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The return of the total return kings:
There and back again

Larry Furness CFA, Analyst, Redwheel Value & Income

In April 2024, Ian Lance, Co-Head and Portfolio Manager, Redwheel Value & Income, published The Return of the Total Return Kings[1], examining the persistent and widening valuation gap between UK equities and the US market. Lance argued that this gap was not a reflection of deteriorating fundamentals but the consequence of decades of pension fund de-equitisation and the shift by global wealth managers toward passive mandates with significant biases to US equities; moreover, these flows were, by their nature, indifferent to price.

Drawing a parallel to the market conditions of 2000, the piece contended that investors had once again crowded into US technology stocks at historically elevated valuations while abandoning old economy sectors, such as energy, financials, and industrials, where free cash flow yields were exceptional and companies were aggressively returning capital through dividends and share buybacks. Lance concluded that even without a reversal of those structural flows, two mechanisms, corporate takeovers and buyback-driven earnings-per-share compounding, were sufficient to realise that embedded value for patient shareholders.

This paper acts as a follow-up. With the benefit of two and a half years of subsequent market history, it asks what the original thesis predicted correctly, what it underestimated, what has changed in the macro and market landscape, and where the opportunity now stands.

Equity market performance

Global equities have performed strongly since the original piece was published in April 2024, interrupted by a sharp, but short-lived, sell-off in early 2025 when global equity markets sold off aggressively around 'Liberation Day'. President Trump's sweeping reciprocal tariff package proved far more aggressive than markets had anticipated, stoking fears of a global trade war, higher inflation, and a sharp slowdown in economic growth. That episode reversed quickly once the tariff stance softened, and both the US and UK markets have since pushed to new highs.

From 4 April 2024[1] to 31 August 2026, the FTSE All-Share outperformed the S&P 500 (in GBP terms) returning 46.3% versus 43.9%[2] - see Chart 1. Taken by itself, this indicates that the UK has finally started to keep pace with the US, closing the underperformance gap.

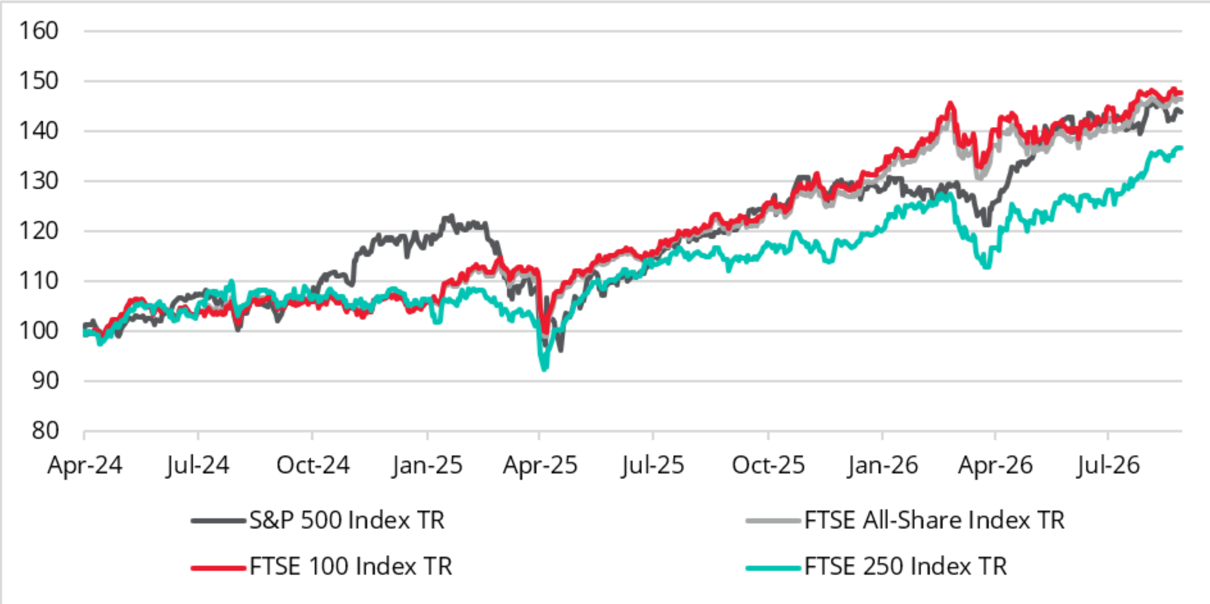
However, the headline number masks a divergence between the FTSE 100 and FTSE 250. During the period, the FTSE 100 outperformed the FTSE 250 by over 11 points. To understand the reason for this, we need to consider the composition of the two indices. The FTSE 100 is more internationally focused and derives just 22% of its revenues domestically, versus 53% for the more domestically focused FTSE 250[3]. This is one of the reasons why the FTSE 250 has underperformed; it has had to bear the brunt of UK-specific macro weakness and political uncertainty.

The convergence in headline performance between the FTSE 100 and S&P 500 has occurred despite, not

[1] 'The return of the total return kings', Redwheel, April 2024
[2] Bloomberg, 4 April 2024 to 31 August 2026
[3] Bloomberg, Mid-cap UK stocks unlikely to get much momentum from BoE, 7 August 2025

because of, any reversal in the underlying flow picture. The next section of the document considers this point more deeply.

Chart 1. S&P 500, FTSE All-Share, FTSE 100 and FTSE 250 – Performance



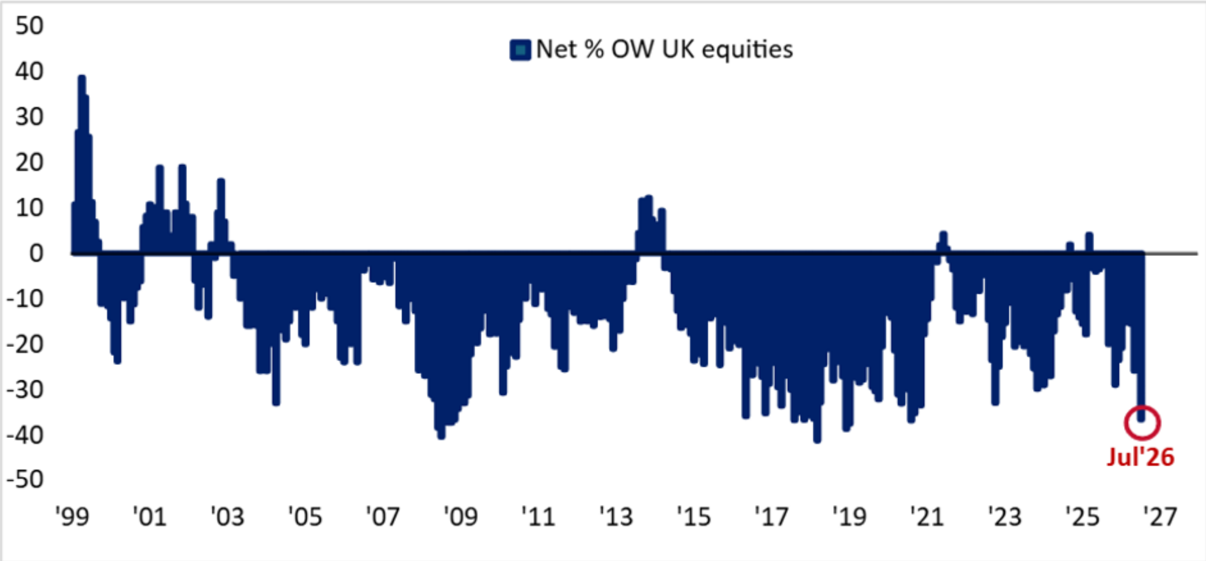
Source: Bloomberg, 4 April 2026. GBP. Normalised to 100. The information shown above is for illustrative purposes only. Past performance is not a guide to future results.

Flows out of the UK

The original piece posed a direct challenge to its own argument: if UK equities look cheap, what mechanism would reverse the structural selling driving that discount? In the two and a half years since the publication of the original document, there does not appear to have been any positive change.

According to Bank of America's Fund Manager Survey, global investors have cut their UK allocations to a net 37% underweight, the lowest since August 2020. Part of the reason for this is that the UK market has limited exposure to AI winners; rather, it has a larger exposure to more defensive sectors.

Chart 2. Investors most underweight UK equities since August 2020



Source: Bank of America Global Fund Manager Survey, 14 July 2026. The information shown above is for illustrative purposes only. Past performance is not a guide to the future.

Separately, research from Goldman Sachs shows that in Q1 2026, there were almost GBP20bn of net outflows by domestic mutual funds. On an annualised basis this would be higher than any recent year. Pension funds and insurance companies remain net sellers at a similar pace to recent years, and retail flows remain weak.

Table 1: Net buying of UK equities (GBP bn)

	2020	2021	2022	2023	2024	2025	1Q 2026
Corporates	-24	0	95	39	23	32	17
Financials (Banks)	-4	-11	11	15	21	13	4
Domestic Mutual funds	3	-2	-43	-16	-14	-56	-18
Pension & Insurance funds	-15	16	-24	-9	-11	-11	-3
Government	0	0	-1	0	-7	-5	-1
Households	1	1	-13	-12	-5	-5	-1
Total Domestic	**-39**	**4**	**24**	**18**	**7**	**-33**	**-1**
Foreign	**39**	**-4**	**-24**	**-18**	**-7**	**33**	**1**
Sum	*0*	*0*	*0*	*0*	*0*	*0*	*0*

Source: Goldman Sachs, UK Weekly Kickstart, 3 July 2026. The information shown above is for illustrative purposes only.

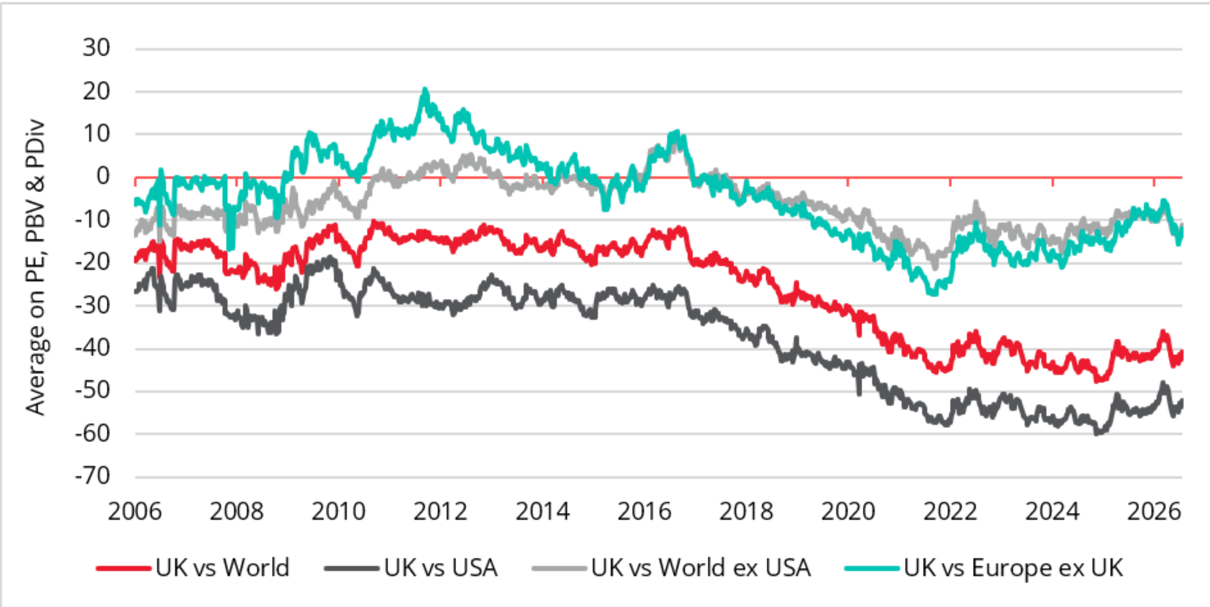
UK valuation

Despite recent strong performance, the UK market continues to trade at a discount to global peers. On an average price-to-earnings, price-to-book value, and price-to-dividends basis, the UK currently trades at a 40% discount to the MSCI World – see Chart 3. Based on weekly observations back to the beginning of 2006, we calculate that the UK has only been cheaper than it is today 20.1% of the time, or, to think of it another way, the UK is cheaper than 79.9% of all historical observations. Mean reversion to the historical median would require the UK to outperform the MSCI World by 33%, or roughly 6% annually if that reversion occurred evenly over five years. This discount is roughly in line with where it was back in April 2024.

Much of the current discount is attributable to the US specifically, unsurprising, given the US represents roughly 70% of the MSCI World[4]. The UK sits at a discount to other regions (World ex USA, Europe ex UK), but it is proportionally smaller.

That this discount has not narrowed despite sustained buyback activity and takeover attrition, discussed below, says something about the limits of company-level mechanisms absent a change in flows.

Chart 3. UK vs key regions - Average valuation premium



Source: Bloomberg, Morgan Stanley, 31 August 2026. Analysis based on MSCI UK, MSCI World, MSCI USA, MSCI World ex USA, MSCI Europe ex UK. Data shows average percentage premium on price-to-earnings, price-to-book value, and price-to-dividends. The information shown above is for illustrative purposes only. Past performance is not a guide to the future.

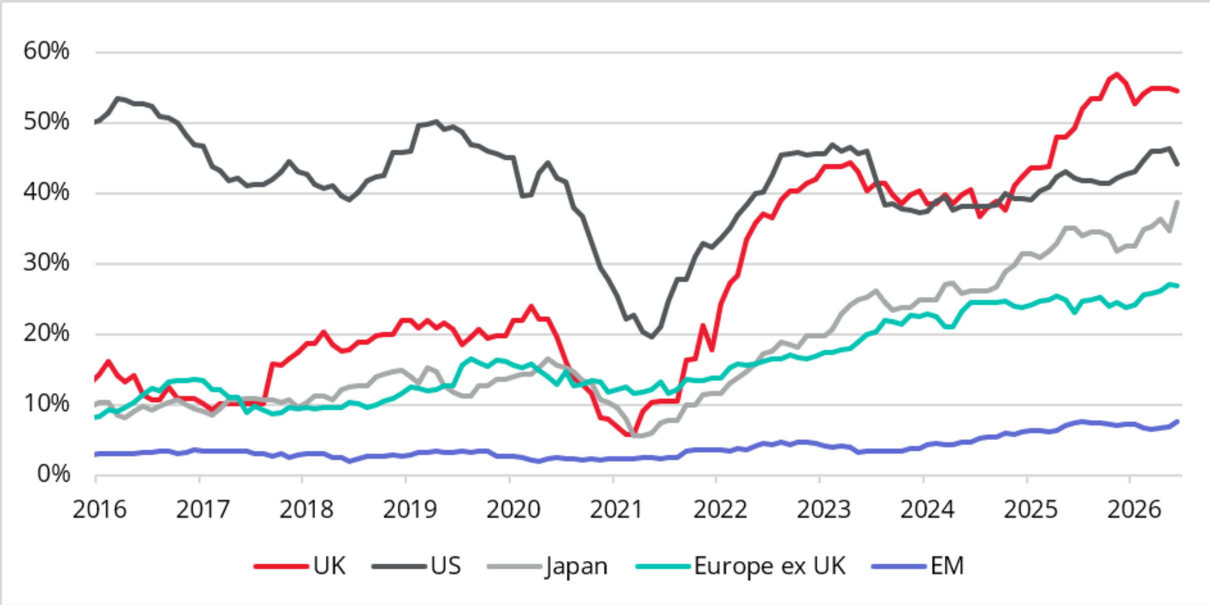
Share buybacks

Lance's original paper argued that companies can create shareholder value by buying back undervalued shares regardless of whether the market re-rates them. This thesis has continued to play out.

The proportion of MSCI UK Index constituents that bought back at least 1% of shares outstanding over a trailing twelve-month period, already elevated when the original piece was written in April 2024, has remained the highest of any major market globally, ahead of the US, Japan, Europe ex-UK, and emerging markets. As shown in Table 1, UK corporates have been the dominant source of net UK equity demand over the last few years.

[4] MSCI, 31 August 2026

Chart 4. Proportion of companies who bought back at least 1% of their shares over the previous 12 months



Source: Bloomberg, Morgan Stanley, 31 August 2026. Analysis based on MSCI USA, MSCI Europe ex UK, MSCI UK, MSCI Japan, MSCI EM. The information shown above is for illustrative purposes only. Past performance is not a guide to the future.

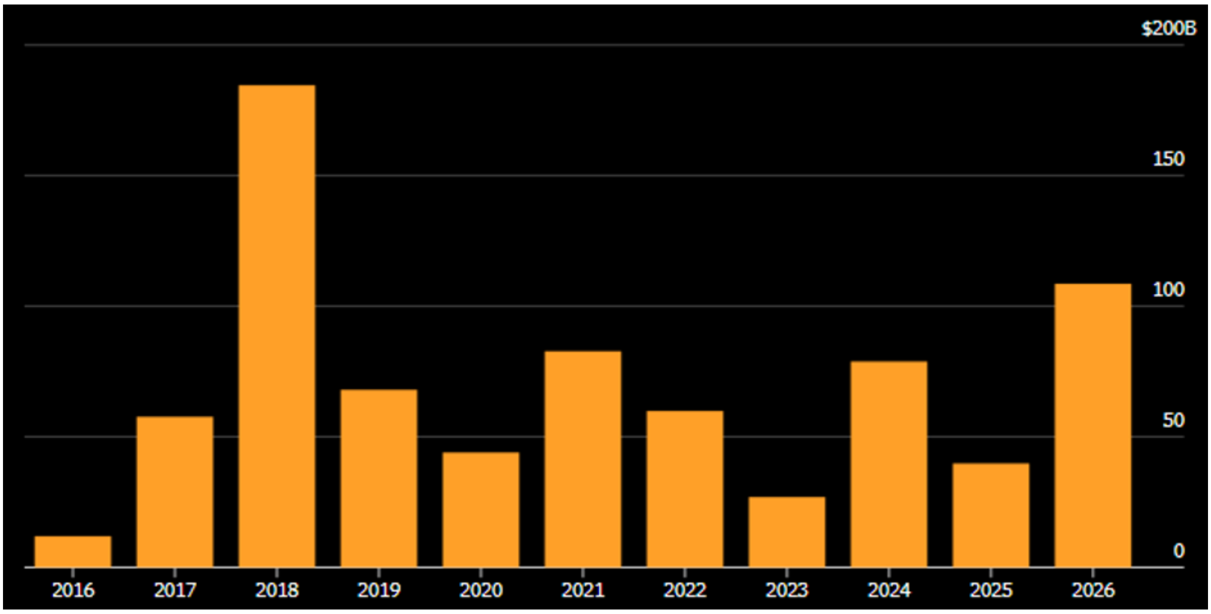
Corporate takeovers

As noted in the original paper, overseas investors have been acquiring UK companies due to low valuations relative to other regions. This has continued over the last two years and appears to be increasing – see Chart 5. Based on data from Bloomberg, the value of mergers and acquisitions targeting UK and Irish companies listed in London has passed USD 100 billion this year[5]. Recent examples include asset manager Schroders (acquired by Pantheon, a subsidiary of US asset manager Nuveen[6]) and Tate & Lyle (acquired by US rival Ingredion[7]).

The original paper highlighted that as valuations were driven to such low levels, overseas corporates would take advantage of this and that investors "mustn't complain when large numbers of UK companies are swallowed up". While takeovers have helped realise value for shareholders of the acquired company, this does open up another problem that was highlighted by John Stepek at Bloomberg, that there is a "dearth of new companies coming along to replenish the market"[8]. This point is reflected in Chart 6, showing the reduced number of companies in the FTSE All-Share Index and the AIM All-Share Index.

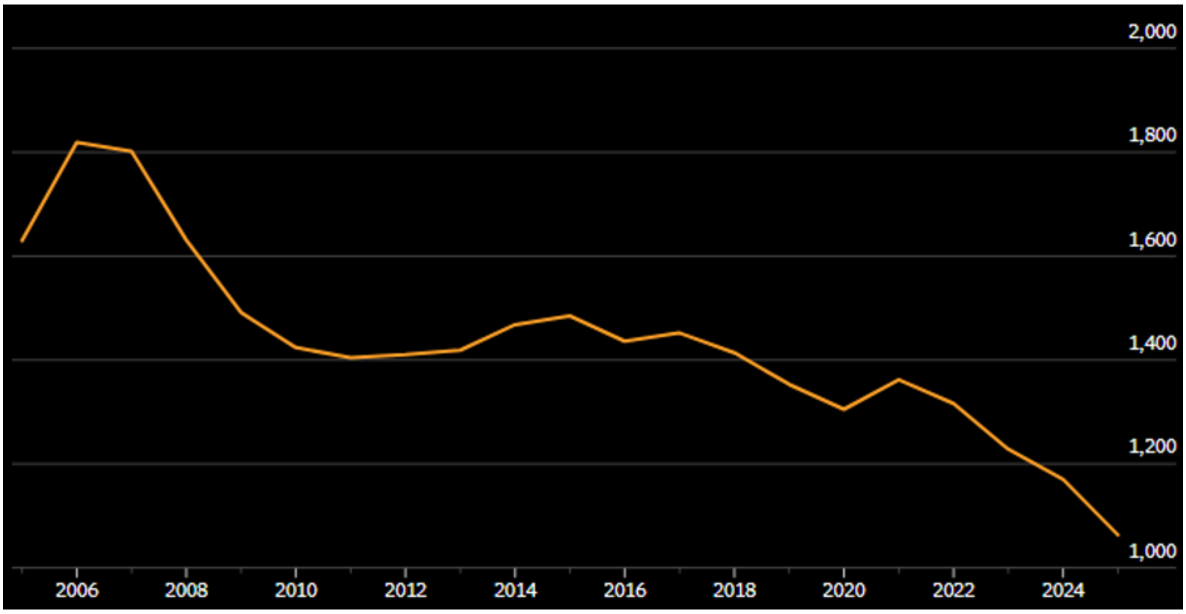
[5] UK Takeovers Race Past $100 Billion After Summer Deals Surge, 01 September 2026
[6] Bloomberg, February 2026
[7] Bloomberg, July 2026
[8] Bloomberg, Roll Up for the Great British Closing Down Sale: Money Distilled, 16 July 2026.

Chart 5. M&A value of London-listed names



Source: Bloomberg, 1 September 2026. USD. The information shown above is for illustrative purposes only.

Chart 6. Number of companies in the FTSE All-Share Index and the AIM All-Share Index



Source: Bloomberg, 24 June 2026. Data to 31 December 2025. The information shown above is for illustrative purposes only.

AI impact

One area that has come to define recent market moves, which was only in its infancy when the original piece came out, is artificial intelligence (AI). It is also one of the reasons why allocators might have stayed underweight the UK and why the valuation differential between the UK and the US has persisted. The

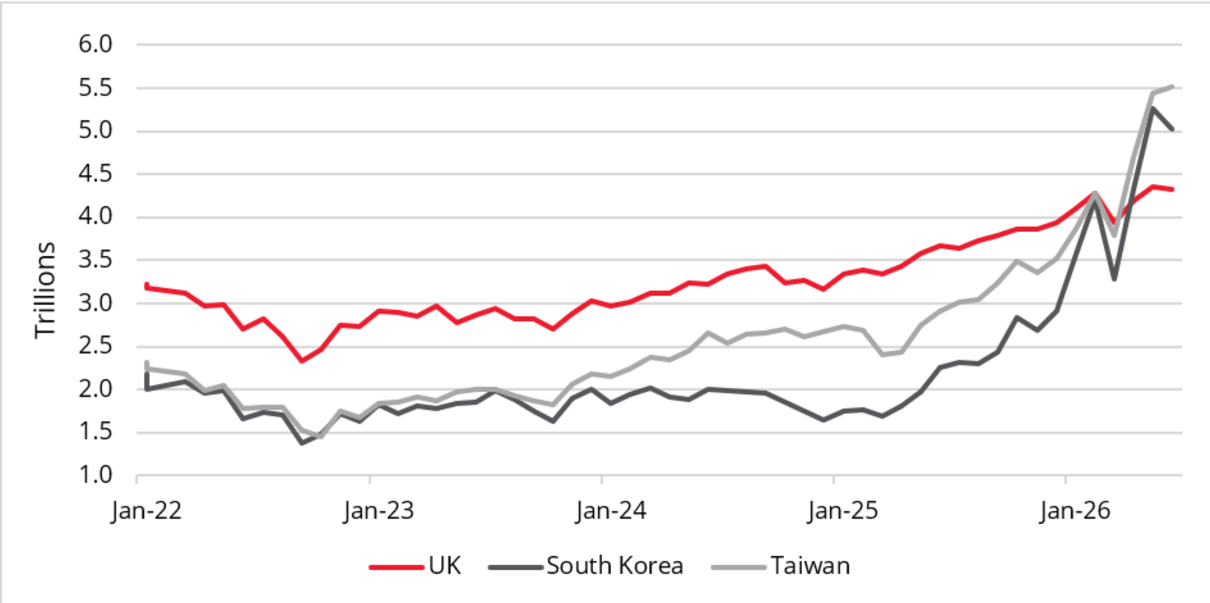
Magnificent Seven (Mag7)[9] has been one of the main drivers of US returns in the last 10 years[10]. In the last few years, this trade has shifted to the biggest beneficiaries of the wave of cash dedicated to building out AI. Chipmakers have become the preferred way to play the technology, pushing the Philadelphia Stock Exchange Semiconductor Index up 63% this year, compared with a 4.8% gain in the Bloomberg Magnificent 7 Index[11].

Samsung, TSMC and other companies directly linked to building the chips required for AI have seen their share prices rise sharply. As a result, the total market cap of South Korea and Taiwan has overtaken that of the UK this year – see Chart 7.

The rotation away from the Mag7 has not helped the UK's relative position. The beneficiaries of the shift in focus from the Mag7 to chipmakers are also concentrated outside the UK rather than in old-economy, value-oriented sectors. The UK has limited direct exposure to any part of the AI trade, be it platform software, semiconductors, or the broader supply chain. It has therefore been a bystander to one of the largest sources of global equity returns of the past several years regardless of the sub-trade in favour.

There is, however, a potential upside to this. Whether the extreme spending in AI capex translates into durable earnings remains uncertain. Volatility has increased in these names, and they have seen dramatic sell-offs as investors have started to question the AI thesis. This was seen in July 2026 with The Philadelphia Semiconductor Index[12] selling off 20.6%, having risen 101.7% in the 12-month period ending June 2026 – see Chart 8. If that scepticism proves correct, the UK's absence from the AI trade may turn from a source of relative underperformance into an unlikely source of relative protection or outperformance.

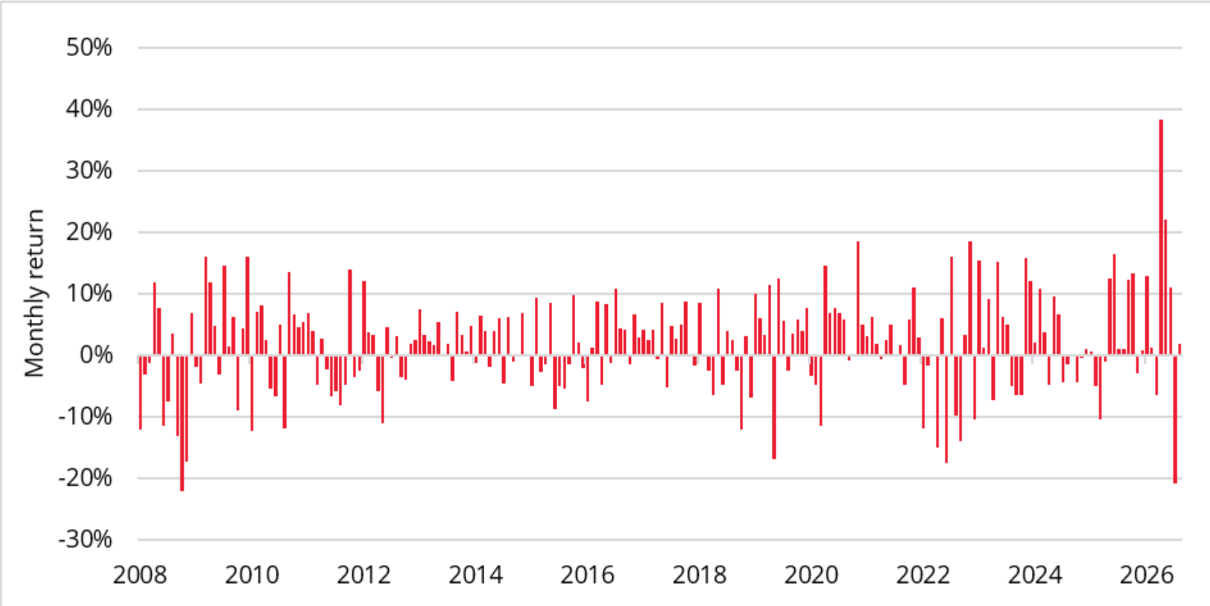
Chart 7. Total market cap of UK, South Korea and Taiwan



Source: Bloomberg, 31 August 2026. USD. The information shown above is for illustrative purposes only. Past performance is not a guide to the future.

[9] A group of highly influential U.S. technology and growth stocks: Alphabet, Amazon, Apple, Meta Platforms, Microsoft, Nvidia, and Tesla.
[10] Bloomberg, 31 August 2026
[11] Bloomberg, 31 December 2025 to 31 August 2026
[12] The Philadelphia Semiconductor Index is a modified capitalization-weighted index comprised of companies that are involved in the design, distribution, manufacturing, and sale of semiconductors.

Chart 8. July 2026 was the worst month for the Philadelphia Semiconductor Index since 2008



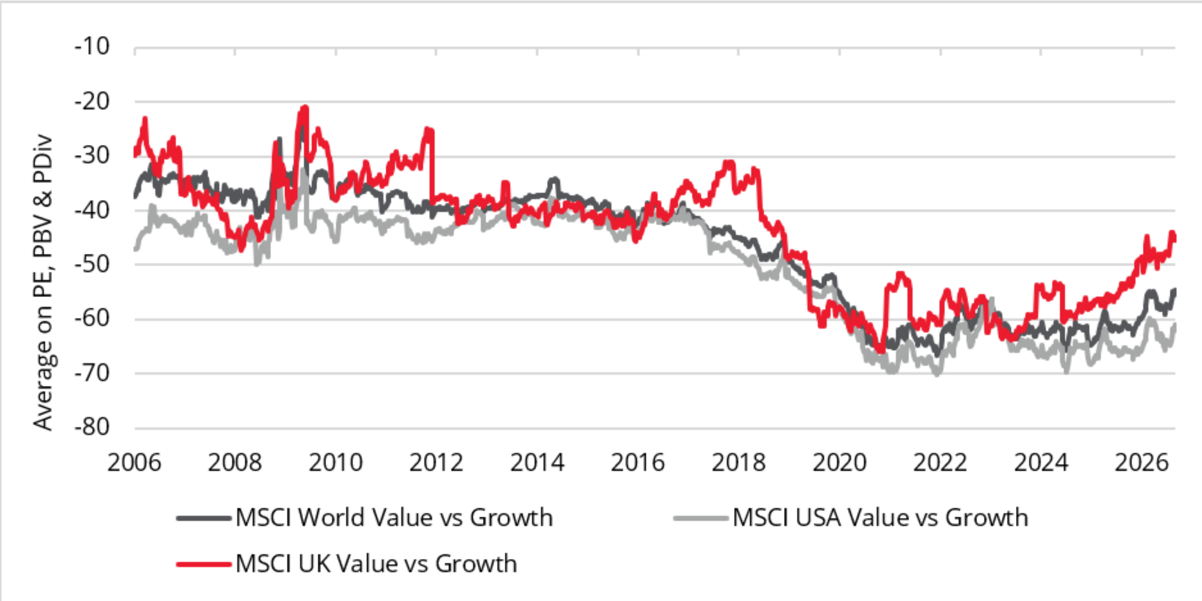
Source: Bloomberg, 31 August 2026. Monthly returns. The information shown above is for illustrative purposes only. Past performance is not a guide to the future.

Value factor rotation

While this follow-up paper has predominately focused on the valuation gap between the US and UK, we can also consider what has happened to value stocks relative to growth stocks. Chart 9 shows average percentage premium on price-to-earnings, price-to-book value, and price-to-dividends for value vs growth for MSCI UK, MSCI World and MSCI USA.

This series shows the value/growth valuation discount has narrowed since April 2024, most notably in the UK. In April 2024, the discount for MSCI UK was 54.4%, this has narrowed to 46% today. Based on the available data set, this puts the current discount at the 38th percentile. The MSCI USA valuation discount has remained flat, while the MSCI World valuation discount has narrowed marginally.

Chart 9. Value vs Growth in key regions - Average valuation premium



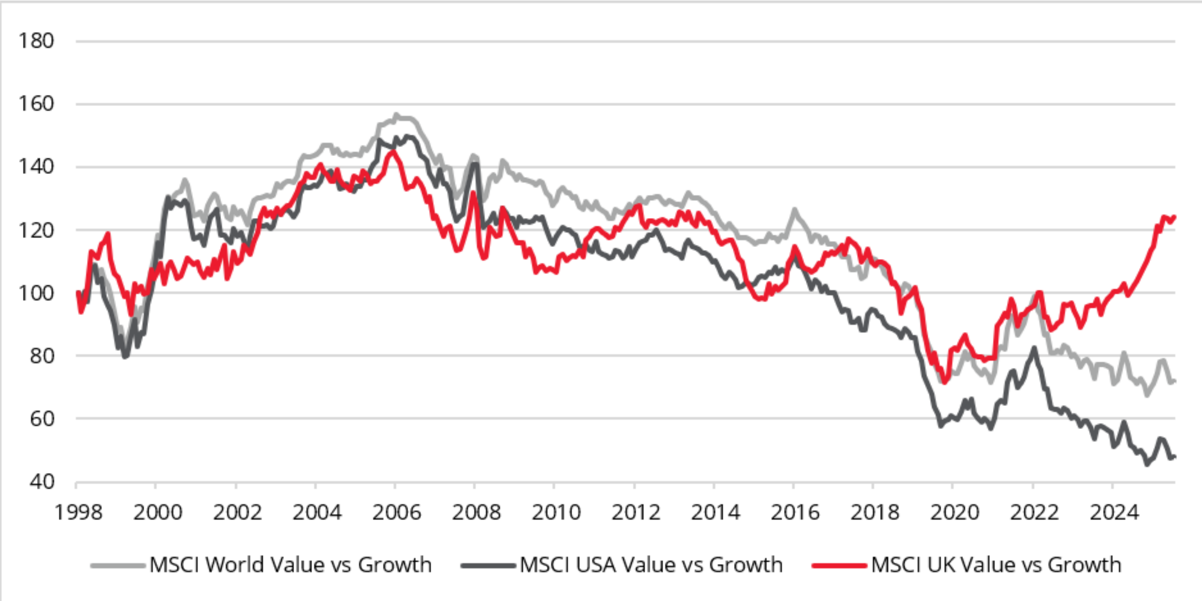
Source: Bloomberg, Morgan Stanley, 31 August 2026. Analysis based on MSCI UK, MSCI World, MSCI USA. Data shows average percentage premium on price-to-earnings, price-to-book value, and price-to-dividends. The information shown above is for illustrative purposes only. Past performance is not a guide to the future.

Value has been outperforming growth in the UK (and in Europe and Japan) since Covid vaccines were announced late 2020, rising 207% vs 73% since October 2020[13], and 68% versus 22% since April 2024[14].

But this remains a different story in the US where growth continues to outperform value. This has been driven by the Mag7 which has contributed more than 40%[15] to market returns since November 2020.

[13] Bloomberg, 30 October 2020 to 31 August 2026
[14] Bloomberg, 4 April 2024 to 31 August 2026
[15] Bloomberg, MSCI World USA Index, 30 October 2020 to 31 August 2026

Chart 10. Value vs Growth - Performance



Source: Bloomberg, 31 July 2026. Normalised to 100. The information shown above is for illustrative purposes only. Past performance is not a guide to future results.

Conclusion

In the two and a half years since the original *The Return of the Total Return Kings* paper, what have we learnt? The paper concluded "we believe that the market is currently offering up some incredible opportunities for investors not because there is anything fundamentally wrong with these businesses but rather because of neglect." This thesis has largely played out.

UK equities have outperformed US equities, despite the valuation gap between the UK and the US remaining roughly where it stood in April 2024. In addition, the data shows that value investing has begun to work again outside the US, most clearly in the UK, where the valuation discount has narrowed and Value has meaningfully outperformed Growth since 2024. This has been reflected in the performance of the TM Redwheel UK Equity Income strategy, which has risen 60% over the period.

The single largest development the original paper could not have anticipated the emergence of AI as the dominant global investment theme, one from which the UK has been almost entirely absent. Right now, we cannot say whether this lack of participation will be a positive or negative. If the capex boom is durable and big tech can monetise the AI build-out, then the UK will miss out. On the other hand, if returns on AI-related investment disappoint, the UK's limited exposure may become a source of relative resilience.

UK equities have outperformed US equities despite the absence of any sustained reversal in UK fund flows, while buyback and takeover activity has remained elevated. This is consistent with the company-level mechanisms identified in the original paper. We continue to see value opportunities across UK equities and scope for that outperformance to extend further.

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E: invest@redwheel.com

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