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# UK: what does the next General Election mean for investors?

- **A year of elections** – 2024 will see dozens of national elections across the world, including a General Election in the UK, likely in Autumn, according to Conservative leader Rishi Sunak. Polling data indicates a likely Labour victory; if so, what, could this mean for markets?
- **Equities have been largely politically agnostic** – History has shown that the political philosophy of a UK Prime Minister (PM) and the manifesto put forward by their party have only limited bearing on the performance of equities. Instead, returns typically mirror those of global equities, unless there are significant shocks affecting the country in a durable manner and the policy response differs materially.
- **Gilts & Sterling** – The government bond and foreign exchange markets tend to be more reactive to fiscal and monetary policies than equities. Following the COVID-19 pandemic and the unprecedented amount of policy support impacting the economy, the surge of inflation forced global central banks to over-tighten monetary policy to defend the credibility of their inflation target, triggering a surge in bond yields. With inflation softening rapidly, we expect a meaningful rally in the bond market and envisage the Bank of England (BoE) to start rates cuts in the late spring or early summer of 2024 at the latest.
- **Relationship between monetary and fiscal policy** – We believe that the most important variable likely to influence the price of UK assets will be any meaningful changes to the trajectory of fiscal policy following the parliamentary elections and whether the BoE will need to change its stance as a consequence. Currently, there is a slight incongruence between the expansionary fiscal impulse of the Conservatives, eager to revitali`se the UK economy and consequently reignite support for the party, and the BoE's desire to tame inflation, even if this results in the UK slipping into a recession in the coming year.

# What does the upcoming General Election mean for investors?

**A year of elections** – 2024 will see dozens of national elections across the world, with countries representing over half of global GDP casting their votes. This will include a General Election in the UK, likely in Autumn, according to Conservative leader and current PM Rishi Sunak. Support for the incumbent Conservative party has waned and, while clear attempts are being made by the government to revitalise its electoral prospects, seen most recently in the Chancellor of the Exchequer Jeremy Hunt's November "*Autumn Statement for growth*" which he declared included some of the most significant tax reforms in modern British history, public support is near historical lows. As seen in **FIGURE 1**, polling data depicts a clear affinity for Keir Starmer's Labour Party and a likely end to what has been a 14-year Conservative reign.

The increasing popularity for Labour and simultaneous fall in support for the Conservatives can be explained by a multitude of factors, including but not limited to, a growing Labour support base amongst nationalists in Scotland, moderately socially liberal voters in the South West of England leaning more towards the Liberal Democrats, and the Conservative party's inability to significantly rebuild its electoral identity post-Brexit. Many investors will likely wonder what the probable Labour victory will mean, if anything, for markets.

As shown in **FIGURE 2**, the Labour Party typically adopts a centre-left political position, favouring social democracy and a larger government. In contrast, the Conservative party has traditionally focused more on supply-side reforms and has had a preference for a smaller government to reduce the tax burden. In Hunt's words from his Autumn Statement at the House of Commons in November 2023, "*they [Labour] think compassion is about giving money, we [the Tories] think it is about giving opportunities*." Naturally, it is important not to generalise too sweepingly as the political positioning of, for example, Keir Starmer and Jeremy Corbyn (former leader of the Labour party) are considerably different, with the former assuming a more centrist position and the latter being more aligned with the far left.

In the event of a Labour victory, we anticipate that the initial fiscal impulse will be to tighten policy slightly and renege on Hunt's expansionary approach. This, we believe, will be key to watch in 2024. Indeed, any meaningful change in the fiscal stance of the government will likely influence the extent to which the BoE Monetary Policy Committee (MPC)'s might alter its policy stance, including their expectation of the level and length of maintaining policy rates at their current level of 5.25%, to regain control of inflation. This point will be explored further later in the note.

**FIGURE 1**: polling data indicates likely Labour victory

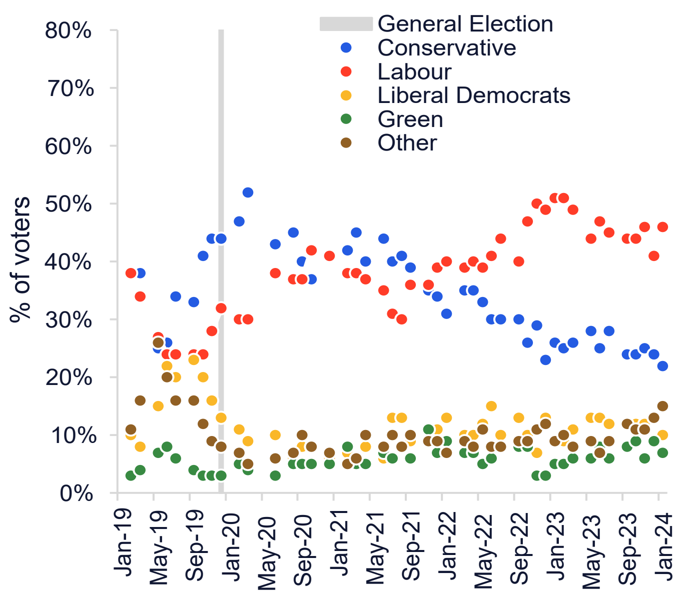



**FIGURE 2**: political spectrum of key parliamentary parties

| Party | Founded | Political Position | Ideology | Leader |
|---|---|---|---|---|
| Labour | 1900 | Centre-left | Democratic socialism, social democracy | Keir Starmer |
| Conservative | 1834 | Centre-right/ right-wing | Conservativism, economic liberalism, British unionism | Rishi Sunak |
| Liberal Democrats | 1988 | Centre/ centre-left | Liberalism, social liberalism, pro-Europeanism | Ed Davey |
| Green | 1990 | Left-wing | Green politics, progressivism, pro-Europeanism | Carla Denyer & Adrian Ramsay |

Sources: Ipsos Political Monitor and YouGov, as of 11 January 2024.

**Equities have been largely politically agnostic** – It is difficult, and typically unproductive, to attempt to draw any conclusions on the performance of equities during certain periods based solely on the PM and party in power. John Major's premiership proved to be fruitful for equities, coinciding with Britain's longest period of economic growth following the recession of the early 1990s. If you had invested in the FTSE 100 during Major's premiership, you would have earned a healthy 121% return over his tenure (**FIGURE 4**).

Tony Blair, at the time the first Labour PM in over 20 years, oversaw less impressive equity gains of 43%, relative to his immediate predecessor. In his second term (June 2001-May 2005), a period which saw a reversal in his popularity due to the, later deemed, illegal invasion of Iraq in 2003, the FTSE 100 actually produced a negative return of -14% (**FIGURE 4**)[1]. Equities plummeted across the board under the premiership of Gordon Brown, Blair's former Chancellor of the Exchequer and successor, with the FTSE 100 and FTSE All-Cap producing returns of -21% and -36%, respectively.

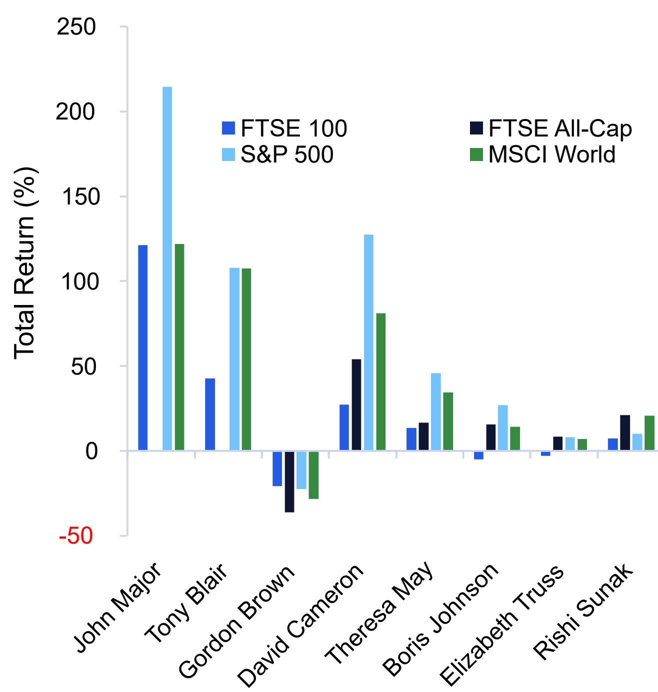
Ostensibly, the data from our sample period suggests equities typically fare better under Tory governments. However, the performance of equity markets during each respective period cannot be solely credited to (or blamed on) the policies of the incumbent PM, and history has shown how global political and economic shocks have driven markets most significantly.

For example, while Gordon Brown appears to be the worst performer amongst his counterparts, his premiership coincided with the Great Financial Crisis (GFC) of 2008/09 and, relative to comparable global equity indices, the FTSE 100 actually fared quite well; this is the only premiership in our sample period that saw it outperform the S&P 500 and the MSCI World index (**FIGURES 3 and 4**). For global investors who seek diversification in their portfolios, this relative performance in a year of falling returns is worth considering.

**FIGURE 3**: equity performance has varied under different PMs

| | FTSE 100 (%) | FTSE All-Cap (%) | S&P 500 (%) | MSCI World (%) |
|---|---|---|---|---|
| John Major | 121.2 | | 214.3 | 121.8 |
| Nov 1990 - May 1997 | | | | |
| Tony Blair | 42.7 | | 108.0 | 107.4 |
| May 1997 - June 2007 | | | | |
| Gordon Brown | -20.8 | -36.1 | -22.6 | -28.1 |
| June 2007 - May 2010 | | | | |
| David Cameron | 27.4 | 54.1 | 127.3 | 81.1 |
| May 2010 - July 2016 | | | | |
| Theresa May | 13.4 | 16.6 | 45.7 | 34.6 |
| July 2016 - July 2019 | | | | |
| Boris Johnson | -4.8 | 15.6 | 26.9 | 14.3 |
| July 2019 - September 2022 | | | | |
| Elizabeth Truss | -3.0 | 8.3 | 8.1 | 7.2 |
| September 2022 - October 2022 | | | | |
| Rishi Sunak | 7.3 | 21.0 | 10.1 | 20.8 |
| October 2022 - present | | | | |

**FIGURE 4**: FTSE 100 held up well under Gordon Brown relative to US and World equities




Sources: Citi Global Wealth Investment and Haver Analytics, as of 13 December, 2023. Note: FTSE-All Cap data series begins in 2005. Past performance is no guarantee of future returns. Real results may vary. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Past performance is no guarantee of future results. Real results may vary.

[1] FTSE 100 total returns were 27.1%, -14.3% and 30.6% during Tony Blair's first, second and third terms, respectively.

**GILTS & STERLING –** The government bond and foreign exchange markets tend to be more reactive to fiscal and monetary policies than equities. During our sample period, gilts largely strengthened over premierships **(FIGURE 6);** the only period that saw a weakening in 10-yr gilts prior to Boris Johnson and the COVID impetus was under Tony Blair during his third term (**FIGURE 9**). This was largely the consequence of a sustained period of rate hikes between June 2006 and September 2007.

Sterling rallied the most against the dollar under Blair's premiership, but this was during a more general period of dollar weakness **(FIGURE 7)** in the aftermath of the tech bubble and geopolitical tensions in the Middle East with the start of the war in Iraq.[2] Sterling also strengthened meaningfully during David Cameron's first term against both the Dollar and particularly the Euro **(FIGURE 8),** but fell in his second term[3] following the Brexit referendum he called and subsequently lost which ensued much unpopularity and ultimately led to his resignation.

**FIGURE 5**: COVID-19 impetus resulted in elevated bond yields but we expect a rally in 2024 as monetary policy eases

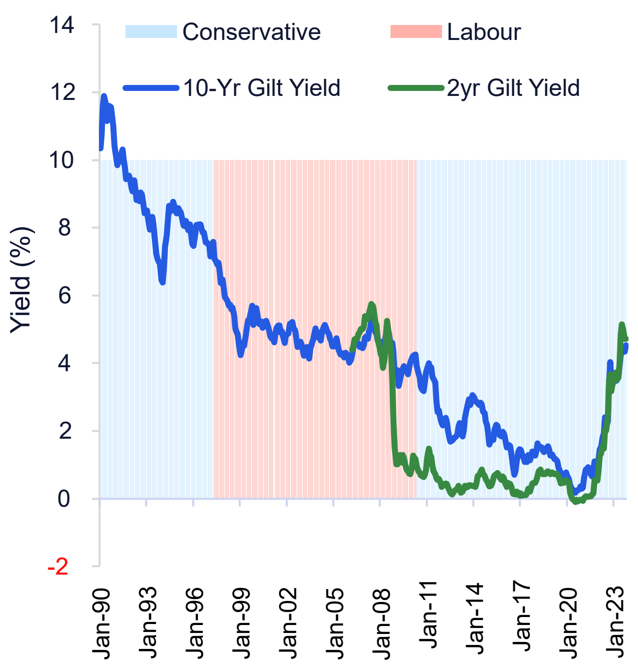



**FIGURE 6**: Gilt & FX performance

| | 2-yr Gilt Yield (bps) | 10-yr Gilt Yield (bps) | GBP/USD (% change) | GBP/EUR (% change) |
|---|---|---|---|---|
| **John Major** Nov 1990 - May 1997 | | -392.0 | -16.9 | |
| **Tony Blair** May 1997 - June 2007 | | -177.0 | 21.6 | |
| **Gordon Brown** June 2007 - May 2010 | -479.7 | -140.0 | -26.4 | -21.1 |
| **David Cameron** May 2010 - July 2016 | -81.7 | -300.0 | -10.2 | 1.7 |
| **Theresa May** July 2016 - July 2019 | 43.5 | -7.0 | -5.1 | -6.5 |
| **Boris Johnson** July 2019 - September 2022 | 293.1 | 260.0 | -9.2 | 3.0 |
| **Elizabeth Truss** September 2022 - October 2022 | 16.5 | 59.0 | -0.2 | 0.4 |
| **Rishi Sunak** October 2022 - present | 105.3 | 31.0 | 9.6 | 1.0 |

Sources: Citi Global Wealth Investment and Haver Analytics, as of 13 December, 2023. Note: FTSE-All Cap and GBP/EUR data series begins in 2005. Past performance is no guarantee of future returns. Real results may vary. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Past performance is no guarantee of future results. Real results may vary.

[2] GBP/USD saw changes of -12.7%, +32.3% and +7.15% during Tony Blair's first, second and third terms, respectively

[3] GBP/USD saw changes of +5.8% and -15.1% during David Cameron's first and second terms, respectively and GBP/EUR saw changes of +18.5% and -14.2%, respectively

**FIGURE 7**: Sterling strengthened under Blair but amidst a wider trend of Dollar weakness

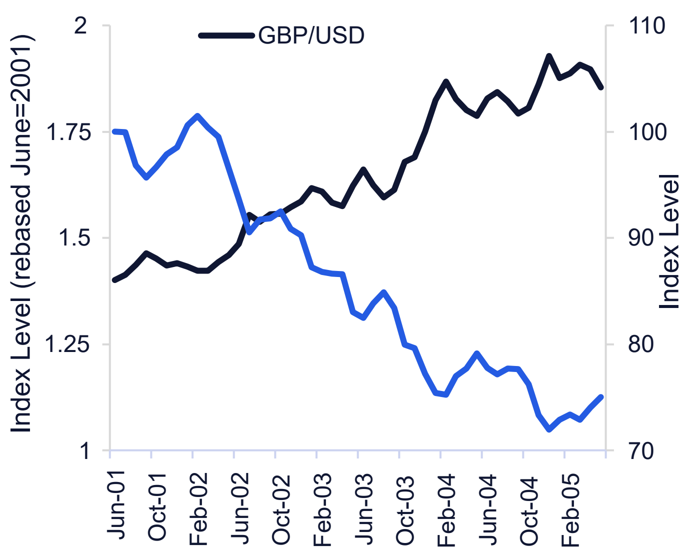
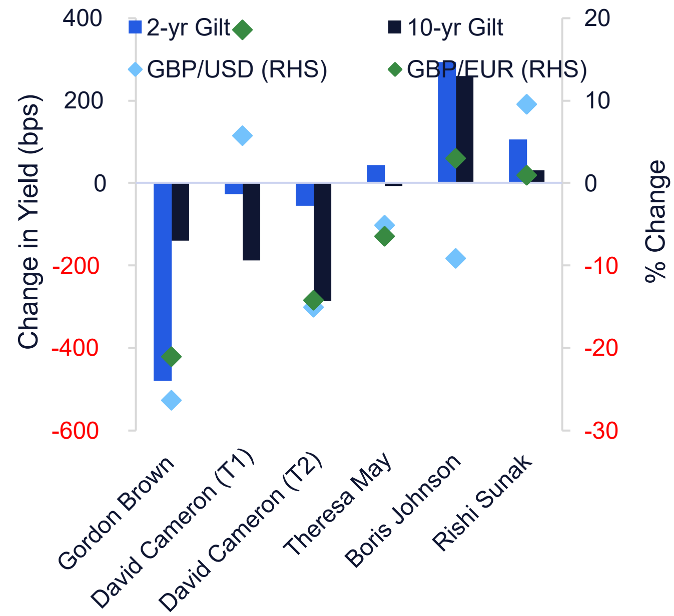



**FIGURE 8**: the Brexit effect

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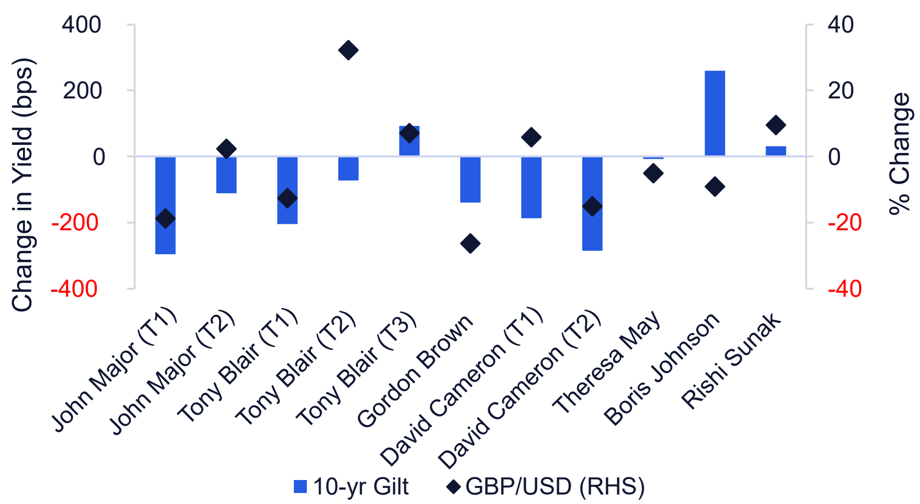
The COVID-19 pandemic triggered an unprecedented amount of monetary and fiscal policy easing which consequently triggered a surge of inflation globally (UK CPI inflation reached an all-time high of 11.1% YY in October 2022). Eventually, this forced central banks to deliver ultra-tight monetary policy, creating the much higher bond yield environment we have seen over the past two years (**FIGURE 5**). With inflation softening rapidly and the BoE likely cutting rates in the late spring or early summer of 2024, we expect a meaningful rally in the bond market later this year.

**FIGURE 9**: Gilt & FX performance

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With the next election likely to take place in the second half of this year, confirmed recently by PM Sunak, the BoE may need to be slightly more hawkish in the 1H24 to counteract the inflationary pressures that Hunt's tax reforms may induce. Indeed, the Chancellor of the Exchequer hinted that a further £21bn in tax cuts may be announced in his 6 March budget statement, further compounding the expansionary fiscal stance expressed in his Autumn Statement on 22 November 2023. Therefore, investors with long positions in gilts could expect significant gilt volatility in the first half of 2024, as the expected rate cuts could get slightly pushed back.

However, should Labour come into power later in 2024, we expect some initial fiscal tightening that should support the BoE in its endeavour to tame inflation and bring it back down to target, likely creating the conditions for an extended rate cutting cycle in the second half of 2024. Furthermore, a Labour victory may lead to a closer relationship with the EU when the Trade and Cooperation Agreement comes up for renewal in 2026.

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|---|---|---|---|
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| **Investment Grade** | | | |
| Highest quality | Aaa | AAA | AAA |
| High quality (very strong) | Aa | AA | AA |
| Upper medium grade (Strong) | A | A | A |
| Medium grade | Baa | BBB | BBB |
| **Not Investment Grade** | | | |
| Lower medium grade (somewhat speculative) | Ba | BB | BB |
| Low grade (speculative) | B | B | B |
| Poor quality (may default) | Caa | CCC | CCC |
| Most speculative | Ca | CC | CC |
| No interest being paid or bankruptcy petition filed | C | D | C |
| In default | C | D | D |

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