

## UK Election: From Strong and Stable to Weak and Wobbly



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**Far from the “strong and stable” mandate that Theresa May expected to receive from calling an election, her gamble aimed at strengthening her hand in Brexit negotiations has completely backfired and the election has resulted in the Conservative Government losing their majority.**

### What happens next?

With no majority and no group of parties appearing to be in a position to form a strong coalition, we now face a prolonged period of uncertainty in the UK political climate. Initial indications are that Theresa May will look to form a minority government, but another election in the near future cannot be ruled out.

Perhaps we are hardened from the political shocks of the past 12 months but our initial reaction is that we see the result as having little impact for investors and initial signs are that there could also be a number of positives that could help support markets.

### UK Stockmarket Reaction

The main benchmark UK stockmarket index has greeted the political news by trading marginally higher. 80% of revenues in the FTSE 100 are generated overseas and so investors have quickly begun to take advantage of the value in UK listed multi-national businesses that benefit from any weakness in the pound. However, even medium and smaller company benchmarks, that have more of a domestic focus, are only trading at marginally lower levels currently.

### Government Bonds

During times of panic and investor uncertainty, UK Government bonds (Gilts) are traditionally seen as a safe haven for investors. It is interesting to see that this morning gilt yields have risen (i.e. prices have fallen) which illustrates little in the way of panic from investors.

### The Pound

The initial reaction to the political shock was, unsurprisingly, a fall in the pound, which was trading close to 2% lower versus the euro and the dollar, following the election result. The fall in sterling is seen as a blessing for internationally focused UK companies and is also good news for UK investors holding overseas funds. However, the fall is likely to be tempered as the chances of a fast and hard Brexit have diminished (which has been a key concern for sterling investors).

### Brexit

One thing that seems likelier this morning is that we will see a softer stance and potentially more protracted Brexit negotiations. Brexit remains a divisive issue and a hung parliament makes it impossible to form a cohesive strategy to negotiate with EU members.

Investment markets have seen the news as a positive, seeing it as leading to a diluted and more trade-friendly Brexit. It seems likely that we will move away from the hard line approach of “no deal is better than a bad deal”. Many commentators now believe that any Brexit process may be derailed and any deal may take a lot longer than two years.

### Overseas Markets

Of course, the UK is an important G7 nation whose economic strength matters to overseas investors and trading partners. The reality is that the UK political backdrop has little bearing on the overall value of global investment markets.

Much more important are factors such as the growth in the US and Chinese economies, Central Bank interest rate policies, global debt levels and inflationary versus deflationary forces. We expect that sterling will remain at a lower level for a prolonged period and this will be a boost for UK investors with overseas exposure.

**Whitechurch Strategies overleaf**

## Whitechurch Strategies

Investors who understand our long-term focus will not be surprised to hear us repeat our “keep calm and carry on” mantra. The past year has provided good lessons to not allow short-term political noise to formulate your investment strategy. Looking at the bigger picture facing global markets and focusing on valuations is much more important than getting consumed in political uncertainty.

We are very comfortable where our portfolios are positioned and performance has been very pleasing year to date. On the whole, our investment positioning will be no different to before the election result was known. In terms of domestic focus we will maintain a core exposure to UK equities with a focus on dividend producing stocks and funds, and a bias towards multi-national businesses. However, for most investors these should just be a component of well-diversified portfolios, both internationally and by asset class, which will help mitigate the effect of UK political uncertainty.

We believe that it is very easy to become too fixated on the short-term. Whilst we understand political uncertainty can prove to be a concerning time for investors, the focus should remain on a long term investment horizon and not let uncertainty in the short term dictate strategy. Our focus will remain on providing well-diversified portfolios that are focused towards providing attractive risk adjusted returns on a long-term view.

**Whitechurch Investment Team, June 2017**

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