TAM INTERNATIONAL INVESTMENT NOTE

Winner takes it all

So who saw that coming? Well, hats off to the "well groomed" Glaswegian pensioner, who remains anonymous, who bet £30,000 on a Conservative majority at 7/1. A member of the TAM investment team also had the same bet but, sadly, only a mere tenner. With Ladbrokes poised to pay out around £2 million to those who backed a Conservative majority, quite a few others guessed right as well. All the speculation is over and there's a lot of news to digest, not least of which is the resignation of three party leaders; Nick Clegg, Ed Miliband and Nigel Farage, and a few others to consider such as Ed Balls, who lost his seat, and Vince Cable.

As the Labour party now search for a new leader, David Cameron is assembling a cabinet with a very different look and feel and quite a few new faces. One senses a determination to quickly undo Lib Dem influence and the market has taken this on board. Shares in banks rose strongly on Friday as the prospect of higher bank levies must surely be curtailed. Shares in power companies also rose as the defeat of Labour removed any likelihood of price capping.

Overall, the result has been good for UK stock and bond markets. The FTSE 100 Index is up to 7,050.00 and the UK Government Bond yield fell from recent highs. Underlying all of this is a relief rally in Sterling, something we had positioned for ahead of the election. Foreign involvement in UK markets is essential in a stock market containing major international names. But if there's one thing that would've kept them away, and Sterling in the doldrums, would've been a result fraught with coalition bickering and an uncertainty hanging over the future of the British economy for years to come. Good news is great, bad news can be dealt with but the uncertainty of a cobbled together alliance would've been the worst possible outcome for investors. The Conservative majority removes all of that.

George Osborne will remain as Chancellor, again, something that markets will welcome as a better devil that they know, and he will be keen to implement a new budget ahead of the summer. We suspect this will something along the lines of confirming a commitment to austerity whilst taxation stays about the same but with an intention to lower taxes in the future contingent upon a stronger economy.

In terms of Government policy the winner takes it all. The Boundary Commission changes, blocked by the Lib Dems in coalition is now back on the agenda. The Bill of Rights, also blocked, will now be up for grabs and as part of a wider agenda to come to a new deal with Europe. This will naturally lead into a debate on Europe and the UK's membership of the EU which Cameron must now deliver, probably in 2017. This could give international investors pause for thought because an exit, based on the UKIP victory in the European elections, makes it a possibility. It could've been a protest vote, we will find out. In the meantime, it's a problem in the post for Sterling and so the current relief rally may not be very long lived.

The other big story from the election is, of course, the SNP victories in Scotland which came at the expense of Labour, contributing to their loss. Despite this, we do not believe that another referendum on Scottish independence is looming over the UK in this parliament and that the actual adoption of greater powers, such as Scottish home taxation, is not something that is wanted or necessary overnight. This could be a very stable government and a stronger Sterling tells us that this is how global markets now see the UK, for now.

TAM client portfolios are carrying a larger amount of cash than they have done for some time but as this was mostly as a result of taking profits in Japan, in Yen, and from the US equities, in US dollars, the boost to Sterling has added to performance. We also added Gilts which have benefitted as well and where we see lower yields for a couple of quarters at least.

We may re-allocate some cash into equities and we continue to like property in the non-equity part of portfolios. Now that the election is behind us, we must turn our attention to international markets and the US in particular from which the UK will always take its lead whatever the outcome of the election. US employment and payroll data came out last Friday when we were glued to our TVs but delivered a set of numbers described by many as a Goldilocks figure which is neither too hot nor too cold and would, on the face of it, give the Federal Reserve all it needs to raise rates in September. This is not, we think, something to be feared with the way client portfolios are currently positioned and we believe that there is the potential to build on the good relative performance experienced this last year.

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