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“Oh no, not another one”

So our third general election in just over four years is upon us and has been dubbed the ‘most significant in a generation’. Opinion polls suggest that Brexit is the most important issue for two thirds of the electorate, which has further led to some calling the election a ‘second referendum’.

We are watching how events unfold but, as longer term investment managers, our role is to take a relatively hard-nosed approach and focus solely on the potential repercussions of the election on asset prices.

"So what might the market reaction be?"

So what might the market reaction be? Probably the best, if somewhat simplistic, way to look at this is to break it down into how markets might react to two key issues: Brexit and how ‘business-friendly’ the new government’s policies are likely to be.

We will leave many other issues (such as proposed fiscal spending plans) for now.

Let’s take Brexit first. On balance the indications are that markets would favour ‘softer’ versions of a deal (‘remain’ would actually be perceived as the ‘best’ scenario). As such this would put a ‘tick’ in Liberal Democrat and Labour boxes and a ‘cross’ in the Conservative box.

In terms of being ‘business friendly’ we think it is probably non-controversial to say that markets would react less favourably to a Labour-led government, due in no small part to their stated plans to significantly increase corporation tax and nationalise certain industries.

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As such we should not expect a ‘win-win’ scenario for markets as a Tory majority would be perceived as positive for businesses but a less positive outcome in terms of the Brexit process.

A Labour-led government in contrast would be perceived as bad for business but this could be partially offset by the prospect of a softer deal or a referendum potentially leading to no Brexit at all.

"A coalition of any complexion muddies the water further."

Perhaps we should gain some comfort from the fact that, by the same logic, a 'lose-lose' scenario doesn't look likely either. A coalition of any complexion muddies the water further.

We can also gain some comfort from the fact that a 'no deal' scenario, which would probably trigger a sharp downturn in the market, and potentially the economy, now looks quite unlikely. From an investment standpoint it is more important, however, to remember that we are global, multi-asset investors.

On a global stage we believe that markets are more concerned with issues such as the trade war, company earnings' revisions and central bank policy, than the outcome of the election or Brexit process.

We have a huge investment universe of global equity, fixed income and alternative asset classes and we see it as a key part of our role to diversify and control the risk of capital risk at all times. Right now is actually no different.

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And so we agree that this is a hugely, perhaps historically, significant election for the UK for many reasons. The investment impact on our clients' portfolios however, for all the reasons above, may well be relatively muted.

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