

Foreign Investors Regain Confidence in UK Markets as FTSE 100 Leads Europe

July 19, 2025

— Categories: Finance



Download IPFS

Britain's leading stock index is making a strong comeback, with the FTSE 100 outperforming major European benchmarks and attracting renewed interest from foreign investors. A mix of solid returns, competitive valuations, and lighter regulatory pressures is helping London's long-overlooked equities return to the global spotlight.

The FTSE 100 Index, an index of the 100 largest companies listed on the London Stock Exchange, has risen nearly 10% so far this year, outpacing the pan-European STOXX 600 Index, which has gained 7.5%. In dollar terms, the FTSE's performance is even more impressive, climbing almost 18% year-to-date, the strongest return in U.S. dollars since 2009. This trend is drawing in large overseas asset managers who had previously reduced exposure to the United Kingdom in the wake of Brexit.

Key players in the financial sector note the shift in sentiment. "We are seeing signs of big asset allocators coming back to the UK," said Justin Onuekwusi, Chief Investment Officer at St. James's Place. He highlighted increased interest from non-UK endowments, pension funds, and wealth managers who had largely avoided British assets in recent years.

Driving this resurgence is more than just stock valuations. The pound sterling has strengthened roughly 7% against the U.S. dollar in 2025, as policy uncertainty in the United States has weakened investor appetite for American assets. While a stronger pound might typically weigh on UK-listed multinationals, many of which earn in foreign currencies, it has not deterred capital inflows, signalling broader investor confidence.

Adding to the appeal, the UK government has recently pledged to revitalise capital markets, with the Financial Conduct Authority introducing new rules aimed at encouraging investment and growth. Britain also benefits from relative trade certainty due to a bilateral agreement with the United States, setting it apart from the European Union, which is facing potential 30% tariffs if trade negotiations falter.

Analysts point to the structure of the FTSE 100 as another factor in its resilience. With a heavy presence of defensive sectors such as healthcare, consumer staples, and utilities, alongside resource-heavy firms like BP and Anglo American, the index is well-insulated from cyclical shocks. "The UK stock market is the calming cup of tea and biscuit in an uncertain world," said Dan Coatsworth, investment analyst at AJ Bell, noting the FTSE's consistency and dependable corporate names.

Despite persistent economic headwinds, including above-target inflation and slowing business activity, investors are showing signs of renewed faith. While UK equities have seen net outflows of \$20 billion in 2025, Barclays reports that capital flight has slowed significantly in recent weeks, a potential signal of stabilisation.

Meanwhile, valuations remain competitive. The FTSE 100's forward price-to-earnings ratio has risen to 12.5, its highest in five years, narrowing the gap with the STOXX 600 Index, which trades at 14.11. Compared to the S&P 500 Index, which trades at a ratio of 23, UK stocks still offer a relative discount, a fact not lost on long-term value investors.

Michael Stiasny, Head of UK Equities at M&G Investments, described the shift as the early stage of a broader correction. "The relatively poor performance we've seen in the UK versus, particularly the U.S. over the past two years has begun to unwind," he said, noting that Britain's market has long been undervalued.

While challenges remain, London's equity market appears to be on firmer footing, with renewed investor interest, improved fundamentals, and an increasingly stable regulatory landscape setting the stage for continued momentum.