



Touchbutton

No: 34, May 2015

Blue is the colour

UK markets are breathing a sigh of relief this morning as they digest the news that the political administration which has orchestrated the economic revival of recent years will be allowed to continue its work. Market nervousness in recent weeks had largely been attributed to non-political events and factors relating to global growth and the timetable of monetary policy change, but this morning's sharp rally in UK equities, particularly in those business sectors which would have suffered most from a change in administration (and are likely to gain most from new initiatives), shows the extent of the political risk premium that was being applied to the market. The Election result has also been received positively by bond and currency markets, with rebounds being seen in both government bonds and Sterling today.

A messy coalition arrangement would have been a challenge for the economy and investment generally on a number of fronts, so this result removes a large number of uncertainties. Economically, nothing has changed overnight, but market confidence, something which is very hard to earn and easy to lose, has certainly improved. But whilst the immediate outlook for business looks more rosy and the commitment to reduce the UK's budget deficit can continue, we should not expect this next period of political administration to be plain sailing: despite pledges of no tax hikes, some form of fiscal consolidation will undoubtedly be necessary and it will not be long before the promised in/out referendum on EU membership becomes another risk for markets to grapple with. This initial euphoria is therefore likely to peter out as other factors, such as a change in interest rate policy, reassert themselves at the top of the worry charts. But in the shorter term, whatever one's political persuasion, this result provides the political stability that markets yearn for, creating a better backdrop against which longer term investment decisions can be made.

Bordier & Cie (UK) PLC | Wealth Management since 1844

23 King Street | St James's | London SW1Y 6QY | t : +44 (0)20 7667 6600 | bordieruk.com

bordier | 1844