

TAM INTERNATIONAL INVESTMENT NOTE



May's u-turn: Why now?

From the toppling of a Prime Minister and flash crashes in the pound, all the way down to the callous downsizing of our nation's Toblerone bars, the UK's historic Leave vote from the EU continues to run more like a suspense-filled thriller than a political motion to leave the single market. In the latest twist to the story, Prime Minister Theresa May announced last Wednesday that she would 'reluctantly' hold a snap General Election on 8th June 2017 to reaffirm the strong and stable leadership of her party, during such a moment of enormous national significance.

Now, from a rational perspective, the decision to hold a snap election didn't have us falling off our seats. It always made sense that the new Prime Minister secured her future in No. 10, not to mention using an assumed victory to remind Westminster that she was there to execute a mandate from the masses. Regardless of how much sense it made, only last month May definitively ruled out a snap election. Using phrases such as 'self-serving' and 'creating uncertainty', she rationalised with the nation that we didn't need to head back to the polling booths for a second time. So what did shock us, along with most of Whitehall we imagine, was the wholesale reversal of a promise not even 4 weeks old. It served to remind the UK that nothing is concrete when it comes to Brexit.

So what caused such an abrupt u-turn?

Officially, May is citing a mix of raucous back bench MP's and awkward, pro-EU members in the House of Lords. With the three line whip being largely ignored, her ability to execute a tricky exit negotiation is being hamstrung by political infighting within the halls of Westminster. Unofficially, we would add a large dose of political calculus coming from within No.10.

May is clearly gunning for a landslide vote of confidence from the UK electorate to remind parliament, essentially, whose boss. With recent polls suggesting the conservative party have the largest lead of any government dating back to the 1980's, it appears that May is striking when the iron is at its hottest. At present, the Tories have a twelve seat working majority in the commons. Polling indicates that calling a snap election right now, is likely to see this figure move towards the region of 100 seats. The move has all the hallmarks of a good old power play.

“Division in Westminster will risk our ability to make a success of Brexit” – Theresa May, 19th April 2017

No.10's rationale seems to be that May is the only viable candidate close enough to the negotiation process, having driven it forward herself. To vote in another to take her place would effectively restart the whole debate again. The Lib Dem's want another referendum which would de-rail the entire process, contradict the UK collective and make UK democracy a laughing stock. On Labour's involvement, Jeremy Corbyn appears to be holding onto leadership by a thread. We would argue that No.10 know a large portion of the UK remain very sceptical about his ability to take on the burden of this mammoth task.

By holding an election in June this year, May pushes back the date for an official election to June 2022. By this time, May will have fully negotiated the UK out of the EU without having to pause the process, while Westminster hits the campaign trail in 2020. By getting the process out of the way now, we can assume an uninterrupted exit negotiation under her desired strategy that's been given a seal of approval from the UK voters from this snap election. Strategically one could argue it makes sense for May to beat Corbyn, now, in a snap election, than let Labour burn itself out under his leadership until 2022.

The news saw the pound rally at 2.5% against the dollar with markets seemingly backing the current establishment's strategy, as well as their chances of being able to keep it going after the election. Let's remember, as recent political events have shown, political uncertainty breeds market volatility, so we know who stock markets will be routing for on this one.

Across the Channel, the first round of voting in the French election saw centralist and pro-EU candidate, Emmanuel Macron, coming out on top with 23.9% of the national vote. Far right leader, Marine Le Pen, came in second with 21.4% of the vote. Polls for the second round have put more than a 60% probability of centre candidate Macron coming out victorious. Whilst France and the UK will rejoice in not having a radical on the French political throne, this should cause concern amongst the Brexit delegation limbering up in the wings. Macron is staunchly pro-EU and will not pull his punches when the UK searches for a soft Brexit - they're going to need all the bargaining power they can muster! To do that, the Prime Minister is taking a leap of faith with the UK people to give her permission to get her house in order.

How is this going to affect your client's portfolio?

Well, as with most political moves, they have the tendency to dislocate themselves from actual stock market returns. Markets will be looking less at the election outcome which looks very pro-Conservative and more at what the Conservative government will do with the added level of influence in parliament. Over the short term, volatility will continue to play out in the currency markets, spilling out into the FTSE 100. Longer term, a big win could see a softer set of goals for the UK Brexit delegation and a more accommodative stance from the UK could shift sentiment positively for UK equities. The equity positions within your portfolios remain fully invested and will remain so for the duration of 2017, as we maintain a constructive view on both UK and global equity markets.

In the words of Oscar Wilde - *“The suspense is terrible. I hope it will last.”*

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