The FTSE 100 just passed 8000, a new record. What does that mean for you, your finances and the UK economy?

W
hat is the FTSE 100?

An index of the biggest 100 companies listed in London, which is owned and run by the London Stock Exchange.

The index began in January 1984 at the base level of 1000. Many of the companies in it are internationally focussed.

The US equivalent is the Dow Jones, which is even narrower than the FTSE 100 as a measure of wealth. It simply tells us how the biggest 30 companies in the world's richest economy are faring. Usually pretty well.

Critics of it have said the index we really need is the Dave Jones. How is Dave doing?

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Is the FTSE 100 passing 8000 good? For whom?

Richard Hunter at interactive investor says: "The number means little. However, the FTSE100 has been an investment destination over the last year, given its defensive qualities, some inflation-proof stocks, a reliable dividend yield and overseas earnings, where the strength of the US Dollar against Sterling has made those revenues more valuable on repatriation.

"During 2022, when markets were under severe pressure the FTSE100 managed to eke out a gain of 0.9% and, at 8000, is (would be) ahead by over 7% in the year to date. In addition, the upside in the market is a boost to the general wealth effect and the potential spending on goods and services which future disposals and proceeds can be put to."

Russ Mould at AJ Bell says: "The index's gains will be positive for asset owners, savers and investors, who either own shares directly, or own active or passively-run (index-tracking) funds or indirectly via their pensions, which will are likely to have a portion of their assets in UK equities."

How much of the FTSE 100 is owned by our pension funds/ordinary folk?

Hunter says: "It is estimated that just 12% of the FTSE100 is held by individuals, with the balance largely held by global institutions. Of those, there is unsurprisingly a large proportion of UK institutions holding these stocks and many of those will be pension funds. Thus, if as an individual you do not own shares directly there is a very good chance that you own them indirectly via your pension fund."

Mould says: "Figures suggest more than 50% of UK equities are now held overseas, so foreign investors will be bigger beneficiaries than domestic ones. Direct stock ownership by individuals came to 12% but they may well have had exposure via unit trusts, investment trusts and banking and insurance products (funds, pensions) too."

Doesn't a market high mean a looming sell-off?

Hunter says: "There will always be the possibility of markets selling off if there is seen to be over-exuberance or if share prices have moved ahead of reality. However, the UK market remains relatively cheap in valuation terms compared to many of its global peers, so there could be further to go. Any imbalances tend to be ironed out over time. As legendary investor Benjamin Graham said, "in the short run the market is a voting machine, and in the long run it's a weighing machine."

Mould says: "Valuation is the ultimate arbiter of investment return. The more cheaply you buy the asset, the greater your potential downside protection and the more your upside potential.

"The higher the index goes, the less your potential future return may be. However, after a lengthy period in the doldrums – the UK market peaked at 6,930 in 1999 and has made heavy weather of exceeding that for most of the next 24 years – it can be argued that the unloved UK stock market still looks cheap on an earnings and yield basis, thanks in part to that long period of poor performance."

If I put £1000 into the FTSE 100 when it was formed in January 1984, what would it now be worth?

At a level of 8000, the index has returned 700%, which annualises at around 6%, and the £1000 would therefore be worth £8000 – that assumes you have reinvested the dividends paid out along the way

Don't you think the stockbrokers who push shares have a vested interest in broking stocks?

Hunter says: "Commission incomes are today much less of a feature for what may be described as the old-fashioned broker, who will likely lean more towards fees, especially if providing advice."

Mould says: "Show me the incentive and I will show you the behaviour (and the outcome). This is why it is important that any investor, professional or private, does their own research."

Neil Wilson at markets.com says: "The problem for stockbrokers is that there ain't enough buyers anymore. The point really is not that the FTSE has hit 8,000 but why the hell it took so long."

What's the other good news I am missing here in terms of what 8000 means for the wider economy?

Hunter says: "The market is a discounting mechanism, in other words it is trying to anticipate what will happen "tomorrow" to company numbers, given the known economic pressures of "today". As such, at a level of 8000, if the market weighing machine is correct, then we may have some better times in store over the coming year despite the current challenges."

Mould says: "It means little for the wider UK economy for two reasons. First, the FTSE 100's members derive around two-thirds of their profits from overseas. If the FTSE 100 is a guide to anything it is more to the global rather than the UK economy.

Second, share prices and stock markets will do what they will do and their movement will often bear little or no relation to what it going on in the real world, at least in the near to medium term. Sentiment will be driven by narratives about interest rates, inflation, geopolitics and so on.

If anything right now, stock (and bond) markets are in 'good news is bad news and bad news is good news' mode.

Good news for the economy (strong growth, rapid wage increases, strong labour markets) are seen as bad because they mean interest rates could go higher for longer than expected. Higher returns on cash mean shares may look less attractive by comparison so shares will change hands for lower multiples of earnings and valuations.

Bad news for the economy (weak growth, modest wage increases, rising unemployment) is seen as good news, as that could oblige central banks to cut interest rates."

Patrick Munnelly of TickMill Group says: "While the U.K. equity market's recent performance maybe somewhat detached from the reality of the underlying economy, the FTSE 100 trading at an all time high of 8000 today demonstrates the robust demand for UK plc. Having significantly outperformed its peers in recent months, UK blue chip stocks are racing ahead with potential for further upside, bar the unexpected."