MUNRO

Comment
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Small-caps drive performance

May was another good month for the UK equity market with small caps doing particularly well as they made gains across the board of mid-single digits, about twice as much as the overall market. Corporate activity was certainly a factor as companies moved to acquire domestic rivals and international executives focused their attention on a market widely perceived as undervalued, especially smaller companies.

Only three sectors had negative returns over the month: energy, Information technology and utilities. The best performing sector was communication services followed by real estate.

The gain in UK equity markets was slightly at odds with a modest increase in the value of sterling over the month, normally a negative factor for domestic shares. Election uncertainty, with its implication for future tax rates, seems to have been overridden by perceptions that interest rates will not decrease as much as had been previously hoped, even though oil prices drifted lower in May. Tight labour markets seem more important these days than commodity prices.

Most major UK companies have now declared and paid their final dividends for last year. That normally takes a few percentage points off share prices so the strength of equities so far this year has been reassuring. However, as the summer approaches corporate news flow is likely to decrease and that may remove some of the impetus to push prices higher.

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