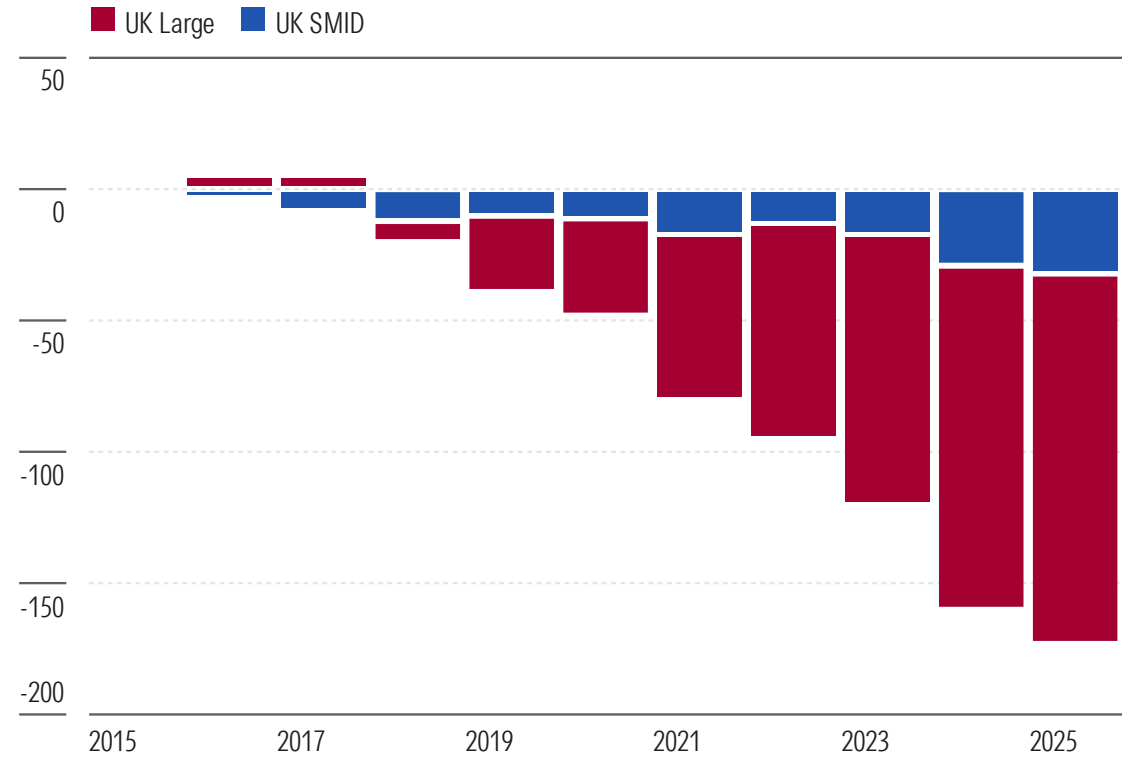
UK Fund Closures

Persistent outflows and shrinking allocations have had a profound impact on UK-focused asset managers. Since 2016, around 380 UK equity strategies have closed, against just over 200 launches. Each closure is a commercial verdict. It signals that the economics of running an active UK equity strategy—already under pressure from fee compression and passive competition—have become increasingly difficult to justify.

Annual Fund Launches and Closures



Cumulative Closures



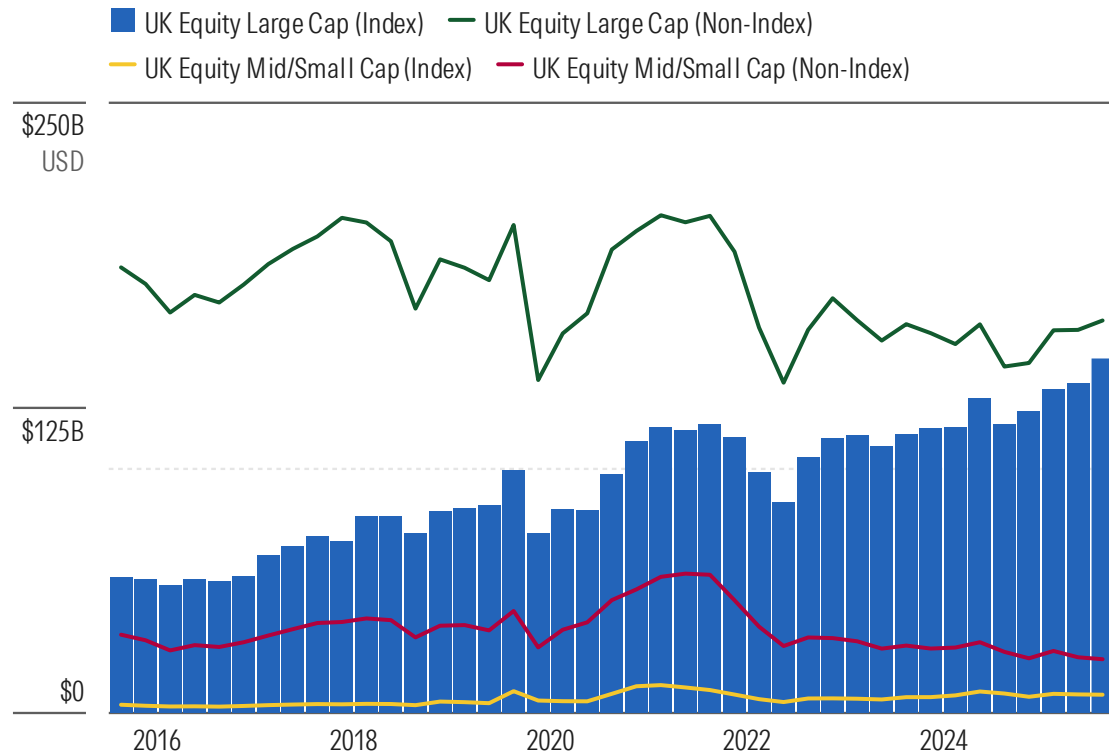
Source: Morningstar Direct. Data as of Dec. 31, 2025.

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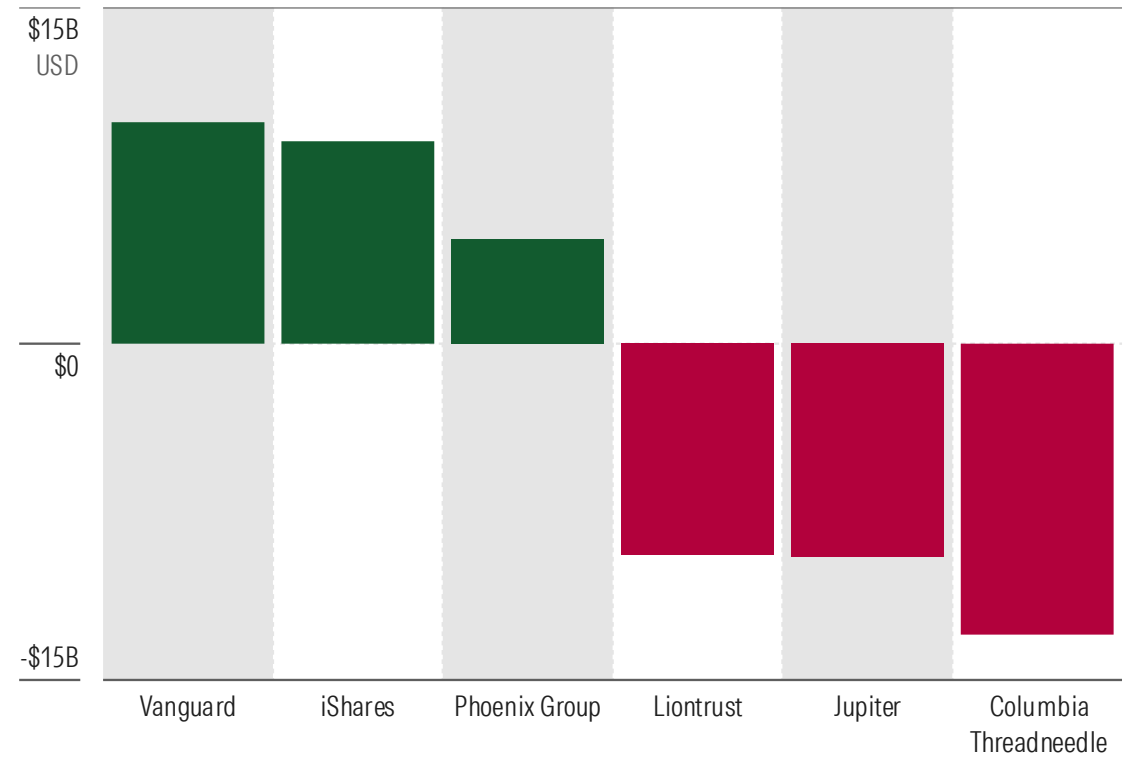
The Winners and Losers

The outflows from UK equities have not been distributed evenly, and for active managers, the picture is particularly damning. Since 2016, outflows have primarily come from large-cap, active managers. Among the hardest hit were Columbia Threadneedle, Jupiter, Liontrust, Aviva, and Schroders. The winners tell the opposite story. The largest inflows across UK equity strategies have flowed almost exclusively to passive providers, notably iShares and Vanguard. The proportion of total index money has risen from 22% to 46% since 2016.

Total Net Assets (USD)



UK Large-Cap Outflows by Brand Name (USD)



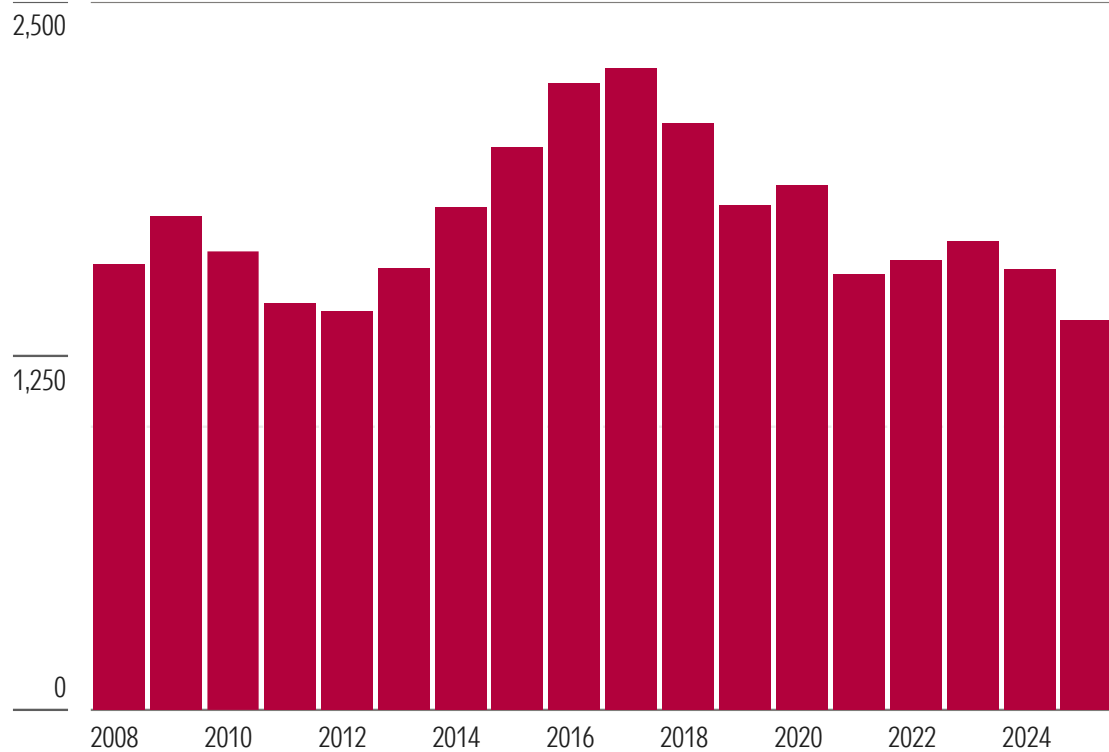
Source: Morningstar Direct. Total Net Assets Data as of Dec. 31, 2025. UK Large Cap Outflows Data as of Feb. 28, 2026.

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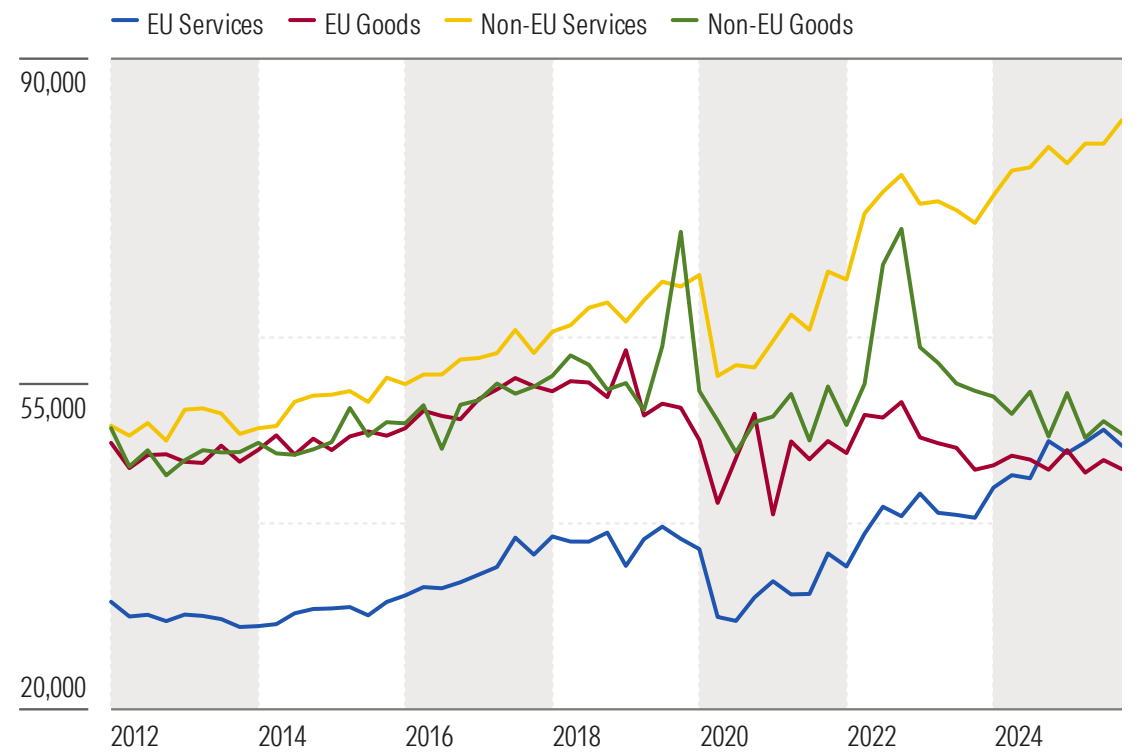
Economic Impact

The macro environment has been challenging following Brexit, and worsened by economic shocks from covid-19, inflation, and wars. Foreign direct investment inflows have been falling since 2016, with annual new projects almost halving between 2016 and 2025. Multinational companies have relocated operations to the EU to preserve access to the single market, reducing long-term domestic investment and innovation potential. We have seen weakness in goods exports, reflecting trade frictions but also weaker trading relationships.

Annual Inward UK FDI Projects



Exports of Goods and Services, EU/ Non-EU (Constant Prices, Seasonally Adjusted)



Source: ONS. Data as of Dec. 31, 2025.

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Cheap for a Reason?

The UK faced substantial headwinds, but more recently, they have eased.

Sector Composition Was a Significant Headwind Over the 2010s

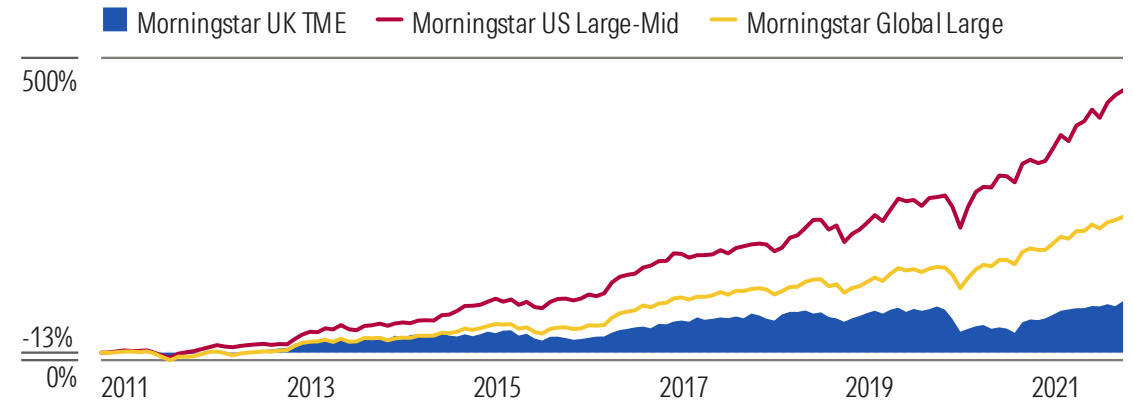
As we see from the flow picture, UK equities faced significant headwinds over the 2010s, and performance dragged considerably versus US and global indexes, with sector composition going a long way to explaining the divergence. More growth-oriented industries, such as technology, communications services, and internet retail, benefited not only from the ultralow interest rate environment but also from growth drivers in the mass proliferation of smartphones and the internet.

For instance, from 2010 to 2025, the technology sector alone contributed 50% of total return in the US index, but just 2% in the UK. This reflects a structural underweight in the sectors most levered to secular growth and duration-sensitive valuation expansion. By contrast, the UK market has been heavily tilted toward “old economy” sectors—energy, financials, materials, and defensives—which faced persistent headwinds:

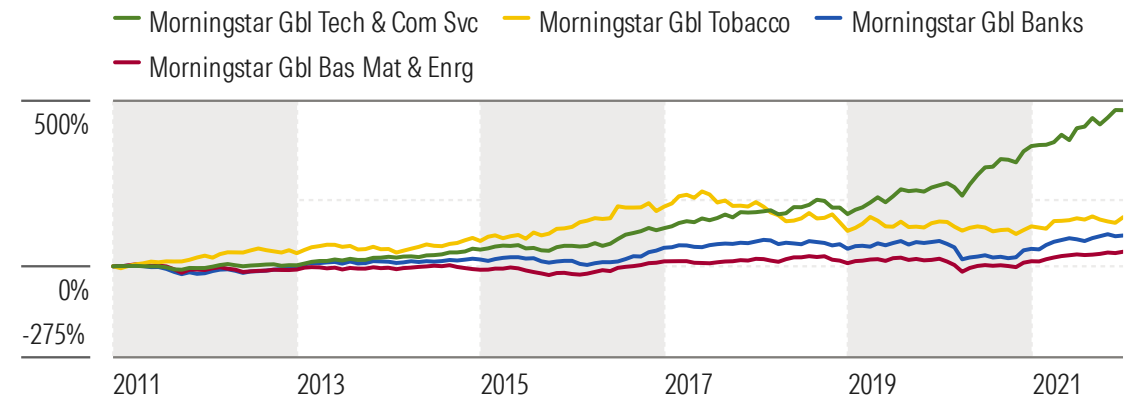
- **A growth-led regime:** Prolonged low rates favored long-duration growth assets over cash-generative but lower-growth sectors.
- **Commodity bear super cycle:** Oil and gas, and metals and mining delivered volatile, and often flat, real returns over the period.
- **Limited exposure to platform economics:** The absence of large-scale tech platforms meant the UK missed the outsized winner-takes-most dynamics seen in the US.

As a result, UK equities were structurally underexposed to the dominant drivers of global equity returns during the 2010s, amplifying the performance gap despite broadly similar global economic conditions.

10-Year Performance to 2021 (GBP)



Performance of Select Sectors 10 Years to 2021 (GBP)

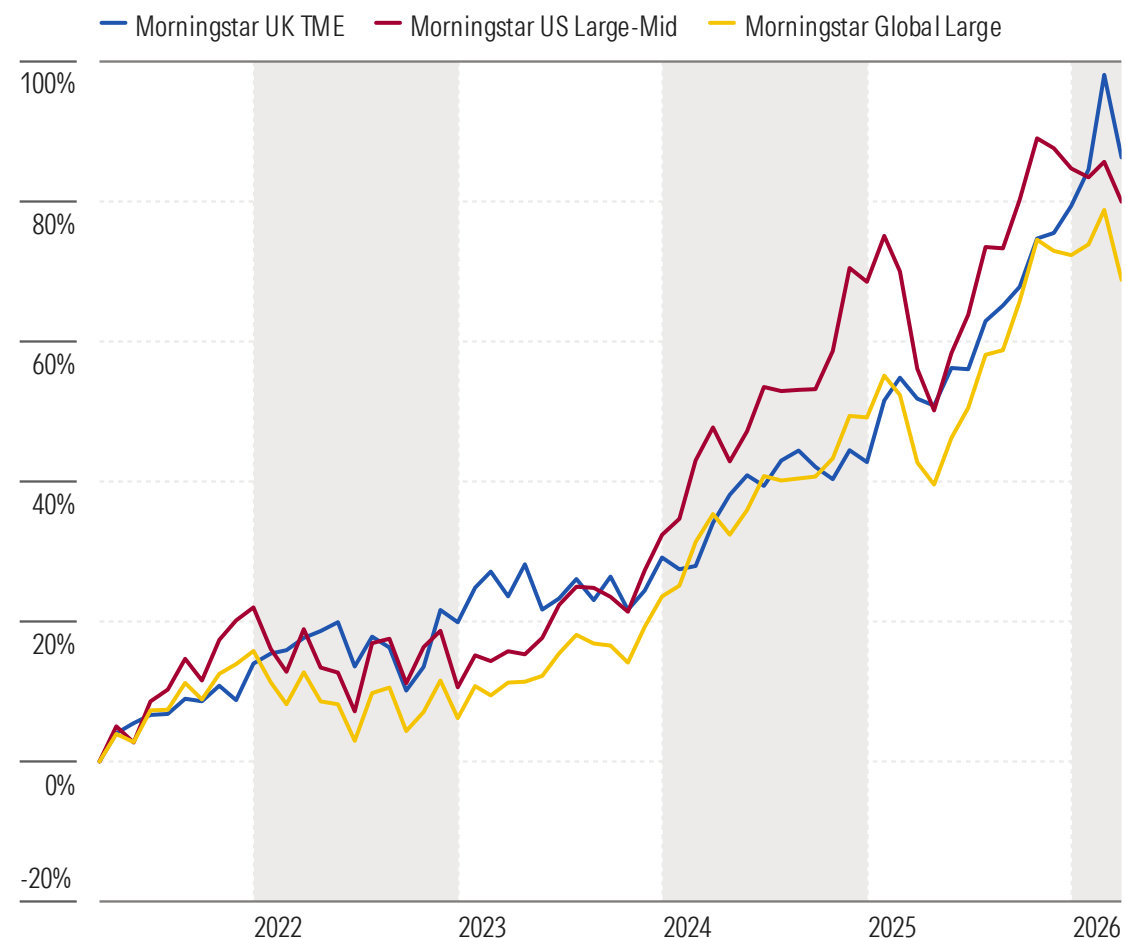


A Renaissance in Sector Performance

Since 2022, we have seen a notable rotation, with many sectors well represented in the UK index delivering significantly stronger performance. For the five years ending February 2026, the UK market has outperformed both the US and global indexes in both sterling and US dollar terms, benefiting from a shift in macro conditions that turned headwinds into tailwinds.

- **Rotation from Growth to Value:** Rising interest rates reduced the valuation premium for long-duration growth stocks, while supporting cash-generative, shorter-duration sectors where the UK is overweight.
- **Strength in Commodities and Energy:** Higher and more volatile commodity prices boosted earnings in oil and gas, and mining—key pillars of the UK market.
- **Improved Bank Profitability:** Higher interest rates supported net interest margins, driving a recovery in bank earnings after a decade of pressure.
- **Resilient Dividend Profile:** UK equities' high and relatively stable dividend yields became more attractive in a high-rate, income-focused environment.
- **Valuation Support and Capital Flows:** Depressed starting valuations, combined with increased M&A activity and buybacks, helped underpin returns and attract renewed investor interest.

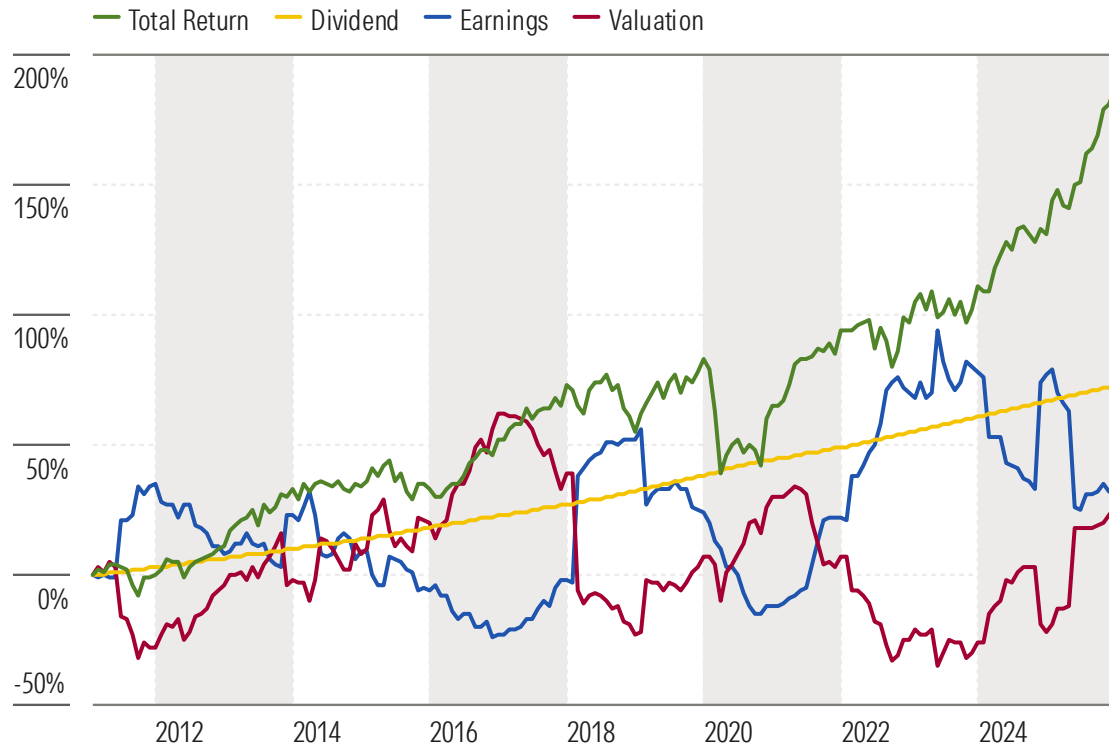
5-Year Performance (GBP)



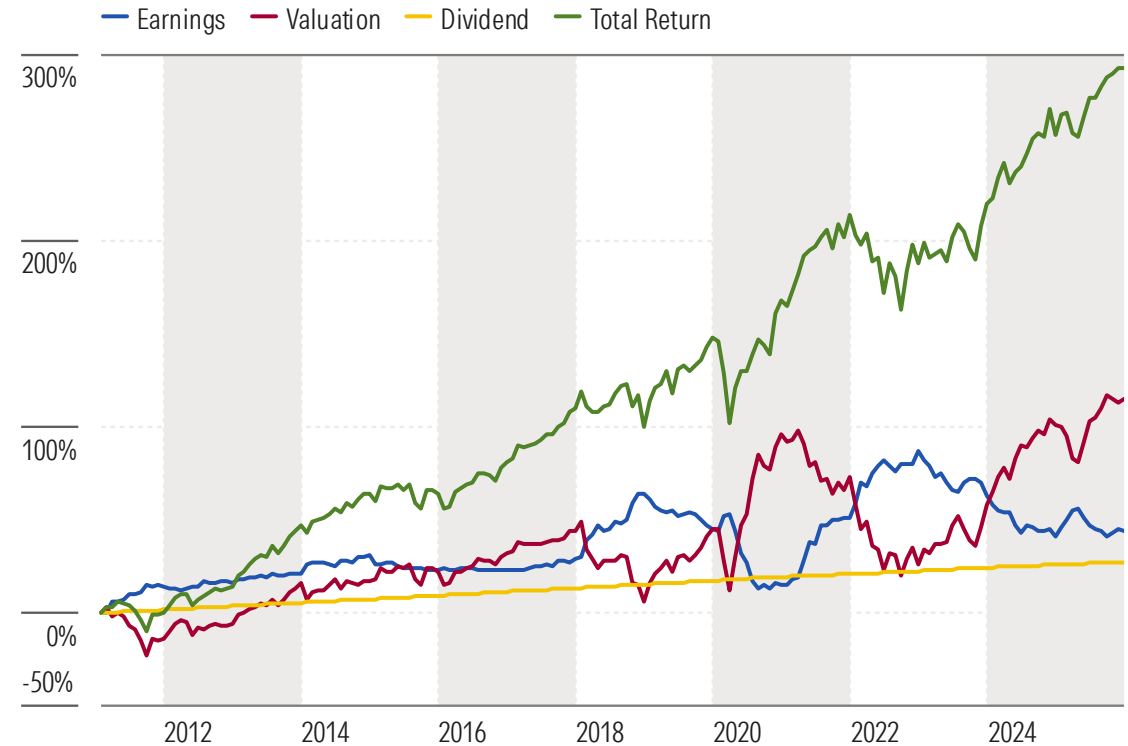
UK Equity Market Is Less Driven by Multiple Expansion

Over the long term, we can see that total returns in the UK equity market have been driven mostly by dividends, and then earnings growth, with multiple expansion playing a much smaller and more inconsistent role. This contrasts with the S&P 493 (S&P 500 excluding the Magnificent Seven: Alphabet, Amazon.com, Apple, Meta Platforms, Microsoft, Nvidia, and Tesla), where multiple expansion has been a much larger contributor to total returns over the 2010s cycle, albeit considerably driven by earnings growth within the Magnificent Seven.

Fundamental Attribution: Morningstar UK Target Market Exposure Index



Fundamental Attribution: S&P 493



Source: Morningstar Direct and authors' calculation. Data as of Dec. 31, 2025.

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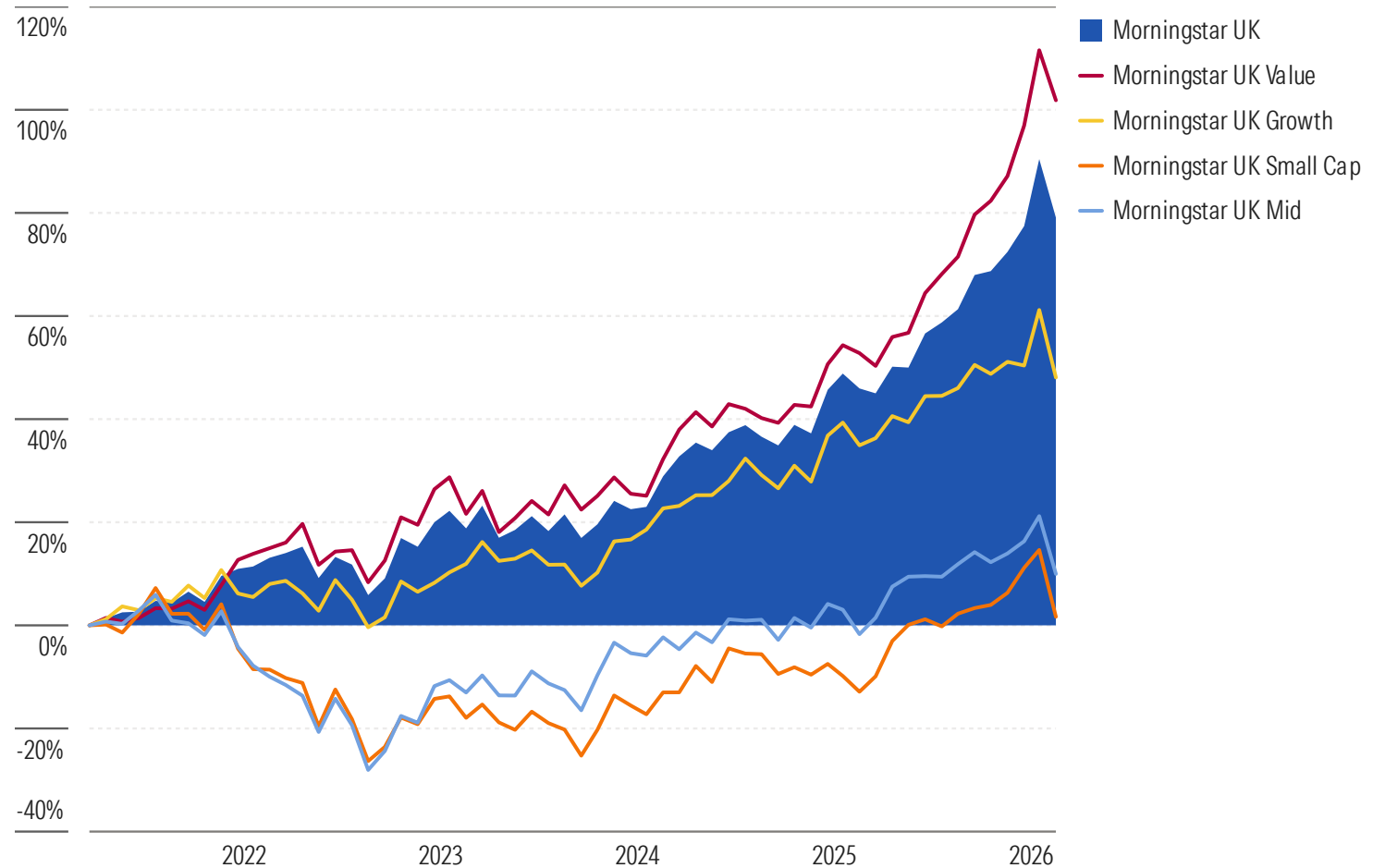
The Performance of Small Caps vs. Large Caps Has Diverged Significantly

While value has outperformed growth over this period, the most striking divergence has been between large-cap and small and mid-cap equities. As shown in the exhibit, over the past five years, small and mid-caps have continued to lag significantly, delivering little to no total return while UK large-caps performed strongly.

This divergence reflects several structural and cyclical factors, namely:

- A preference for scale and market leadership, so investors continue to favor larger companies with more winner-takes-all dynamics.
- An index composition that leans more to domestic companies, exposing them to a weakening UK economy and underweights sectors that have benefited from the change in regime (oil, mining, and banks)
- Multiple compressions as sentiment continues to be against them.

5-Year Performance (GBP)



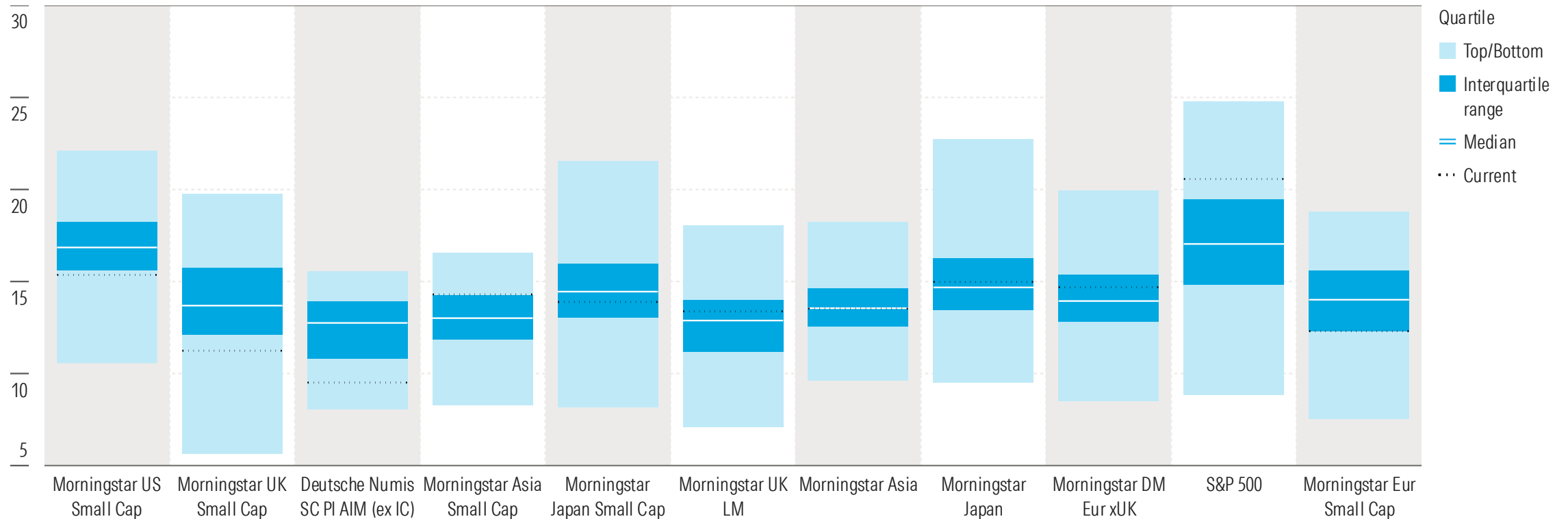
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The Valuation Opportunity

UK Small Caps Warrant Attention

Despite recent outperformance, the valuation opportunity in UK equities remains compelling. Both on trailing and forward P/E ratios, the UK trades at a 30% (trailing) and 35% (forward) discount to the US, both substantially less than the long-term average. While this has come in from a discount of 40% to 50%, and is somewhat driven by sector composition, the market remains cheap relative to US equities, particularly in small caps, which are cheap to both their own history and equivalent companies in other developed markets.

Forward P/E Ratios vs. 20-year Percentiles



Source: Morningstar Direct. Data as of March 31, 2026.

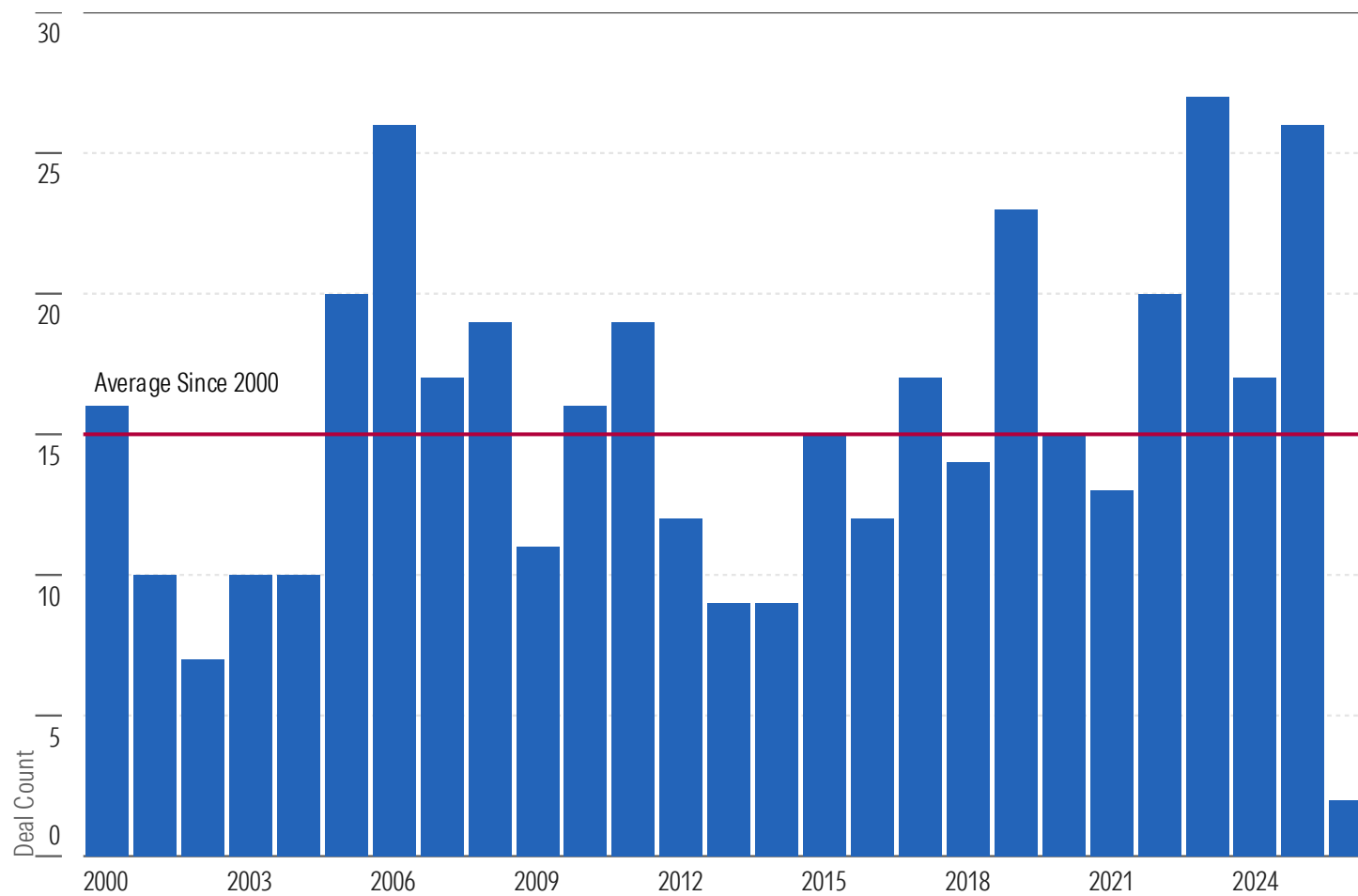
See Important Disclosures at the end of this report.

Takeover Activity Signals Value

Perhaps the most telling validation of the valuation case has come not from analysts or fund managers, but from corporate boardrooms. The past three years have seen a sustained wave of overseas acquirers—predominantly from the US and Europe—targeting UK-listed companies at premiums that public market investors have been unwilling to pay. When a strategic buyer is prepared to pay 30%, 40%, or 50% above the prevailing share price to take a company private, they are making an explicit statement about where intrinsic value lies.

The pace of deal activity shows no sign of slowing in 2026, with a number of high-profile takeover bids already made. Perhaps most striking is Schrodgers, where a GBP 9.9 billion bid from a US acquirer would bring the curtain down on more than 200 years of independent, family-steered ownership—a reminder that no UK-listed business, however storied, is beyond the reach of overseas capital. Other notable transactions include Beazley, acquired by Zurich Insurance Group for GBP 8.1 billion.

Public to Private Deal Count

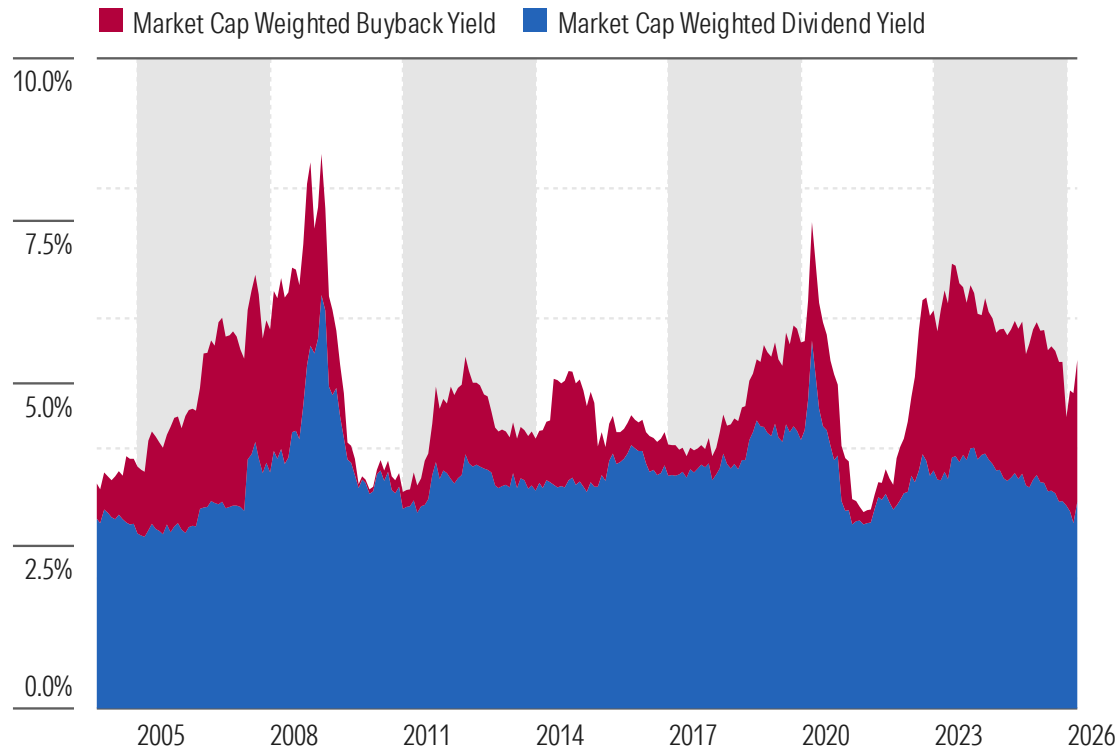


Share Buybacks On The Rise

Attractive valuations haven't gone unnoticed, with UK boards buying back shares at record levels in recent years. The buyback yield for the Morningstar UK index has been at elevated levels since late 2022. The last time we observed these levels was around the global financial crisis.

Morningstar UK Dividend and Buyback Yield

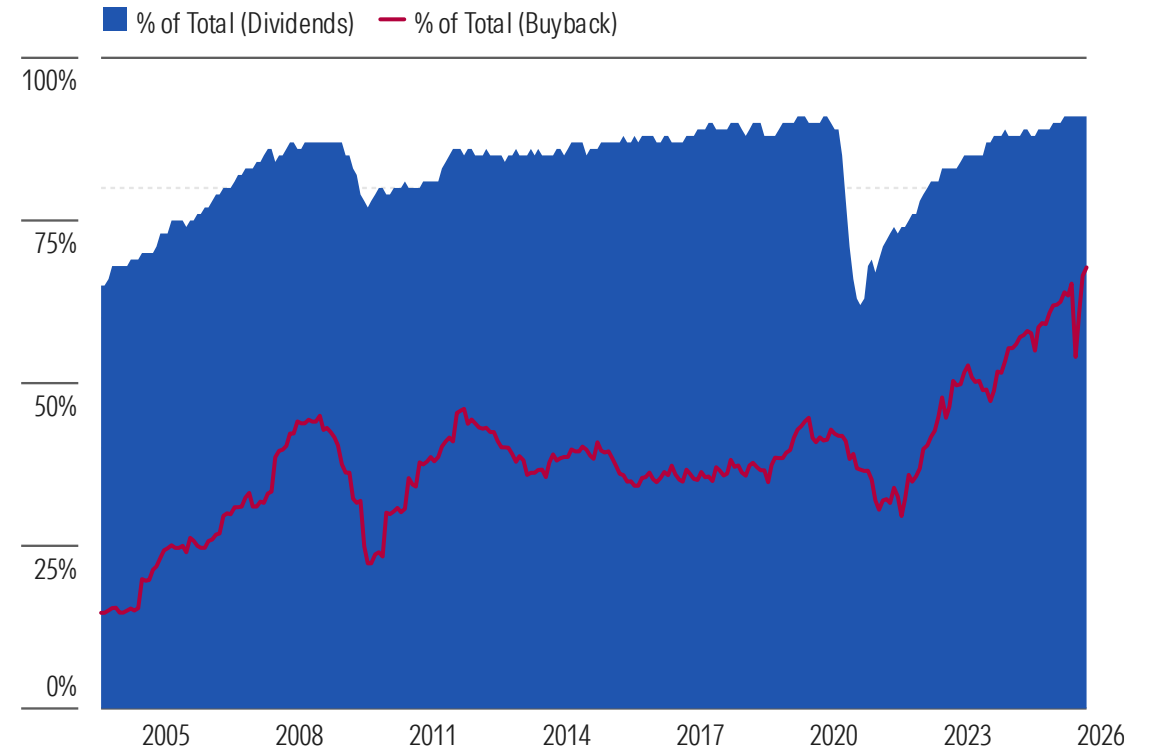
Total shareholder is attractive.



It's not only the size of these buybacks, but also the number of companies involved. Dividends have been a common feature of the market for decades, with the UK seen as a hunting ground for many income investors. However, in percentage terms, the number of companies buying back shares has been the highest since our data began in 2004.

Morningstar UK Constituents

The percentage of companies conducting stock buybacks is at a record high.



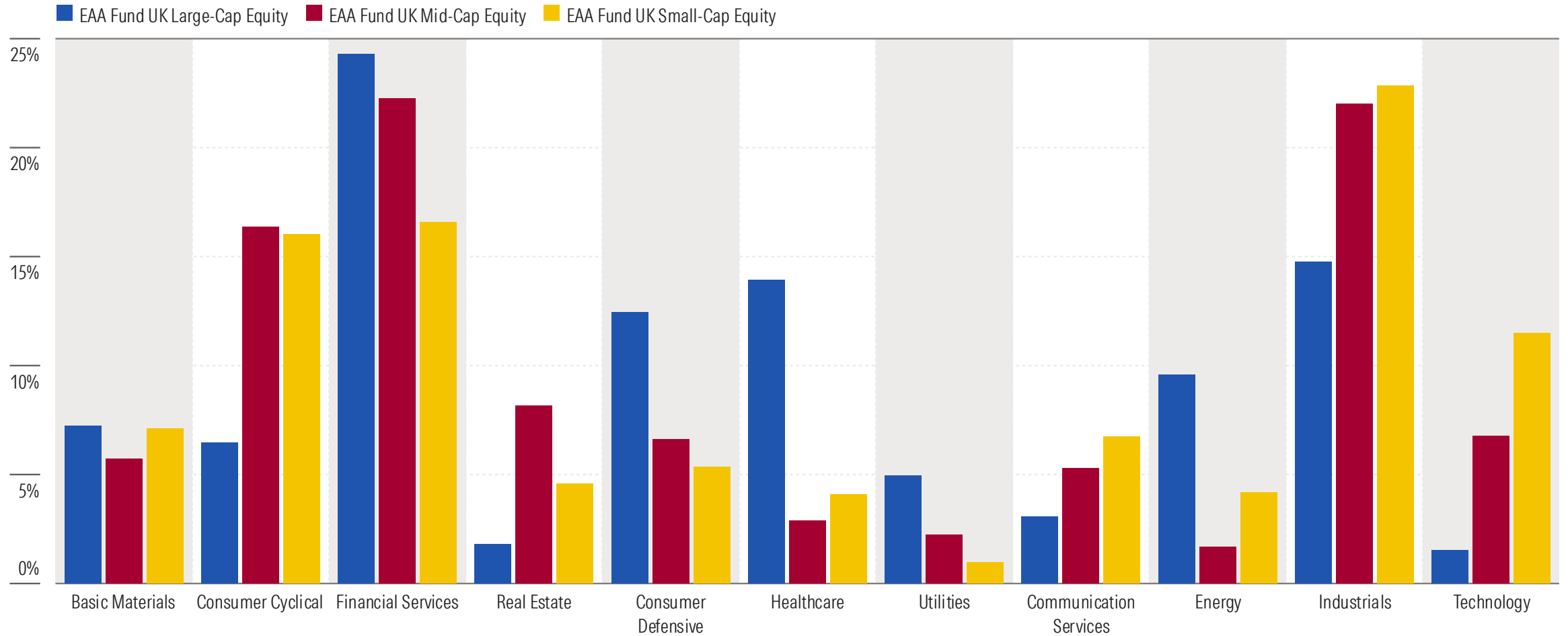
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A Category Overview of UK Equities

Sector Positioning

Morningstar Equity Sector Exposure

SMID-cap managers offer greater exposure in areas like technology, industrials, and consumer cyclical, with less exposure to healthcare and energy.



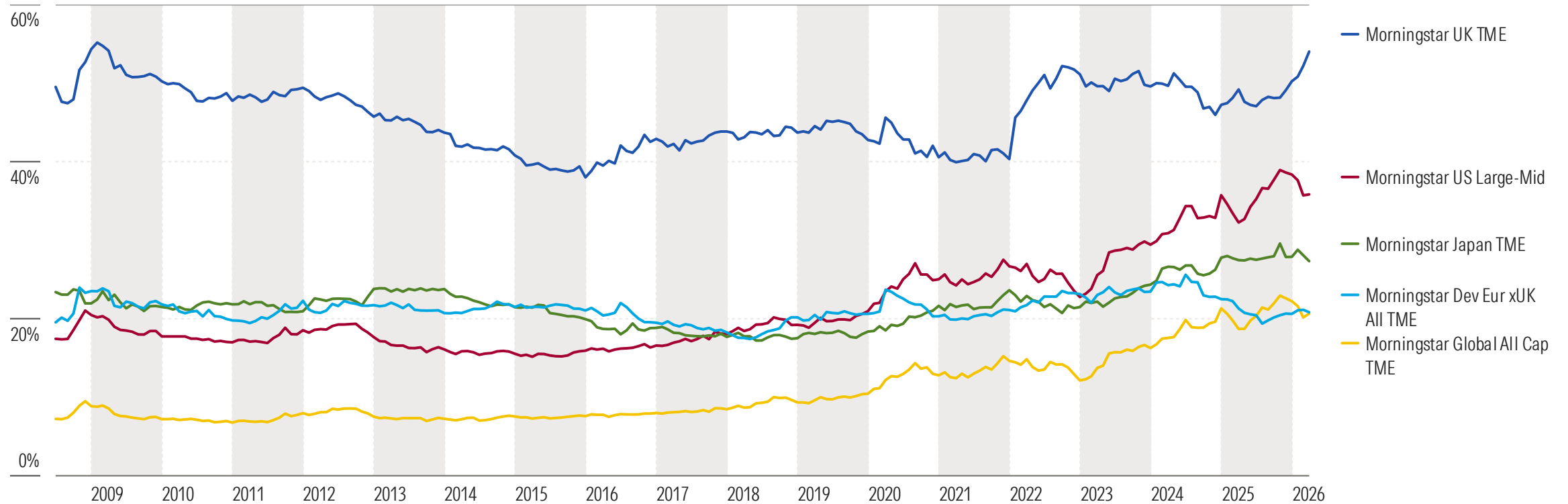
Source: Morningstar Direct. Data as of March 31, 2026.

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A Concentrated Market

Compared with other developed markets, the UK has consistently been very concentrated, with the top 10 making up 40% to 50% throughout. A lot of the largest names are dominant multinationals in industries with global cyclical growth drivers as opposed to domestically oriented structural ones, such as consumer durables, oil and gas, mining, and banks, which has led to a bifurcation of UK listings, where large caps are split between globally dominant multinationals and historically underdeveloped domestic growth names.

Percentage in Top 10 Holdings










Source: Morningstar Direct. Data as of March 31, 2026.

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Most-Held UK Equity Funds in UK Funds of Funds

Most-Held UK Equity Funds in UK Funds of Funds

Passive funds dominate.

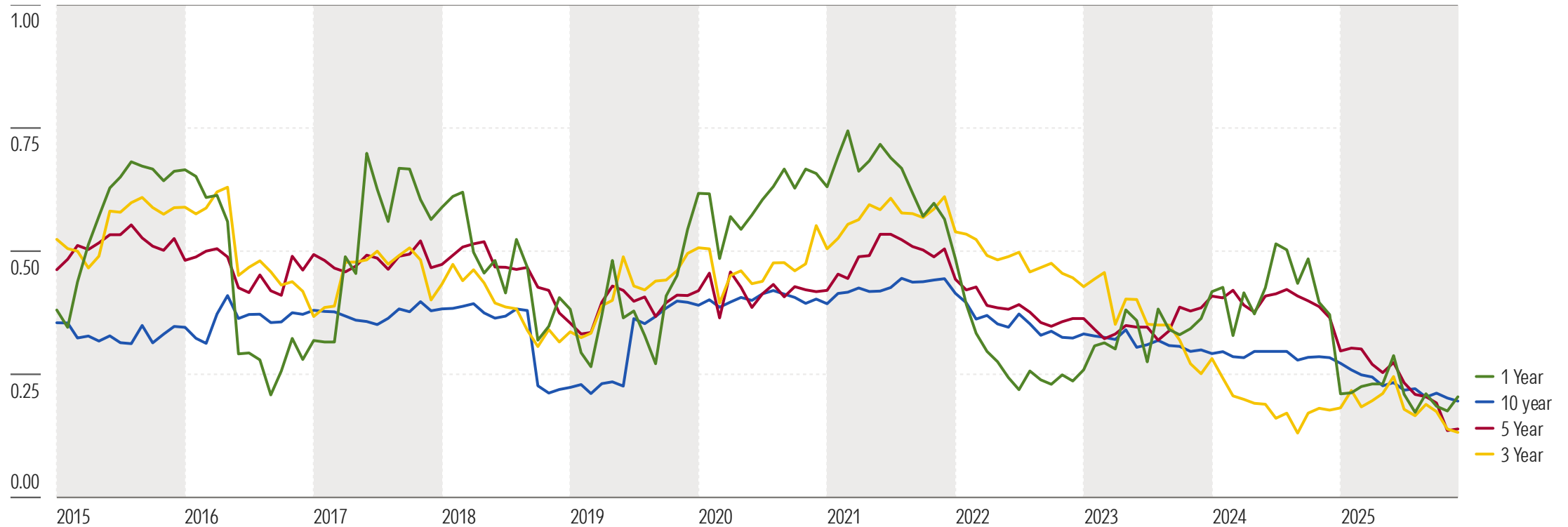
Name	Morningstar Category	ISIN	Funds Invested	Average Portfolio Weight	Morningstar Rating	Morningstar Medalist Rating
iShares UK Equity Index (UK) L Acc	EAA Fund UK Large-Cap Equity	GB00B08HD810	114	7.45	★★★	 Silver
iShares Core FTSE 100 ETF GBP Dist	EAA Fund UK Large-Cap Equity	IE0005042456	65	4.55	★★★★★	 Bronze
Invesco UK Opports (UK) Z (Acc)	EAA Fund UK Large-Cap Equity	GB00B8N46S41	38	3.15	★★★★★	Neutral
Invesco UK Enhanced Index UK(NoTrail)Acc	EAA Fund UK Large-Cap Equity	GB0033032565	38	3.70	★★★★★	Neutral
Jupiter UK Dynamic Equity I Acc	EAA Fund UK Large-Cap Equity	GB00B4KL9F89	37	2.37	★★★	 Silver
iShares Core FTSE 100 ETF GBP Acc	EAA Fund UK Large-Cap Equity	IE00B53HP851	36	5.72	★★★★★	 Bronze
Vanguard FTSE 100 UCITS ETF	EAA Fund UK Large-Cap Equity	IE00B810Q511	29	3.96	★★★★★	 Bronze
L&G UK Mid Cap Index C Acc	EAA Fund UK Mid-Cap Equity	GB00BQ1JYV63	29	3.00	★★★	Negative
Fidelity Index UK P Acc	EAA Fund UK Large-Cap Equity	GB00BJS8SF95	29	4.52	★★★★★	 Gold
Artemis UK Select G Acc GBP	EAA Fund UK Flex-Cap Equity	GB00BMTP7425	27	3.86	★★★★★	 Gold

Does It Pay To Be Active?

UK active equity managers have navigated a grueling backdrop since the referendum. Against this, it is perhaps unsurprising that success rates have trended downward across the EAA Fund categories. SMID-cap stocks have underperformed large caps, which typically correlates with poor success ratios in the UK, and the concentration of returns at the top end has been significant. Should we see the conditions for active management improving markedly, combined with attractive valuations, active UK equities could well come into their own.

Rolling Success Rates for Surviving Active Funds (%)

Aggregated Data for the EAA UK Small Cap, Mid Cap, and Large Cap Category.



Fund Spotlight

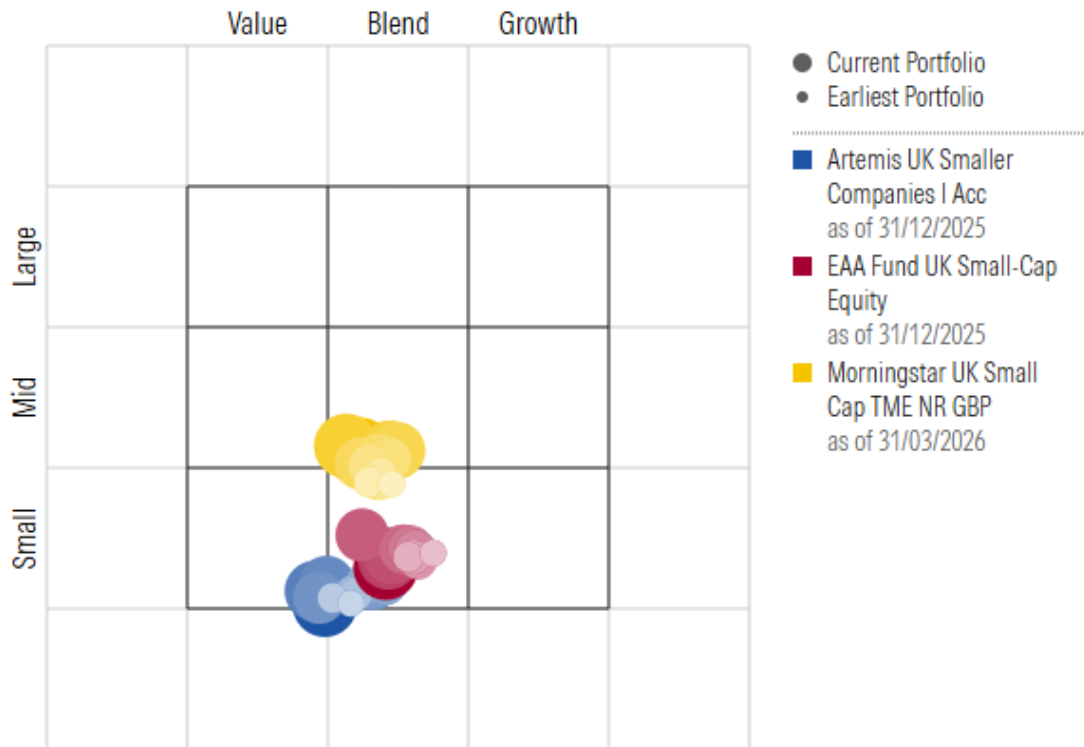
A selection of our analysts' favorite strategies.

EAA UK Small-Cap Equity: Artemis UK Smaller Companies and UK Future Leaders Plc (AFL)

Artemis UK Smaller Companies is a compelling option and one of the best in the category. Mark Niznik and William Tamworth target niche market leaders with strong balance sheets trading at reasonable valuations. Their approach results in a differentiated portfolio and is more value-oriented than category peers. The duo assumed responsibility for Artemis UK Future Leaders Trust (formerly the Invesco Perpetual UK Smaller Companies Trust) in March 2025. The trust shares the same approach and currently trades at a notable discount to NAV.

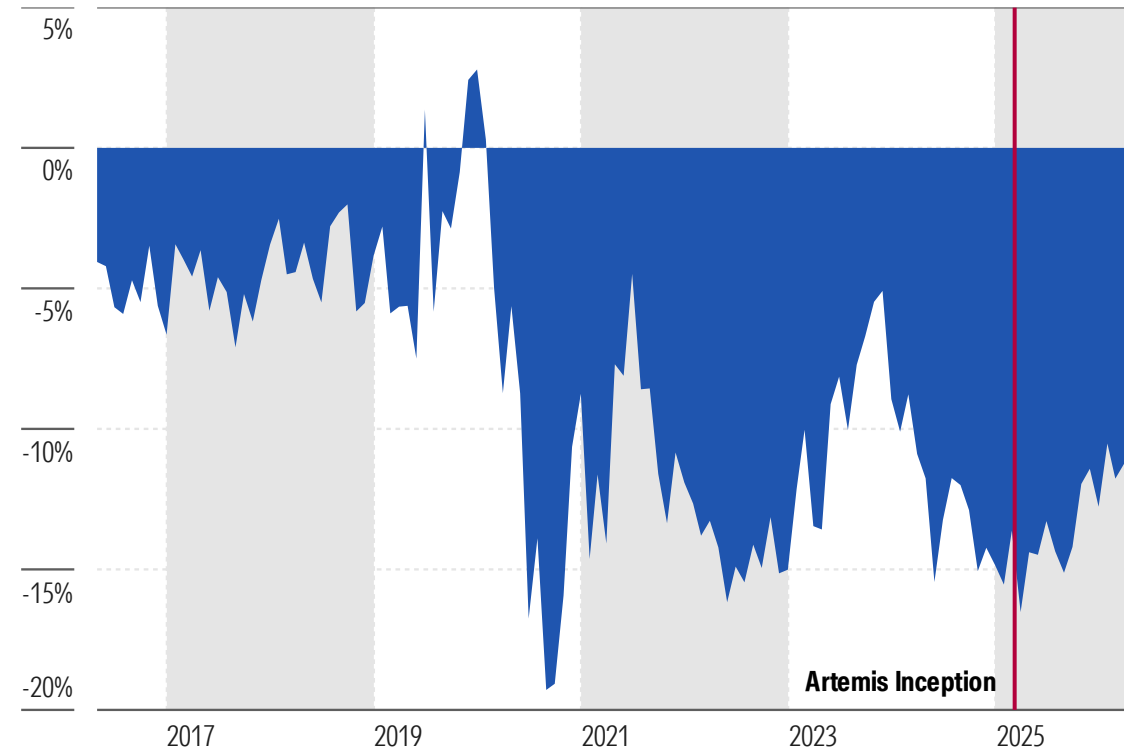
Holdings-Based Style Trail (5 years to December 2025)

Performance vs. the category has been strong since Mark Niznik became lead manager.



Premium/Discount (%)

AFL currently trades at an 11% discount to NAV.

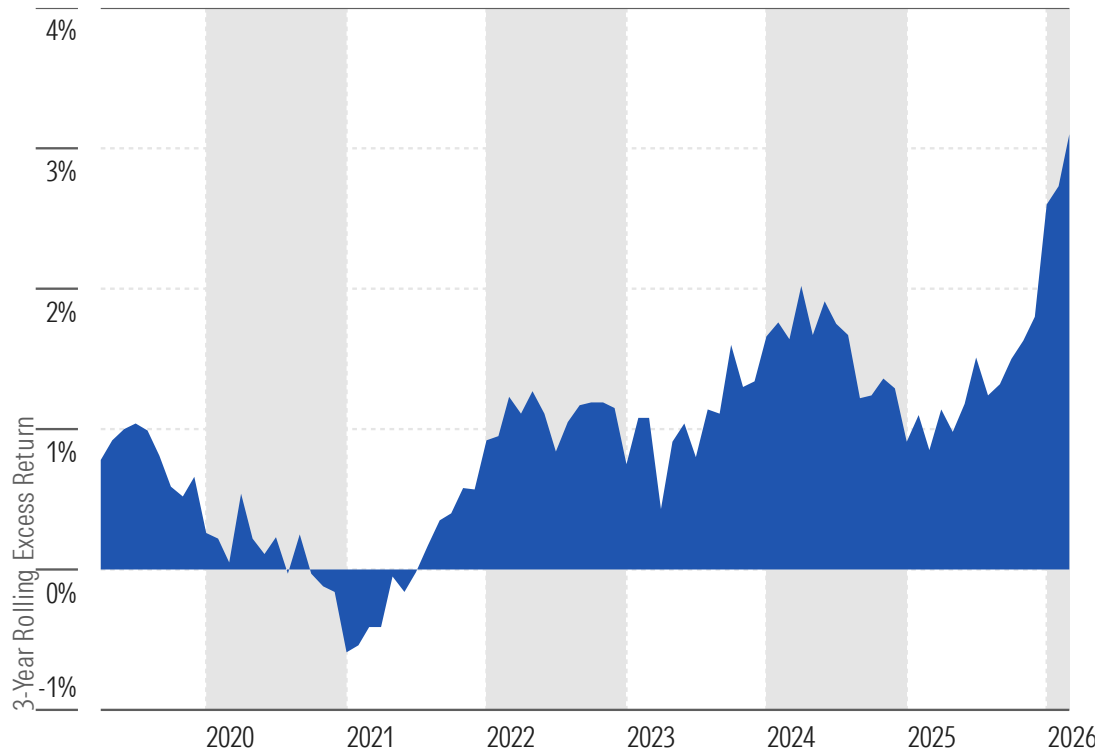


EAA UK Large Cap: JPM UK Equity Core

Backed by JPMorgan’s extensive research network, the strategy aims to provide low-cost, low-active-share exposure to UK equities. The strategy follows an index-plus approach, seeking to outperform its benchmark by favoring stocks with strong value, quality, and momentum traits, expressed through modest over- and underweights. The strategy’s low tracking error and benchmark-aware construction result in performance that closely mirrors the market, with an expected beta near 1. However, the portfolio is designed to outperform its benchmark over most market cycles, driven by disciplined stock selection and targeted exposure to value, quality, and momentum factors.

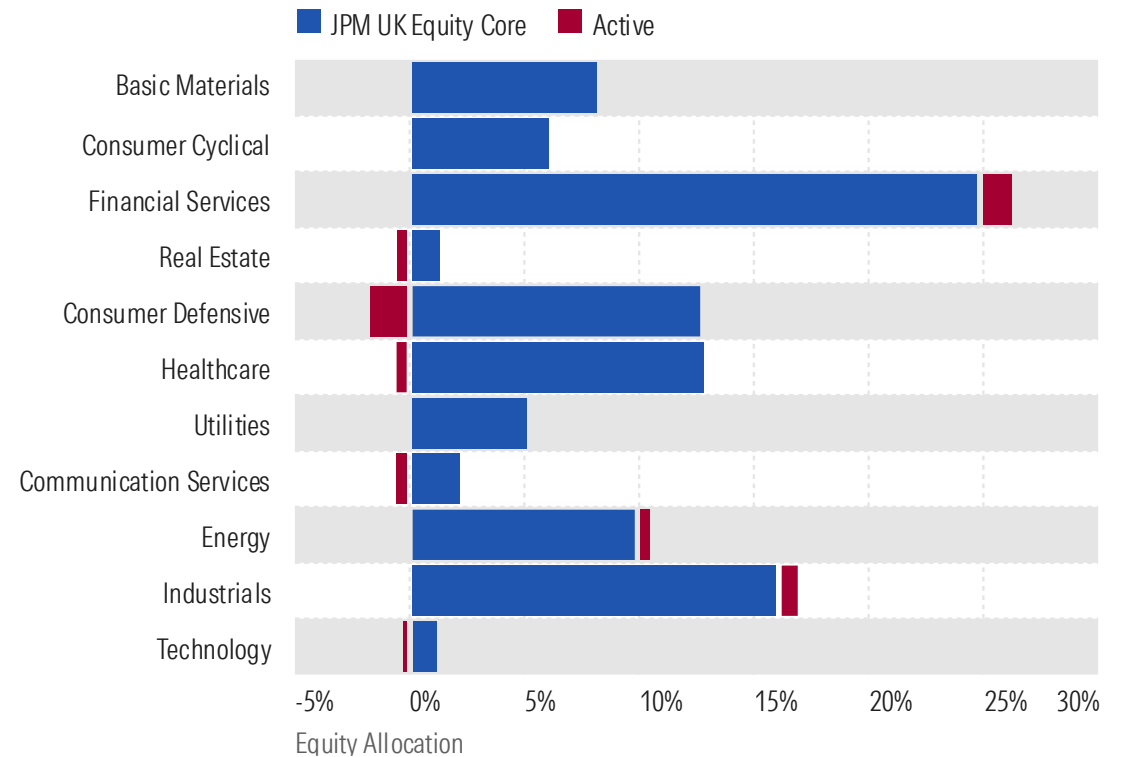
3-Year Rolling Excess Return

JPM’s disciplined process has delivered consistent returns over the past 10 years.



Morningstar Sector Positioning*

Small active bets are expected to drive performance.



Source: Morningstar Direct. Data as of March 31, 2026. *Data as of Feb. 28, 2026.

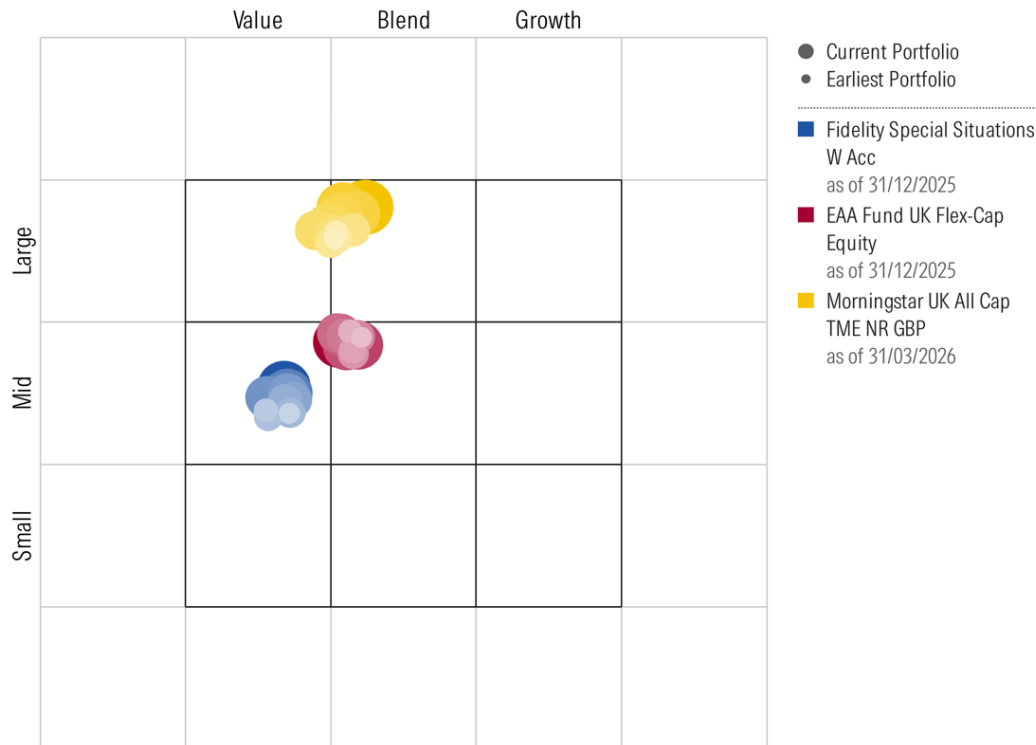
See Important Disclosures at the end of this report.

EAA UK Flex-Cap: Fidelity Special Situations

Fidelity Special Situations is a contrarian strategy that seeks out unloved companies with a catalyst for rerating, as well as a margin of safety to protect on the downside. The fund benefits from stable leadership with Alex Wright in place since 2014, and we view the manager's skill as primarily valuing companies and recognizing where catalysts are underappreciated. Not surprisingly, there is a cyclical bias to the portfolio and consistent exposure to SMID caps, where Wright's background as a smaller company specialist helps.

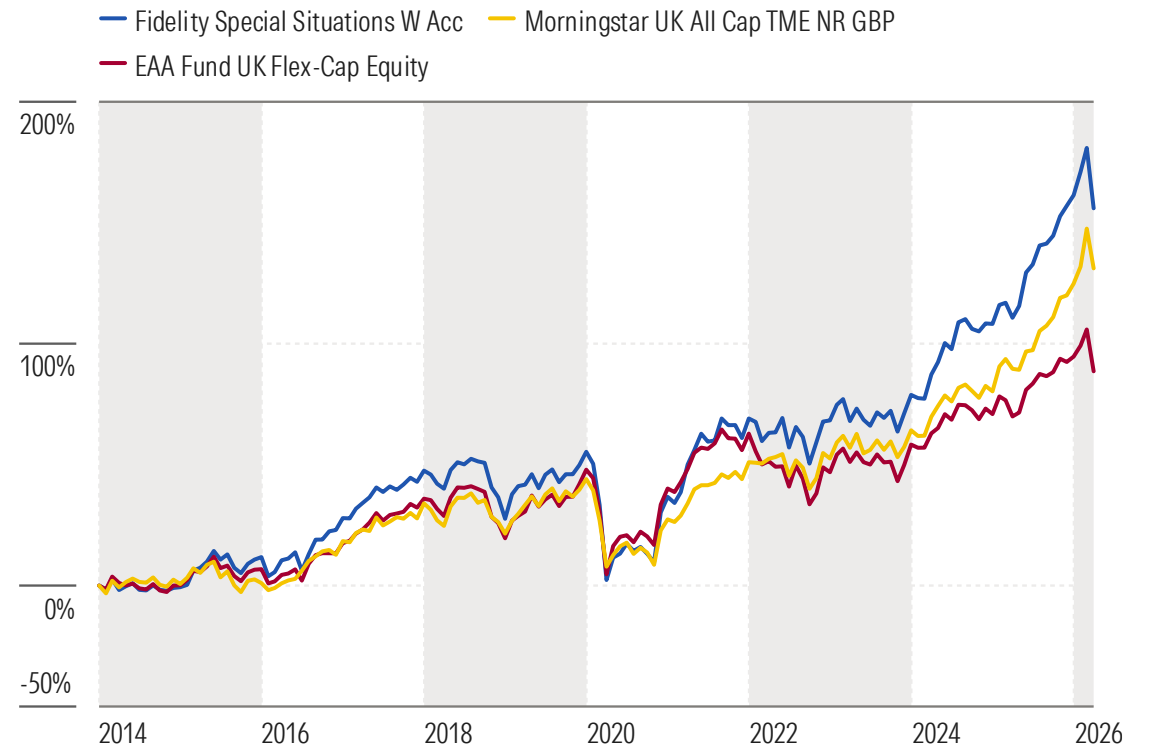
Holdings-Based Style Trail (5 years to December 25)

Generally, the portfolio focuses on contrarian names and smaller companies.



Performance

Since Wright has been at the helm, long-term returns are compelling.

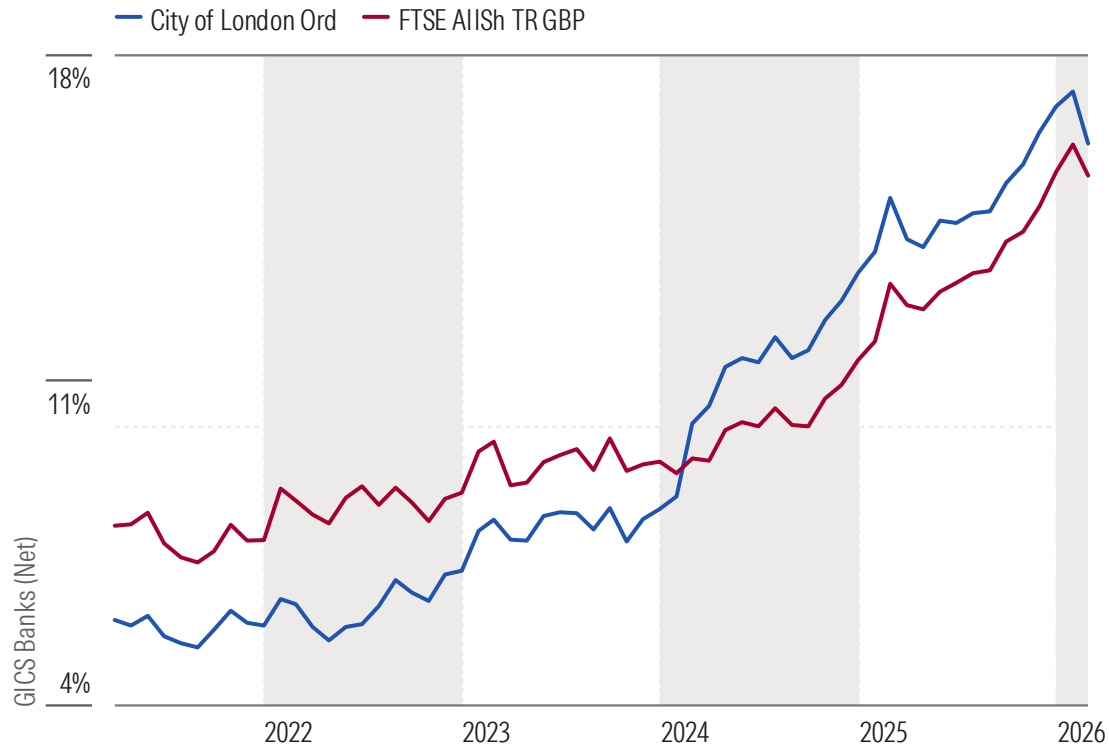


EAA CE UK Equity Income: The City of London Investment Trust

City of London Investment Trust stands out as a core UK equity income option, underpinned by an experienced management team, a consistent investment process, and competitive fees. Our conviction rests primarily on Job Curtis, who has managed the trust since July 1991—a tenure that is exceptionally rare in the industry. The investment trust structure allows CTY to reserve income in good years to maintain payouts during tougher periods, underpinning a dividend that has increased every year since 1966 (a record unmatched in the sector).

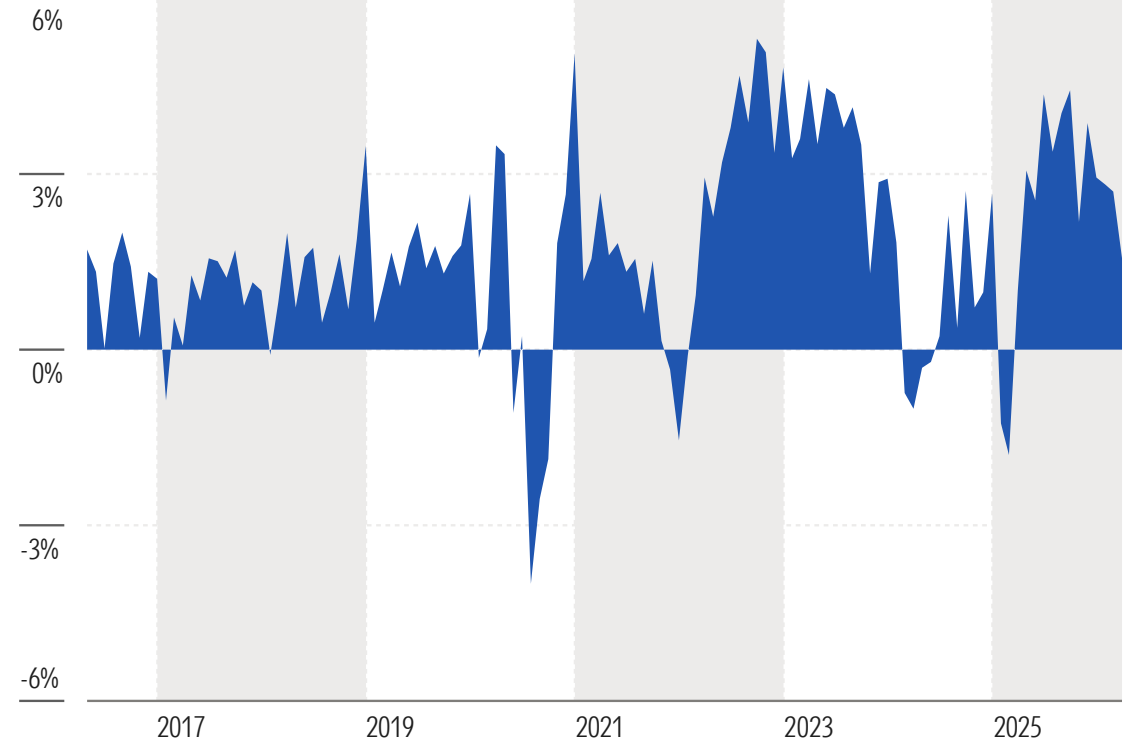
Banks Allocation (%)

CTY moved overweight banks in early 2024, which has boosted recent performance.



Premium/Discount (%)

Its share price has rarely traded at a discount to NAV over the past decade.



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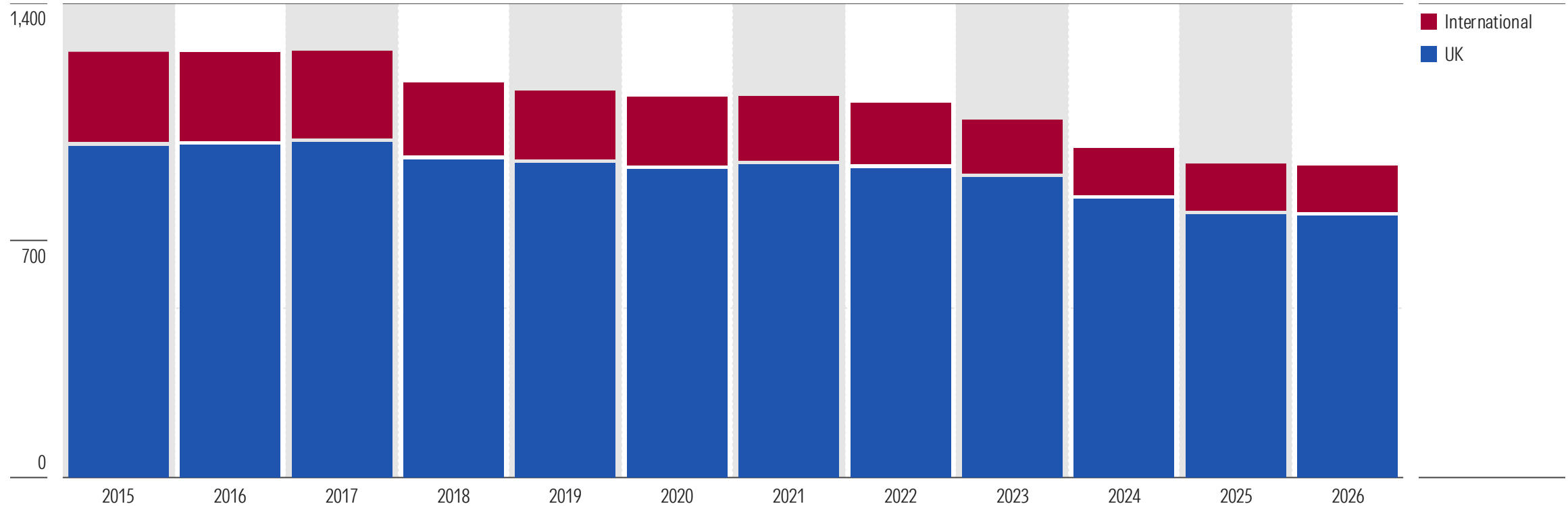
The Next Decade: Reset or Repeat?

A Shrinking Universe

One of the defining challenges for UK equities over the next decade will be the ability to attract and retain listed companies. Elevated M&A activity and a weak IPO pipeline have caused the number of listings to decline by 27% since the end of 2015. The pull of alternative venues is significant —boards increasingly favor exchanges where valuations are better reflected, with many opting for the US, where liquidity is deeper and valuations richer. How policymakers respond will be critical in determining whether London can reclaim its position as a leading global listing venue.

UK Main Market Listings

Listings have fallen from 1,257 to 921 since December 2015.



Source: LSEG. Data as of Feb. 28, 2026.

See Important Disclosures at the end of this report.

AIMageddon

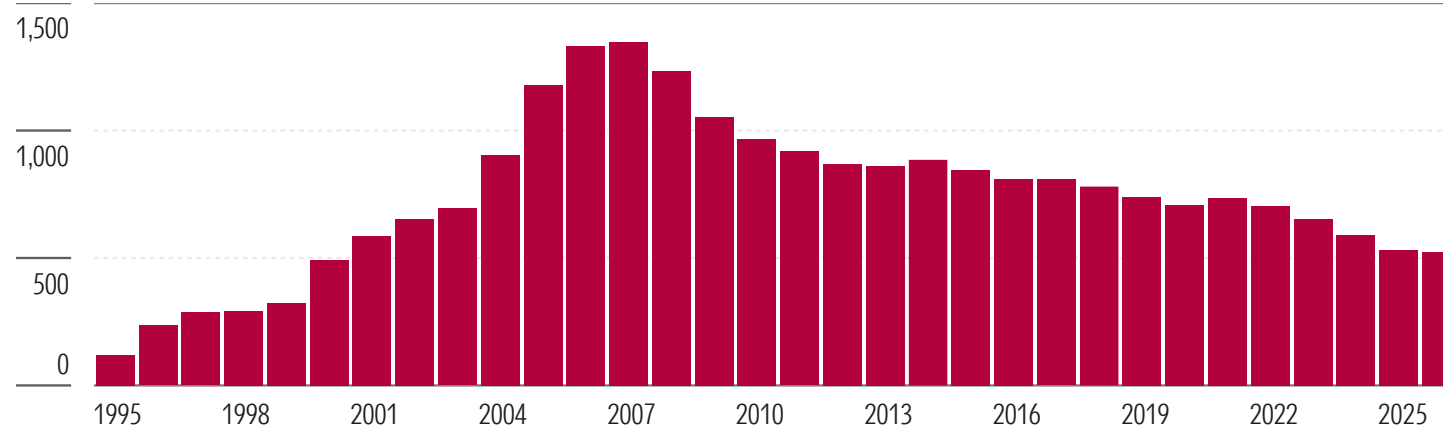
The Alternative Investment Market (AIM) faces a growing structural challenge. The continued erosion of its listed company base—driven by departures to the Main Market, a dry IPO pipeline, and shifting incentives—raises genuine questions about the market’s long-term relevance as a home for growth companies.

AIM peaked at 1,347 listed companies in 2007. By 2026, that figure had fallen to just 524, with new listings numbering only 14 in 2025, down from a peak of 335 in 2005. Graduations to the main market are accelerating, with seven moves recorded in 2025—the highest since 2011.

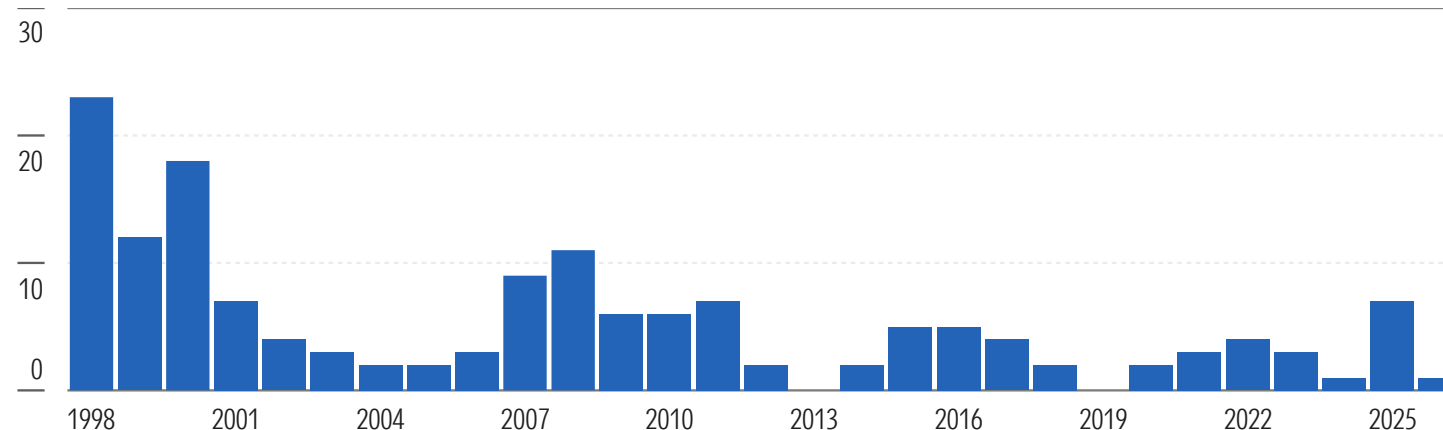
Compounding this, AIM has historically attracted investors through its IHT relief benefits. The 2024 Budget announcement slashing relief from 100% to 50% from April 2026, removed a key incentive, with many investors having participated in the market primarily for its tax efficiency.

Yet, reasons for optimism exist. The London Stock Exchange has announced a series of rule changes designed to reduce the regulatory burden and reinforce AIM’s appeal to growth companies. Whether these prove sufficient to reverse the structural decline remains to be seen.

Number of AIM Listed Companies



Annual AIM to Main Movements



What Could Go Right

Stabilizing Politics

- Potential for improved UK-EU relations eases trade frictions and supports business confidence.
- Meanwhile, a more predictable fiscal and regulatory environment encourages domestic and foreign investment.

Rate Cuts

- Rates may have peaked, albeit inflation is likely to be somewhat structurally sticky given geopolitical tensions and food and energy supply chain issues.
- If we do see rate cuts, lower discount rates will support equity valuations, particularly for domestic and mid-cap stocks. Lower mortgage rates also drive domestic consumption.

Valuation Re-Rating

- UK equities trade at a persistent discount to global peers (US/Europe) and are sustained by capital outflows and poor sentiment. If we see a turnaround driven by earnings resilience and strong performance, the valuation will act as a catalyst for equity returns.
- Meanwhile, increased M&A activity provides a valuation floor.

Active Managers Performing

- UK market structure (high valuation dispersion, sector concentration, and under-researched mid- and small caps) is conducive to alpha generation, and particularly down the market cap spectrum, the penetration of passives is lower.
- Potential shift back toward active strategies if performance improves relative to passive, and the environment favors stock pickers.

Changes to Listing Rules and Market Reforms

- Reforms to the UK listing regime (such as dual-class shares and streamlined requirements) improve competitiveness versus US exchanges.
- Pension fund reforms could increase domestic equity allocations.
- Finally, an enhanced capital markets ecosystem supports IPO activity and can retain high-growth companies.

THE BREXIT DECADE

Appendix

Morningstar Direct's Analytical Tools Used In This Report

In constructing the report, we used the following tools and functions available on the Morningstar Direct Platform:

- **Morningstar Fund Flows:** This resource offers easy-to-understand, comprehensive, and timely data view of estimated net flow and market share data that enables fund marketing professionals, financial analysts, and members of the media to stay abreast of investment product markets' ebbs and flows.

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