

Another Binary Event - UK General Election

In a strange twist of fate, with just two weeks to go until the anniversary of the Brexit referendum, the UK electorate is back in the polling booth, voting on the direction of UK politics. Now, for many this will be a proxy vote on allowing Mrs. May to continue what she started with the issuing of Article 50.

For others, this will be an opportunity to vote for change, to vote for a total overhaul of the Conservative government in favour of a return to a country led by Labour. Die hard Remainers will be holding out for another Brexit referendum by voting for the Liberal Democrats, who have promised to hold another referendum should they be voted into power.

Out of all this, one thing is clear - nothing is clear.

If polls are anything to go by then this snap election smells a lot like Brexit - it's going to come down to the wire. In other terms, it's another binary event that will impinge on markets.

With no political leanings aired here, we imagine that you, like us, have been drowned in campaign

promises, polling numbers and political posturing from anyone with a soap box. It's also polling day, and today, who we choose to vote for in that small booth is a notoriously private affair for us Brits, so we won't attempt to further muddy the waters this late in the game.

What we will do is try to spell out what we believe the market reaction will be from this and how we at TAM are managing your capital through yet another UK binary event.

Let's firstly look at the options in markets. The consensus is that May will take a lead but not the landslide she was predicted on day one.
There seems to be a feeling within the city that this snap election was set up for the Conservatives to lose rather than Labour to win. In other words, May has allowed Labour to erode her lead in the polls.

Breaking this down into parliamentary seats, the Conservatives currently have a 17 seat majority in the House of Commons. The snap election was announced in an attempt to increase this majority and May's influence in Westminster. Markets are focused on the 30-50 seat range. A 30 seat lead represents the majority May needs to cement her version of Brexit, but even with a 30 seat majority she will still get slightly hamstrung in the Commons.

What the PM really needs is the magic number 50. A 50+ seat lead will clear the decks in the Commons, leaving May with the level of authority she needs to call the shots in Brussels without having to report back to Whitehall. It was a 50 seat majority that our sitting Prime Minister was aiming at when she announced this snap election.

Below 30 seat majority - Anything below the 30 seat majority, we believe, will cause the pound to come under pressure as investors become nervous about the UK being forced into a harder Brexit. Likewise, a harder Brexit spells more volatility and the untimely expectation of slower UK growth, so like the pound, we may expect to see some downward pressure on the UK mid cap market. What we may also expect to see simultaneously, is the UK large cap index rallying slightly as a result of UK large cap index being more international in nature and thus much less correlated to domestic UK.

Close to 50 seat majority - Conversely, anything closer to a 50 seat majority could see the pound lift on the prospects of a softer Brexit and thus a more buoyant outlook for the UK which in turn may make the mid cap market rally. These are, at present, the two sides of the political coin when it comes to today's election.

Hung parliament (no overall majority) - Now, should May totally lose her overall majority in the House of Commons we will have a hung parliament which, we as a nation intending to leave the EU, should want to avoid at all costs. Think of the phrase 'too many cooks spoil the broth' then times that by the 650 seats in the House of Commons… You get the idea. Should a hung parliament ensue, we envisage much stronger negative pressure on the pound and the UK mid cap market, as wholesale uncertainty could well take hold of markets.

So, what are we doing to manage our clients' investments through this third binary

event?

Given that the defence of our clients' capital is of equal paramount importance as its growth, we studiously avoid making big calls based on events with an ultimately unpredictable outcome. Instead at the beginning of the week, we made the decision to take a small amount of UK mid cap exposure out of our overall strategy. We recycled this into the large cap end of the UK market on the expectation of a tight run race that could be detrimental to the UK mid cap market and benefit the large cap market, should this thing go down to the wire.

So other than that small shift to our clients' portfolios, we will continue to enjoy a fully diversified strategy across global markets that will remain unchanged. No panic, no speculating, just prudent risk monitoring as the days and weeks unfold from here.

It's not all about the UK General Election…

Indeed, it's not just the UK we need to be watching out for today. Ex FBI director James Comey takes to the stand to testify on the alleged Russian influence in the US elections, and Mario Draghi is going to give markets their next dose of ECB posturing on all things QE and Europe. All of which we will be keeping a very close eye on.

Now, get to those polling booths and put an X where you feel it's right for you, but don't be afraid of a little short-term market volatility, we have seen it before and we will see it again!

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