Heartwood Investment Management

06 October 2017

Investment Insight

Weekly Insight

How would we position portfolios if anticipating a Labour government?

Ever since the poor showing of the Conservatives in the General Election and the success of Labour, we have been considering the likely consequences for UK assets if we were to see a shift away from the political ‘centre’ to an administration favouring higher levels of state intervention. While another election is not yet on the horizon, the unpredictable state of British politics over the last couple of years leads us to consider such a scenario and its potential impact for portfolios, especially if we were to see a less corporate-friendly environment.

- We would logically expect funding costs for the UK government to rise in anticipation of greater fiscal spending, gilt yields being likely to back up quite meaningfully. We would therefore keep our exposure here very controlled, as it is now, with very short duration.

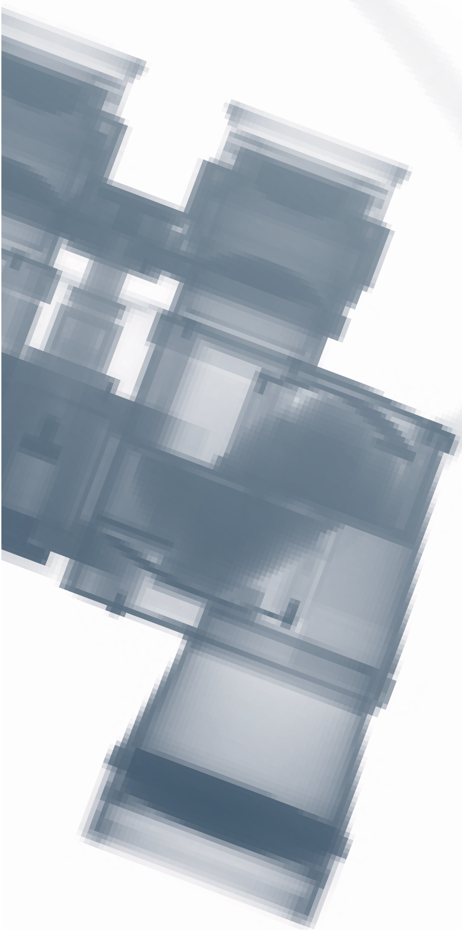
- We would be more cautious on the prospects for UK property, particularly the London commercial and residential markets. While we do have some exposure to the commercial market, we reduced this quite some time ago.

- In equity, most of our exposure to UK indices is via large capitalisation companies listed in the UK but operating principally overseas. To that extent, the 70-80% of their aggregate revenues in overseas currencies would immediately boost sterling profits from a translation point of view, thereby providing something of a sterling hedge. We would expect more domestically-orientated sectors to be negatively impacted (particularly retail, banking, property shares as mentioned above, and utilities on renationalisation fears) and smaller company names in general to show more volatility.

- The question of currency is perhaps the most difficult. While a run on the pound might be expected in the short term, we do start from a position of sterling having already depreciated considerably. To make a further move out of sterling at this point, we would therefore need to have a relatively high conviction that a Labour administration or agenda is going to come to pass.

In summary, we continue to be positioned quite cautiously in UK assets overall, as we have been for some two years now. This is evidenced by an underweight position in UK equity, a heavy skew to international companies listed in the UK compared to more domestic names, having short duration in UK gilts (and limited exposure to UK gilts in the first place), and our lowest exposure to UK property for five years.

Michael Stanes
Investment Director



Clear Thinking

Contact

To find out more about the Heartwood strategies, visit our website or contact your local representative.

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