

Investment Insight

The true meaning of a Christmas election

WHAT DOES A CHRISTMAS ELECTION MEAN FOR BREXIT?

A general election provides a mechanism by which Brexit (or at least the first stage of it) may be resolved. Since 2017, one of the biggest challenges the Executive has faced has been the fact that there has not been a majority in Parliament in

favour of any course of action. This has clearly made it difficult to make progress with Brexit: however an election could bring about a change in the number of seats held by each party and a change in the MPs holding those seats.

WHAT IS LIKELY TO HAPPEN?

As a rule, UK elections are very difficult to predict, and this one is likely to be even more so than usual. This is because the issue of Brexit will likely be as important to voters as traditional party politics, an issue which transcends party

political lines. As a result, the electoral map of Britain may change quite considerably. While the Conservatives remain ahead in the polls, we remain circumspect at this stage and consider three categories of outcome.

CONSERVATIVE CONQUEST, REMAINDER RESISTANCE OR HUNG PARLIAMENT?

The Conservatives will be hoping to win a majority in order to make passing laws easier, including the Withdrawal Agreement Bill. Should they be successful, Boris Johnson will also be hoping that the new crop of Conservative MPs will be less rebellious on the issue of Brexit and more likely to support the Executive. In this scenario, we would expect Number 10 to push forward with the deal Johnson agreed with the EU and the UK's resulting relationship with the EU to be more distant.

If Labour becomes the party with the most seats, we expect that it will need to form a coalition with another party seeking a closer future relationship with the EU in order to govern. We anticipate that this may curb some of Labour's more radical proposals, and would likely lead to a second referendum, with "remain" an option on the ballot paper.

It remains possible that no party is able to form a majority government, resulting in a hung parliament. This outcome would mean it remains very difficult to pass laws and may even result in fresh elections.

IS THE TIMING SIGNIFICANT?

Winter elections are unusual for a number of reasons. MPs favour campaigning in the spring and summer when the days are longer and the weather clement. Winter polling days bring the possibility of rural constituents being snowed in and festive bookings may limit the availability of venues used as polling stations. A date so near Christmas may also mean

students registered to vote in the constituency of their university are already at home for Christmas. While the impact of these factors is each expected to be small, a further degree of complexity has been added to forecasting the election outcome.

WHAT DOES THIS MEAN FOR OUR INVESTMENTS?

Given the high degree of uncertainty, we are not positioning in anticipation of a specific outcome. Aside from the scenarios outlined above, it remains possible that Labour wins a majority, or the Brexit party or Liberal Democrats win more seats than expected. However, we do believe that the risk of a "cliff-edge no-deal" Brexit has receded significantly and we

have reduced our underweight position in UK equities to reflect this. The election outcome is likely to significantly influence the nature of the UK's future relationship with the EU, and thus the UK's economic fortunes. Over the next six weeks, we expect markets to respond to the oscillations in polling data, with volatility in UK assets likely.

IMPORTANT INFORMATION

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