

# INVESTMENT TEAM UPDATE

## UK GENERAL ELECTION, 8<sup>TH</sup> JUNE 2017

18<sup>th</sup> April, 2017

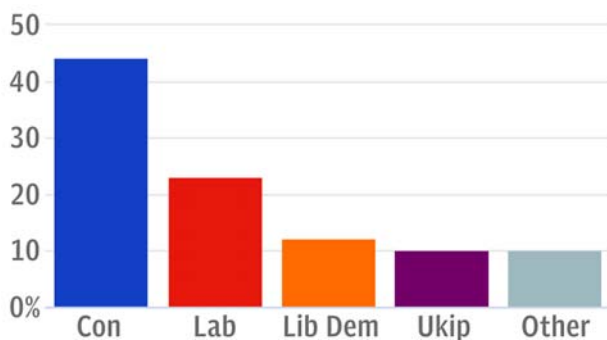
News broke this morning that Prime Minister Theresa May will seek an early general election on 8th June 2017. The aim is to strengthen her mandate going into talks on leaving the European Union and to consolidate the Conservative Party's majority in the House of Commons.

This marks a rapid reversal from Theresa May's previous stance that the next general election should be in 2020. Her previous rationale was based on the desire to remove the unpredictability of an election race and avoid instability during Brexit negotiations. However, this morning she stated that if a general election is not held now, 'political game playing will continue'. A larger Conservative party majority would face less opposition to legislation such as that to formally repeal Britain's membership of the European Union. In addition, a larger majority would hand Mrs May a personal mandate from the people and give her greater power and influence over her fellow Conservatives.

The move was welcomed by opposition leaders, with Labour's Jeremy Corbyn calling it a "chance to vote for a government that will put the interests of the majority first". Tim Farron, leader of the Liberal Democrats said the vote on 8th June was a chance to "change the direction of your country" (source: BBC News).

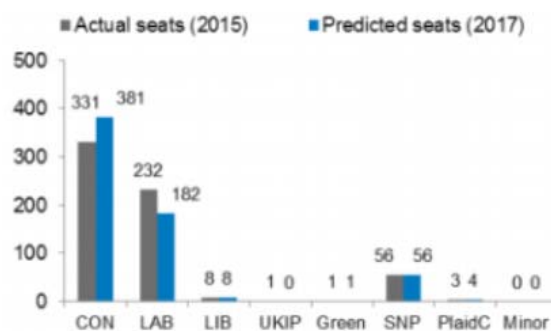
The decision to call the snap election can be interpreted as a sign of confidence in Theresa May's polling lead over Jeremy Corbyn's Labour Party. This currently stands at its highest since 1983, representing a strong opportunity to further consolidate her power base. The poll, conducted by ComRes for The Independent, gives the Conservatives 46% of the vote share, 25% for Labour, 11% for the Liberal Democrats and 9% for Ukip (source: The Independent).

UK Voting Intention



Source: YouGov Poll, 12-13 April 2017

Latest UK Election Poll Snapshot



Source: Electoralcalculus.co.uk, BMO FX Strategy

The Prime Minister will move a motion for an early election in the House of Commons tomorrow (19th April). The motion will require a two-thirds majority to be carried.

### Market Reaction

Immediately after the announcement, sterling rose sharply against the dollar to a two-and-a-half-month high. However, the UK's main share index, the FTSE 100, fell to its lowest point in more than seven weeks and is poised for its worst day of performance since the EU referendum (source: Reuters). UK government bonds, meanwhile, retreated slightly before recovering.

It is worth noting that UK and European equity markets were in negative territory for the day before the June election was announced. Further losses were incurred though, particularly within multinational FTSE 100 names, which tend to underperform when sterling strengthens. This is because a large proportion of their earnings are made overseas; a strengthening pound results in these earnings being worth less when translated back into sterling.

The equity market's reaction can be considered a reflection of increased uncertainty in the run-up to 8th June election and concern over the various potential outcomes. However, markets do tend to favour stronger governments, one reason for the pound's gains, along with the potential for a stronger Conservative government to bolster the UK's negotiating hand.

This snap election adds to what is already a busy political agenda across Europe this year. French presidential elections commence this Sunday while German federal elections will be held in September. The investment team will of course be closely monitoring these political developments over the next few months, and we will endeavour to keep you updated.

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