

Tony Yarrow's Investment View

Mrs May's Election



This election was called in order to create certainty. It was meant to increase the Conservatives' majority, endorse Mrs May's position as Prime Minister, and give her a strong hand to govern for the whole country for the next five years, and a mandate to take into the Brexit negotiations.

The election has not delivered any of these objectives, and has instead produced a situation which is significantly more uncertain than what went before.

As an interested observer, and as a fund manager, it is helpful to reflect on what has happened, what we have learned, how the markets have reacted to the result, and what we need to look out for now.

Why did it go wrong?

Perhaps because – like Chelsea in the Cup Final – Mrs May felt that the opposition was so weak that all she had to do was turn up. She made the election a personal endorsement of herself, but instead of showing us who she really is and what she really thinks, she hid behind the endlessly-repeated soundbite about 'strong and stable government'. This approach patronised the electorate and made Theresa May appear distant and arrogant.

The manifesto policy of making wealthier people pay for their own social care (which isn't a tax and is not necessarily related to dementia) is reasonable in itself, but the details hadn't been thought through. Faced with an outcry she hadn't expected, Mrs May did a hasty U-turn, and then pretended she hadn't.

From this point, the polls turned against the Tories, and Mrs May's panic response was to redouble her personal attacks on Mr. Corbyn, who, in contrast to her, makes no attempt to project an image, and tends to speak his mind plainly.

For its part, Labour ran a good campaign. There is a huge amount of concern in the country about the state of public services, most obviously the NHS, but also schools, roads, and in the wake of two terrorist attacks, cuts to the police. Labour were the only party who appeared willing to address the issues meaningfully. Whether their policies are affordable or not is another question – but voters either didn't care, or were prepared to give Labour the benefit of the doubt.

I expected the **Lib Dems** to be major beneficiaries in the election, picking up a lot of the Remain vote, and making gains from Labour. However, politicians on all sides reported that Brexit wasn't an issue on the doorstep. Many Remain supporters either accept Brexit as a *fait accompli*, or aren't comfortable with the idea of a second referendum. Also, Mr. Farron appears lacking in charisma, and the Lib Dems' policy on services appeared to favour schools at the expense of other services. In the end, their campaign went nowhere.

The one area in which Mrs May succeeded was in taking votes from the moribund UKIP. Without support from this quarter, the night would have been even more dismal for the Conservatives.

The sharp decline in SNP representation shows that Scotland is not anxious for a second referendum, and appears happy to stay in the union, which removes one source of uncertainty, at least for the time being. The result was a triumph for Ruth Davidson, the Scottish Conservative leader, another wears-her-heart-on-her-sleeve, tells-it-like-it-is politician, who could perhaps teach Mrs May a thing or two about winning hearts and minds.

What do we know this morning that we didn't know before?

Up until last night, there was a possibility that the political situation in the UK would be stable for the next five years. What we now know is that our politics are in more of a state of flux than ever, and it seems likely that there will have to be another election. We are not going to be led by a strong and stable government into the Brexit negotiations.

Can Mrs May stay on as Prime Minister?

The experts say not, but there is no obvious alternative candidate. What isn't clear is whether, after the pummelling the electorate has given her, Mrs. May has the appetite to go on other than in the short term as a caretaker. Until her intentions, and those of her party, become clearer, a sense of uncertainty is bound to hang over the Government.

How have the markets reacted this morning?

What we have seen this morning is a repeat of what happened after the referendum, but on a much smaller scale. The pound has fallen against all major currencies, but by around 2% rather than by around 15% as happened last year. Exporting companies such as Unilever and Diageo have gained, again by around 2%, while domestic companies in sectors such as retail, construction and housebuilding have been weak, reflecting increased uncertainty over the UK and its economic prospects. A weak UK government will find not only the Brexit negotiations harder, but also the delivery of domestic programmes such as infrastructure.

How has TB Wise Income been affected? Will we be making any changes to the fund as a result of what has happened?

TB Wise Income's investment style is value – we invest in assets which we believe to be both robust and undervalued. At present, quite a few of these assets are domestic-focussed UK companies. Our overseas assets such as Blackrock World Mining and Aberdeen Asian Income are doing well today, but other holdings such as British Land and the UK retailers have been marked down, though far less severely than was the case

last summer after the Leave vote. And it's worth remembering that the further the pound falls, the more attractive UK assets become to overseas investors.

Overall, June 9th 2017 is likely not to be one of TB Wise Income's better days in terms of performance.

Though market volatility never feels pleasant as we experience it, it allows us to buy attractive assets at attractive prices. UK domestic stocks have been selling off for a month now, and there is a lot more value on offer at these lower levels, and dividend streams which look all the more appealing for costing less to buy.

We will remain alert as the situation unfolds, aiming to invest our cash as effectively as possible.

Tony Yarrow

Fund Manager, Wise funds

June 9th 2017

Please note – this article contains the personal opinions of Tony Yarrow, is not meant as financial or investment advice, and should not be construed as such.