

Touchbutton

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So Brenda was right

Of all the advice given to Theresa May over the last couple of months, perhaps that from Brenda of Bristol was the most accurate and to the point:

“Oh no, not another one. There’s too much politics.... Why does she need to do it?”

The results of this general election and answers to questions like this will no doubt be raked over for many months by politicians and pundits. Meanwhile, the rest of us will get on with our lives, enjoy the summer and try to fathom the longer-term impact on the UK economy and the markets.

What is immediately clear is that while the result was a significant upset for the Conservatives, the effect on markets was muted to say the least. It is interesting to see how some key asset classes behaved the day after the election and in contrast, the day after the Brexit vote last summer.

	Day after Brexit	Day after election
Sterling/US dollar	-8.1%	-1.6%
FTSE 100 Index	-3.2%	1.0%
FTSE 250 Index	-5.5%	0.1%
UK banking sector	-9.8%	0.8%
10-year gilt yield	-28.7bps	-2.8bps

Source: Bloomberg, as at 12 June 2017

The reasons for the significant difference in reactions are quite straightforward. Firstly, the impact of a soft or hard Brexit will be further reaching and much longer lasting than this current or indeed any government; and secondly, whilst we as a country may see our domestic politics as being of enormous importance to us (which they are), their impact on the wider financial world is actually much less than our politicians of all parties might realise.

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