

# The best of a bad bunch?

Prepared by Gilt Edge Investment Consultancy



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A snap election called by Theresa was a shock to the system after the Easter break. On reflection, her timing is very sensible. The Conservatives were ahead in the polls and have themselves suggested there is not much of an opposition to their winning. One of the first surveys by ComRes had the Conservatives ahead of Labour by 21 points. This is the greatest lead any Conservative party in power has had since 1983 and the largest of any party since 2009. Many Labour supporters will disagree as Jeremy Corbyn is exceeding expectations and closing the gap consistently week on week, with figures from four major polls reducing the gap to between 9 and 13 points.

If polls were repeated on 8<sup>th</sup> June the Conservatives would have the biggest gap in terms of the share of the vote since Tony Blair's victory at the 1997 election.

UKIP seem to be the most at risk party. They have seen their share of the vote reduce dramatically, whilst the rejuvenated Liberal Democrats have manufactured their manifesto around them being the only credible opposition party.

We have already seen the campaigning turning both sour and personal, with the Conservatives remarking that the opposition are nothing more than 'mugwumps' (Boris Johnson speaking of Jeremy Corbyn). This petty name calling does nothing but cause disdain amongst voters who see the election campaigning as nothing more than childish, immature individuals who we fear letting loose running our country.

### **So, who will the electorate chose?**

Some polls suggest the Conservatories are continuing to extend their lead over Labour to a sizeable majority, whilst others show Jeremy Corbyn narrowing the Tory lead with each passing week. With campaigning now in full swing, the rhetoric from each party is being viewed as the same old promises, none of which are extremely exciting and are at most thought provoking due the lack of funds in the government coffers. Any manifesto promises that could be bring a tinge of excitement are reviewed sceptically by the public, with many asking is how will the UK electorate pay for these changes?

### **How will Sterling react?**

The decision to hold an election saw the pound rise against both the US dollar and the euro. Sterling prices soared to six month highs, although still lower compared to the average for 2016.

However, much volatility is expected as party manifestos are debated and polls try to put meat on the bones as to how the electorate will vote. Post-election Sterling will be volatile and particularly susceptible to populist news. This will be within a slightly wider range than seen since the beginning of 2017.

Post-election, if there is not a large Conservative majority, Sterling will fall. How long this will last will depend on long term prospects for Brexit and the risks from the UK leaving the EU block. If it stabilises relatively quickly, an unconstrained approach will provide the best opportunities, as the market will price this in and large caps will benefit from lower Sterling and overseas earnings.

### **And the markets?**

An out-of-cycle election can create a sense of unease across markets. Stock markets do not like general elections, they hate uncertainty and will undoubtedly price in an “uncertainty discount”.

However, for some the upcoming vote may be different. Forecasts are predicting that the incumbent government will remain in power and, potentially, gain more seats. This will not stop the volatility, but may ease those investing over the longer term to focus on markets post-election rather than the party manifestos.

For many, the UK general election is insignificant to global outlooks. The stand-off between North Korea and the US, Russia’s ‘interference’ in all things government and how will President-elect Macron influence Brexit are all more intriguing and more influential to market sentiment. Therefore, the UK election may be a tiny ripple in the global pool of uncertainty. The election will not cause too many problems in those investing in UK risk assets. For the time being small and mid-cap stocks seem to be looking through election and Brexit issues by continuing to push higher.

The risks will be greater when FX traders try to find the floor for Sterling. If Sterling continues its downward trajectory, then large caps will outperform. Once a floor is reached and investors become more long term then small and mid-caps will increase.