AJBell Investcentre

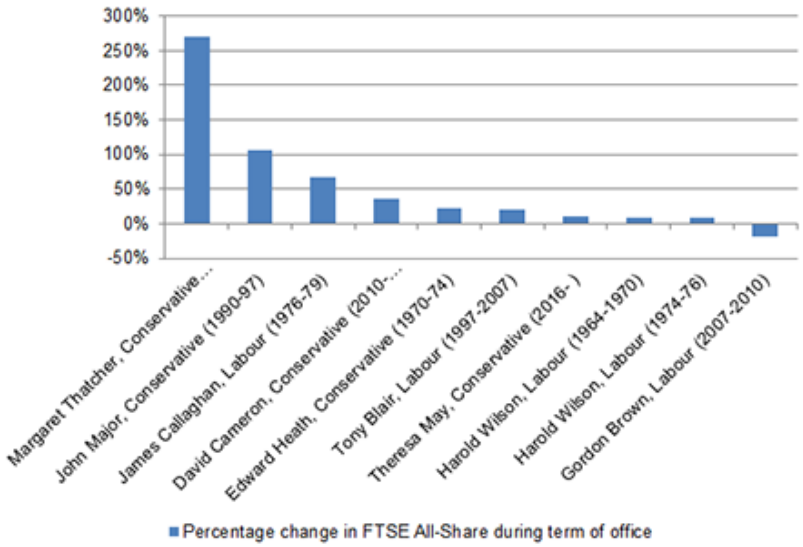
Snap Election

April 2017

It did look a bit odd when the FTSE 100 opened 70 to 80 points lower this Tuesday morning, especially as the US stock market had closed pretty strongly, but that wobble now looks a bit more understandable in light of Prime Minister Theresa May's announcement of a snap general election for 8 June.

However, stocks may not remain too rattled for too long – if the opinion polls and history both prove a reliable guide this time around, although I accept that is a pretty big "if" on both counts.

Our analysis of General Election results since the inception of the FTSE All-Share in 1962 shows that the index has tended to do better, on average, under Conservative Prime Ministers. Please note this is a view based purely on the data and is in no way an expression of political preference on behalf of either my employer or myself.

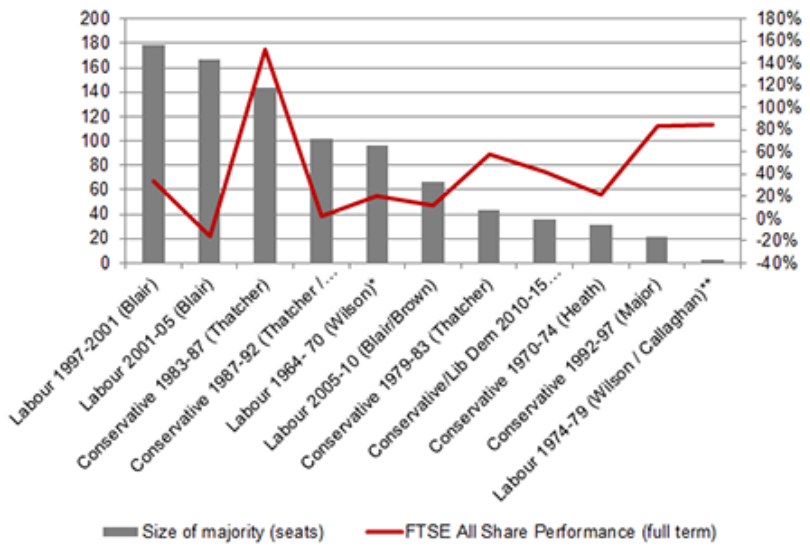


Source: Thomson Reuters Datastream

This may offer some comfort to advisers and clients who are nervous, especially as Mrs May has a big lead in the polls.

In addition, the historic data also show how the mid-term elections of 1966 and 1974 failed to derail stocks.

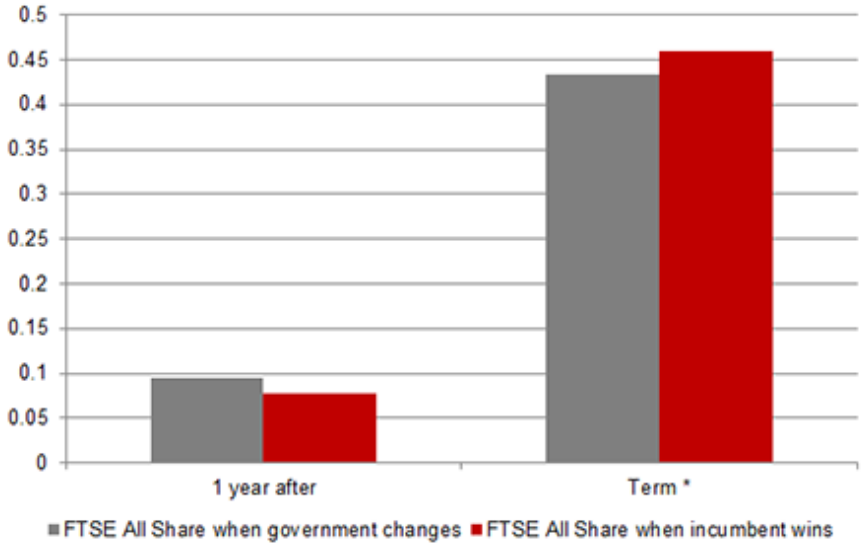
In this case however the UK stock market seemed unconcerned by either the party affiliation of the person in charge or the size of their majority. As we can see here there is no correlation between stock market performance and a Government's majority – so while Mrs May will want to add to her party's haul of seats in Westminster this may be less of a concern for advisers and clients, relative to the overall result:



Source: Thomson Reuters Datastream

*** Initially won majority of 4 in 1964. Increased to 96 in 1966.**
*** Initially a minority of 33 in February 1974. Won majority of 3 in October 1974**

History also suggests that the market prefers a win for the incumbent PM, again irrespective of their political leanings, perhaps as this means they are dealing with a known quantity, although the performance differential over a full term is in this case relatively minor.



Source: Thomson Reuters Datastream.

Elections of 1964/66 to 1970 and 1974/74 to 1979 counted as one term.

However, the opinion polls' recent sketchy record and the dangers of using historical performance as a guide to the future mean stock market advisers and clients are unlikely to take too much on trust and may remain edgy until the result becomes known on 9 June, given that policy on such huge issues as Brexit and Scottish independence, as well as the state of the nation's finances and economy, are set to be a source of fierce debate once more.

Even so, the key thing to do here is not to start tinkering with portfolios too much – if at all.

Yes, advisers and clients will be checking to make sure they are running balanced portfolios designed to weather a range of possible economic and political scenarios and not just one (horrible to admit as it is, none of us has a crystal ball and we are therefore all capable of being wrong, so preparing for such an outcome is just common sense).

But no, they are unlikely to start trading and dealing like dervishes. While we can see that there are certain correlations between election results and the stock market this does not necessarily equate to causation – remember that company share prices and valuations are ultimately determined by profits and particularly cash flow and it is these which will drive returns from specific securities and the funds that hold them.

Unless advisers and clients think the election result on 9 June will lead to the implementation of policies that could directly and materially affect a substantial portion of a portfolio's asset allocation, or the holdings of a key fund, then they may be better off doing as little as possible, despite the political uncertainty, as that means they won't incur the commissions or the frictional costs which can come with trading and which definitely erode their total returns over the long term.

Thank you for watching and I look forward to seeing you next time.

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