UK General Election Outcome

13 December 2019

This morning it has been announced that the Conservative Party has won with the largest majority since Thatcher at the 1987 election. The exit poll predicted a majority of 86 seats for the party led by Boris Johnson shortly after the stations closed at 10pm last night, an estimate which might have surprised many people. However, the poll has proved to be an accurate measure in recent elections and was not very far off this time around either, as at the time of writing the Conservatives have a majority of 78 seats (1 seat has yet to declare at 08:30). The Labour Party, led by Jeremy Corbyn, performed far worse than the opinion polls had suggested they would, leaving the party in disarray as they figure out where to go after their worst loss since 1935. Many within the party are already calling for Corbyn to step down, but he has so far remained adamant that he will see Labour through a period of "reflection". It was also a night to forget for the Liberal Democrats, with leader Jo Swinson losing her seat as they failed to build on a promising start to the campaign. Swinson has already been replaced by two interim co-leaders as the party's main policy of revoking Brexit did not resonate strongly enough with the electorate.

It seems that above all else, leaving the European Union was the top priority for voters in England, as the Tories were able to take seats from previous Labour strongholds who had voted for Brexit in June 2016. Those three simple words of "Get Brexit Done" has appealed to those working-class voters who feel disillusioned by Labour's promise of a second referendum. With 364 MPs in the Commons, Boris Johnson will now feel that he can deliver on his promise to exit the EU by the end of next month. This will however be followed by a transition period lasting until the end of next year, where the intricacies of the future trade agreement will be discussed at length. The outcome of yesterday's election will likely be viewed as a positive for businesses in the UK, especially small and mid-sized companies whose earnings have been suppressed since the result of the referendum. But what does this mean for markets, and how are our portfolios positioned going forward?

Immediately after the exit poll was announced, sterling spiked to over $1.35, although momentum has abated slightly throughout the night. It stands at just above $1.34 at the time of writing. The FTSE 100 fell at the market open but has since rebounded to just below 7,400. The FTSE 250, which contains medium sized companies with more exposure to the domestic economy has spiked to a record high of 21,700. This includes utility stocks which have bounced on the removal of any risk of nationalisation. The 10-year gilt yield has risen slightly, as the Conservatives have promised a rise in public spending, fuelled by extra borrowing. Leading up to the election we had seen strong performance from mid and small-caps in the UK as investors were pricing in a Tory majority, and the same can be said for sterling which had reached its highest point since March. Whilst the markets appear in buoyant spirits, the surge in markets could become more muted as Brexit continues to hang over the UK. Some of this uncertainty has been removed due to the sheer size of Johnson's majority, meaning he is more likely to get his Brexit deal through the Commons. But until the UK has exited the EU, markets will continue to crave the clarity they have sought since June 2016.

At NLPFM, our view is that we are now more optimistic on the ability of UK domestic stocks to outperform throughout 2020. UK mid-cap stocks should benefit from renewed investor confidence in domestically focused companies. However, we are cautious that this initial rally is largely sentiment-based and it remains important to be invested in strong businesses and avoid getting caught up in the hype. Sterling will likely remain range bound over the next 6 weeks and fluctuate on news flow, in the build-up to the 31st January Brexit deadline.

In terms of how that affects the positioning of our portfolios, we were particularly defensive in the build up to the election, holding above-neutral levels of cash, index-linked gilts and non-sterling assets. We have been underweight UK assets since the 2016 referendum, a move which has benefited performance as sterling weakened. As UK investors, we will always have an exposure to our domestic markets, and our mid and small-cap funds have performed well as investor confidence grew throughout Q4. We are now likely to increase our allocation to sterling assets at the margin, reduce our dollar exposure through our bond and equity funds and reallocate towards UK domestics. With gilt yields likely to rise on the back of increased risk appetite, we will also look to take profits on our index-linked gilt exposure. Typical of our “safe-hands” approach to investing, we will not make any big bets on any one sector or asset class. We are increasingly confident over UK markets over the longer term but are aware that there could be heightened volatility on both the up and downside over the coming months.

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