

# From the disaster for Theresa May comes opportunity... and opportunities for more disasters



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Chief Investment Officer

Given the range of opinion polls that have come out in the last week – one of them had to be right... with the outturn being Conservatives 42% and Labour 40% of the total vote.

As the Conservatives did not succeed in winning an overall majority, the two parties from Northern Ireland suddenly become much more important – Sinn Fein who won seven seats but are not taking them up, and more importantly Arlene Foster's Democratic Unionist Party (DUP) who won 10 seats and are the only realistic option as coalition partners. The DUP will have the opportunity to extract regional favours and have a greater influence on Brexit negotiations.

You may have read that sterling has plunged overnight – in reality, it was a less headline grabbing fall of 2% against the US dollar, although higher than it was on the day before the Prime Minister announced the general election. Sterling is down against the euro during the same period, but this reflects the strong recovery we are seeing in the eurozone, a region Cazenove Capital became more positive on at the end of the first quarter.

So far the market reaction has been muted – the equity market is up today, more a reflection of the weaker currency, while the gilt market is trading around the same level as yesterday.

Given the uncertainty caused by the result of this election, eyes will turn back to the state of the economy. Although no trend has been confirmed, recent indicators are weaker than they were at the end of last year. Declining consumer and business confidence, and a squeeze

on real (inflation-adjusted) wages, may foreshadow a slow down in the economy in the second half of the year, unless business investment picks up sharply.

We think it unlikely that there will be another election in the near term for three reasons:

- The new government would not be able to run another campaign on the same manifesto. There will be a need to introduce more pro-growth policies to counter the more upbeat message that the opposition has offered, and then allow time for them to 'bed down'.
- Boundary changes – these would be beneficial to the Conservative Party and are currently under review. The final recommendations will be made by September 2018.
- Electoral fatigue on the part of the electorate.

We see risks to the gilt market given the likelihood of higher government spending, and the inflationary effects of a weaker currency. Our underweight position in sterling assets and equities is likely to increase in the coming months given that uncertainty around the outcome of Brexit negotiations has only increased.

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