

It's the final countdown

"Democracy is the worst system devised by wit of man, except for all the others" – Winston Churchill.

So the election is nearly upon us and stock and bond market attention has shifted to what we may wake up to on May 8th. If the 2010 election is anything to go by, the first result out of the 650 constituencies will be known around 11pm in the evening on 7th May and, if you're feeling up to it, you could watch the results coming in until it's all wrapped up around 5am the following morning.

This, however, is likely to be just the end of the beginning because, failing a 1992-esque shock, we are heading for a hung parliament with no single party winning 321 seats.

If this is the case, and if the Conservatives have more votes than Labour, David Cameron, as the incumbent Prime Minister will remain in power and have until 21st May to form a working coalition that can pass a Queen's Speech on 27th May. If Labour have more votes then, as far as the media and

electorate are concerned, Cameron will be deemed to have lost the election and it is very likely that he would leave No.10, leaving Labour to negotiate a workable coalition between the Lib Dems and SNP.

Current betting suggests that Cameron will hang on and form another coalition with the Lib Dems. This would be the quickest way to establishing a government. If an additional deal needs to be struck with the Democratic Unionist Party (DUP) then we will not have any clarity until the following week. Remember that in 2010, it took Cameron and Clegg 5 days to form a coalition that he could take to the Queen and, at this point, it's worth noting that if Nick Clegg fails to hold onto his constituency seat of Sheffield Hallam, then this severely hampers the chance of any coalition at all and the Conservatives may face the prospect of trying to run a minority government.

Chart courtesy of Liberum Capital Ltd

Markets

The FTSE 100 is trading round 7,000, a level it got to in March and has remained throughout most of April, close to all-time highs. This strength broadly mirrors that of the US, European and Japanese stock markets and owes a lot to the continuation of low interest rates.

However, these gains are not underpinned by strong economic data to the same extent we saw in 2014 and so we decided to take profits in late May to bring TAM portfolios back to underweight in equities and clients will notice the increase in Sterling cash.

This is very much a defensive move implemented at a time of uncertainty in a number of other areas, notably the eurozone but also China and emerging markets. Furthermore, the raising of Sterling cash has come at a time when the exchange rate against a rampant US dollar appears to have bottomed out. To the extent that some weak sentiment towards Sterling is attributable to an uncertain election result, we believe the growing awareness that no-change in government is the most likely outcome, we do not expect Sterling to materially fall from here.

We believe this leaves TAM clients well placed to benefit from a strengthening of Sterling in the event

that the status quo of the current coalition remains in power.

Details of exactly how a new coalition would look may remain unknown for days but we would expect a "relief rally" in Sterling because a result that represents the least possible change to government policy would bolster the confidence of foreign investors to remain invested in the UK.

TAM client portfolios have enjoyed a good first quarter, comfortably outperforming their benchmarks. We think it is currently prudent to stay underweight in equities due to a number of concerns both here and globally. However, as always, we stand ready to invest again fully where we believe that the opportunity outweighs the risk.

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