What the UK General Election means for investors

by George Trefgarne

31st October 2019

While our affairs might seem parochial, investors are watching the outcome of the British General Election. There is a huge amount of money circling around, as investors wonder whether this is at last the moment to take advantage of the steep discount in UK assets and also look for signs about what the election might say about the worrying trend of international populism.

Jeremy Corbyn has evidently noticed, but drawn the opposite conclusion from those of us of a more generous and commercial mindset. This morning, he launched his campaign promising to “go after the rich” and referred to the Duke of Westminster, Mike Ashley, Crispin Odey and Jim Ratcliffe by name.

Incidentally, I am sure there is another side of the story, but it was not a good look for the Grosvenor Estate (of which the Duke is a beneficiary) to find itself reportedly on the end of a petition signed by 200,000 people protesting against its plan to redevelop some council housing as luxury flats in Belgravia (since substantially revised). Just as it was insensitive to turf the Rifles regiment out of their club house in Mayfair two years ago.

It continues to exasperate us how stewards of capital still have not realised that the rules of the game have been permanently changed since the financial crisis and the advent of social media. Conduct, empathy and self-restraint count. But I digress.

Investors are watching

There is plenty of evidence of how much investor cash has been held back in the UK by the combination of Brexit uncertainty and the threat of Jeremy Corbyn.

There have been seven public to private deals in the UK market so far this year. From 11th October, when the Prime Minister Boris Johnson had his successful meeting with the Irish Taiseach Leo Varadkar, sterling and some UK-focused shares have staged a dramatic recovery. The pound is volatile, but is up again today at close to $1.30, up from $1.22 the day before the Irish meeting. RBS shares are up 20% from their July low.

We had a reminder of just how perilous things are for the UK economy from Lloyds Bank today. Around a quarter of UK households and businesses bank at Lloyds and it had terrible results, with profits all but wiped out by PPI charges, higher provisions and disappointing revenue. Day-to-day, the economy is flat-lining.

What is desperately needed in the UK is political certainty to unlock investment.

The polls

Which leads us to the election. From a market perspective, assuming a No Deal Brexit is off the table, the best outcome is usually assumed to be a Conservative victory. Ipos-Mori this morning showed the Conservatives on 41%, Labour on 24%, Liberal Democrats on 20%, the Brexit Party on 7% and the Greens on 3%. This poll was especially interesting because it showed a Conservative lead of 17%, up 8% in a month. By contrast, YouGov put the Conservatives on 36%, Labour on 21%, Liberal Democrats on 18%, the Brexit Party on 13% and the Greens on 6%.

One reason national opinion polls are not much use is they cannot model tactical voting or local factors.

The Chancellor is MIA

The positive market reaction to these and other recent polls also assumes that the Conservative party is committed to sensible post-austerity economic policies, based around growth, investment and addressing regional imbalances and reform. Thus far, there is precious little evidence of this. The party of Margaret Thatcher and Nigel Lawson has apparently lost its business compass.

The chancellor, Sajid Javid is almost silent, except to say “yes” when No.10 demands more spending.

Sometime in the next two weeks the Office for Budget Responsibility will have to exercise its statutory duty and publish its forecasts, even though the Budget was cancelled. Judging by the Institute for Fiscal Studies’ Green Budget, this is likely to show the deficit doubling to near £55bn this year, made worse by stalling tax revenues, slow growth and a spending spree on the NHS.

If both the Conservatives and the Liberal Democrats are going to make headway, they are going to have to make a better case for a commercial society, a mixed economy, which addresses the real experienced issues which Jeremy Corbyn has already proved himself capable of exploiting, while also restoring incentives. Sajid Javid and Ed Davey, his Lib Dem opposite number, must wake up. Let us hope they do so.

Forecasting seats

What is the result of the election likely to be? Only a fool would make a forecast. But I have noticed that Toryland was excessively optimistic about Theresa May’s performance last time and yet this time is very pessimistic.

The received wisdom, which one has to concede is compelling, is that the Conservatives will lose seats in Scotland, London and the West country (mostly to the Lib Dems) but struggle to win them from the Labour heartlands in the Midlands, the North and Wales.

I have also observed that spread-betters are more likely to be Tory and betting markets usually reflect a combination of a bias towards Tory assumptions and the polls (which are unreliable). In general, Jeremy Corbyn & co do not gamble. Some 318s seat in the House of Commons are required for a majority and the seat prices currently offered by Sporting Index suggest a small Conservative win:

	Sell	**Buy**
Conservative	319	327
Labour	205	213
SNP	48	51
Liberal Democrat	45	50
Plaid Cymru	4	5
Brexit Party	2	4
Green	2	3

On the day of the 2017 election, Sporting Index was offering Conservative seat spreads at 361-365, which turned out to be significantly wrong and the party won only 317. Is it possible that this time the same people are too gloomy? Or are they too optimistic again?

Much will depend not so much on Brexit, which most people are fed up with, but the overall promise each of the parties is able to make and who can make a credible promise to make the country and households better off. Speaking for myself, we could do with some leadership, optimism and integrity around here.