



UK General Election: More certainty, or less uncertainty?

Given the political shocks we have witnessed over the last 12 months one would be forgiven for thinking that it is increasingly difficult for observers and markets to be taken by surprise. But that is exactly what happened earlier this week when Prime Minister Theresa May called for a snap general election on 8th June 2017, three years before the legally mandated deadline. Since taking office last summer, Mrs May had repeatedly dismissed the idea of an election before 2020.

Is it just about opinion polls?

According to most opinion polls (YouGov, ComRes and others), the Conservatives are very likely to increase their existing majority in a new election. However, the main motivation for holding an early election appears to be that the Prime Minister is out to gain a stronger personal mandate and thereby strengthen her hand within her own party. The government currently has a working majority of just seventeen, the smallest since the mid-1970s. Internal party rebellion can be an unwelcome distraction, often resulting in delays and embarrassing U-turns such as we saw on the government's Budget tax proposals for the self-employed. With Brexit-related negotiations about to begin there was a high risk that such internal dissent could be repeated.

In terms of initial market reaction following Mrs May's announcement, sterling rose to a near five-month high against the dollar. Investors speculated that a larger Conservative majority, should this arise, would decrease the influence of hard-line Brexiters. In addition, some are taking the view that starting Brexit negotiations at the beginning of a brand new five year parliamentary term may increase the chances of an exit strategy which includes a transitional agreement.

Is it too soon to be positive?

As ever there are uncertainties. It is not yet clear how the Conservatives will approach discussions with the EU. The official party manifesto may set this out when it is published next month. The rhetoric from Mrs May and her top team over the coming weeks will give investors a sense of whether they are campaigning on a more or less compromising approach to negotiations.

Another issue is that while the Conservatives do currently have a strong lead in the polls, our First Past the Post electoral system means that the popular vote does not directly translate into the number of seats won. The matter is further complicated when one considers how different parts of the country voted in last year's referendum. With that voting behaviour in mind, the Conservatives will aim to take marginal seats in northern Labour heartlands that voted to leave, while the Liberal Democrats will target Conservative seats in the south of England that voted to remain. Indeed the electoral map of the UK could be turned on its head.

While some may have taken the news of an early election as a positive for the UK's negotiating stance, questions do remain and it is perhaps too early to say that we are in a position of greater certainty. Recall that the last twelve months have shown investors that it is not only political outcomes that can be unpredictable, so can the reaction of financial markets. We have for some time had a cautious outlook about the UK, reflected in portfolios by an underweight position towards UK assets. For the time being we feel it is too soon to be making any meaningful changes in portfolios, but we look to see what clarity might be provided by events as they unfold in coming weeks.

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