

## Snap Election

### Power To The People



Gavin Haynes  
Managing Director

The big news this week came on Tuesday when Prime Minister Theresa May called for a snap general election, to take place on Thursday 8th June. This has been ratified today with all major parties voting to support the motion.

#### Initial Market Reaction

At the end of play yesterday the initial reaction to the news was mixed:

- Sterling rallied strongly. On the day of the announcement it rallied 2.4% versus the US Dollar to reach \$1.29 the highest level since October and rallied 1.5% versus the euro to reach €1.19.
- The FTSE 100 was down around 2.5% on the day. The FTSE Mid 250 which has more of a domestic focus was more resilient falling by 1.2%
- Leading the falls in the UK market were large global multinationals with overseas revenue streams that have rallied so strongly since the vote for Brexit.
- Mining, Oil & Gas were the key detractors, as they have been the biggest beneficiaries of sterling weakness.

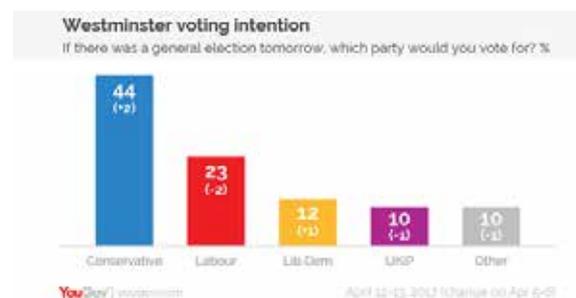
The strength in sterling, post-announcement, suggests the market is pricing in a Conservative win with a stronger majority. With the potential for a strong pro-business government in place, it also appears the market is pricing in a stronger outlook for the UK domestic economy. At the very least, a strong majority government win would allow a staged and gradual Brexit concluding with a UK-EU free trade agreement.

If on the 9th of June we have a new government with a larger majority, then the pound is likely to strengthen. This could trigger a switch in UK stockmarkets, with the forex induced gains over the past year for predominantly large cap overseas earners becoming supplanted as the stronger pound and stronger economic outlook benefits domestically focused UK companies.

So the outcome of snap election and the future path of the pound will continue to have some bearing on the fortunes for UK investors.

#### What are the Pollsters saying?

Given the Pollsters recent track record on political events, you might want to take these results with a very large spoon of salt!



#### What are the Bookies saying?

The bookies have been notoriously better predictors of election outcomes than opinion polls (although they were also way off the mark with Trump and Brexit). Current odds are as follows:

- Conservative Majority – 2/9
- No Overall Majority – 11/2
- Labour Majority – 27/1
- Conservatives to win the most seats – 1/10

### **The Whitechurch Way**

Of course, although the markets will have moved on by the 8th of June and, as interesting as the statistics are above, we have seen time and again in recent years how quickly political events are shrugged off by the market. However, the outcome will be important domestically and if the bookies and the early polls are proved right, an increased Conservative majority is likely to be viewed positively for the domestic economy and the value of sterling.

The events of last year highlighted that politics cannot be accurately accounted for and so second guessing the election will not be a primary driver of our investment strategy. We prefer to take a longer term view and focus on the relative valuations between markets and asset classes.

The short-term political uncertainty of the UK and European elections and the fact that many equity markets are trading at historically high levels may cause a short-term correction. But with plenty of cash on the side-lines and with interest rates remaining at such low levels we still believe that this would provide buying opportunities for those prepared to ignore such short-term political noise, focus on valuations and take a longer-term perspective.

**Whitechurch Investment Team, April 2017**

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