Radnor View

The Market Awakens

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As we approach the middle of Q1 2023, we are feeling somewhat reflective on the latter half of 2022. A year that began filled with such promise for equity markets as fundraises and IPO's that had been lined up for the previous year, were now ready to come to market. The line up of companies across all sectors was vast, from patented fire extinguishers to med tech. Brokers were primed, analysts were chomping at the bit for initiation notes and a diversion from their typical quarterly sector pieces. So what happened? Where was everybody? Even before the events of the second half Trussonomics debacle backlash the market was not in full flow, in fact there was little to no flow whatsoever. Trading volumes in 2022 were lower than they were in 2008. Fund redemptions were negative and the fight for liquidity was unforgiving. Most importantly the effect on investor sentiment was serious; the normal Square Mile buzz was anything but … instead, there was a general sense of heads down and surviving through to the end of the year. Thank goodness we're British…

The pressure that faces not only companies, but advisors is undeniable. From annual reporting to investor presentations, the amount of work that a public PLC faces in order to survive on the market let alone thrive is only increasing. Not to mention the regulatory requirements. Meanwhile the backdrop being faced by advisors such as NOMAD's and Brokers is equally challenging. The fundraising drought places a particular challenge on broking firms, whose economics are largely driven by a healthy transactional pipeline. This leads to the inevitable headcount reduction and consolidation across broking firms, putting pressure on the underlying PLC even more as they try to navigate the murky waters of the square mile without their advisors at anything like full throttle. It is easy to understand why the City suddenly feels so gloomy.

Our view from the coalface as we look ahead at 2023 is far more positive. Not just from the perspective of the Radnor offices, but more widely across the City. Investor sentiment has shifted, there is a more positive buzz returning to Cheapside. Fund redemptions have slowed and, in some cases, now making way for inflows. The macroeconomic doom and gloom of the last quarter has not materialised, and we did not all freeze over Christmas; economy inclusive. There are secondaries going around the market again and several IPO's making strong ground. As and when these deals are successful, we feel that it could be the beginning of a catalyst for 2023. The equity market slowly but surely is reopening, a bit bleary eyed and bruised but opening nonetheless.

So, what can you do as a PLC to be ready for when it does?

Make sure the message you are delivering to the market is the right one, because despite the more positive sentiment, there is far too much noise and too much value across the market for investors to get bogged down in complicated stories. They are keen to support their existing holdings with their new inflow of capital however, the portfolios are diverse and full of opportunities. Many companies who are looking to bolster balance sheets now have an opportunity to raise equity, at these levels many investors will be supportive of this and come the second half, those investors that have mandated no IPO's for the start of the year will be ready to deploy fresh capital into new stories.

A supportive, sophisticated smaller institutional, private wealth and retail following is critical to getting price volatility under control. The struggle for liquidity means that, frustratingly, even good results are not always reflected in the share price – whereas profit warnings or contract delays are disproportionately negative because even the smallest of trades causes massive swings. Even those companies who are hitting the ball out of the park numbers wise find themselves friendless unless issues surrounding liquidity and breadth of investor engagement are properly addressed.

Poor liquidity can start to impact larger shareholders as the success of their holding means the stock is too heavily weighted in their portfolio forcing them to sell down. I should add that, post Woodford, fund manager risk departments are very much focused on illiquid holdings and their suitability within a portfolio.

Companies should be interacting with investors and the market year-round, not just when there are results or capital to be raised. Day to day investor engagement with non-holders as well as existing is essential, and in our experience, this is often best achieved outside of the noise that is results season. Whenever I meet a company for the first time, I ask them "What do you think investors are missing? What element of your story do you feel is not coming across to the market, this to me is always the first building block to helping our clients achieve the best outcomes by making your listing work harder and work better for you.

So, next time you are in the square mile – walk to your next meeting if you can and soak up this increasing sense of optimism after the cold, grey of the winter bears, and look out, dare I say it, for the spring bulls poking their heads around the corner …

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