Investec Wealth & Investment

Another Year Over…

The last time I pulled a general election "all-nighter" was in 1992. I almost made it this year, but succumbed to ninety minutes kip around 2am. However, canny use of a PVR allowed me to catch up with events as if I were watching them live. The uncertainty as we headed to the polls, combined with the extraordinary regional shift in voters' preferences and the scale of victory are uncannily similar across the decades, but there was one huge difference – the exit polls. The 1992 exit poll suggested a hung parliament, and it was only as the results filtered through in the small hours, notably from constituencies in Essex, that the result started to become clear. This year the exit poll forecast a resounding Conservative victory, and so some of the tension was immediately defused. The interest was in seeing how the result would evolve and observing the reactions. It was a bit like watching one of those films or TV shows which opens with a dramatic event followed by the caption: "Six Hours Earlier…"

The notable development this year was the demolition of the "red wall" of Labour seats across the middle of the country. How much of the damage can be ascribed either to a desire to "Get Brexit Done" or to a wholesale rejection of Corbynism will perhaps only be revealed by deeper expert analysis of the results, but the immediate implication is that the new government will have to play to this section of the population, and the early statements from the Prime Minister suggest as much. Perhaps betraying a degree of wishful thinking, our opinion is that Mr Johnson will pivot towards a "softer" version of Brexit, especially now that his parliamentary majority is not as dependent upon the support of the hardline Brexiters of the European Research Group. It will be very interesting to see how members of this group are treated in forthcoming cabinet reshuffles. We also expect to see an increase in public spending, with much of the benefit directed away from London and the South East. This, alongside the release of some pent-up capital investment, should be supportive for the domestic economy.

The market reaction has been very much as expected. Risk asset prices rallied on Friday, with the more domestically focused FTSE 250 Index outpacing the more international FTSE 100. The key point, however, is that UK equities are no longer deemed to be "off limits" for many overseas investors.

The pound traded just below $1.30 late on election day, but shot up to over $1.35 once the exit poll was announced. It has since slipped back to $1.335. It has displayed similar movements against the euro and other currencies. For all the initial euphoria, there are still plenty of uncertainties. Not only will it be a while before we know the shape of Brexit, but in the meantime we remain, in the words of soon-to-depart Governor of the Bank of England Mark Carney, "reliant on the kindness of strangers" to finance our still large current account deficit.

There is also the not inconsiderable matter of the future of the United Kingdom. There have been increasing calls (from north of Hadrian's Wall, at least) for a second Scottish independence referendum, supported by the fact that the Scottish National Party won 48 of the 59 seats available to it. Furthermore, unionists now hold fewer seats than nationalists in Northern Ireland. While nobody is expecting either an immediate border referendum nor change to the political situation in Northern Ireland, there are real fears (or hopes, depending on your perspective) that a strong showing by the SNP in the May 2021 Scottish Parliament election will make "IndyRef2" inevitable. However, it must also be pointed out that the SNP "only" received 45% of the vote in Scotland, and one suspects that SNP supporters will have been more highly motivated to cast their votes.

Another interesting statistic is that 31% of people polled last week believed that Brexit really is Brexit - that is that once the UK leaves the EU (almost definitely on 31st January now) everything is done and dusted. Oh, no. That's when the negotiations really begin. And finally, while I'm throwing percentages around, apparently 10% of voters couldn't actually remember who they voted for in the last election, thus complicating the job of polling organisations trying to forecast swings in the vote!

The other geopolitical running sore that has been influencing markets for ages is the US/China trade dispute. A metaphorical sticking plaster was finally applied to the wound at the end of last week, although it's not altogether clear that (as with the real thing) it will survive contact with the stresses of the real world. This was the much vaunted "phase one" deal that we have been looking forward to for most of this year. It agrees a limited roll-back of some of the existing tariffs on imports from China, while also postponing the latest round that was due to come into force yesterday (and which would have applied to many consumer electronics products, thus casting a pall over Christmas shopping). On the other side of the deal, China has agreed to increase purchases of various goods from the US, while also committing to protect intellectual property rights.

Our long-held view on this situation is that it suits neither side to escalate a trade dispute now: Trump needs a half-decent economy to be re-elected, and Xi is struggling with his own domestic problems, notably a slower economy and the Hong Kong protests. But we also recognise that the resetting of the global balance of power is going to be unsettling for years to come, and so we are prepared for bouts of volatility.

That's it for 2019, which hasn't turned out too bad in the end. It just remains for me to wish you and your families a Merry Christmas and a Prosperous 2020 and to thank you for reading. See you next year!

John Wyn-Evans
Head of Investment Strategy

FTSE 100 Weekly Winners

John Wood Group	15.2%
Barratt Development	14.4%
Berkeley Group	12.9%
Taylor Wimpey	12.6%
IAG	12.4%
Persimmon	11.5%
Marks and Spencer	11.1%

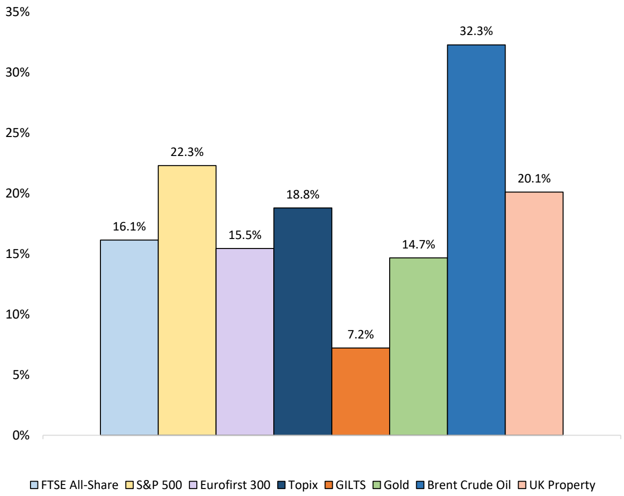
Source:FactSet

FTSE 100 Weekly Losers

Micro Focus International	-5.9%
Rolls-Royce	-4.3%
Bunzl	-3.2%
Rentoki	-3.2%
WM Morrison	-2.9%
Ashtead	-2.7%
NMC Health	-2.6%

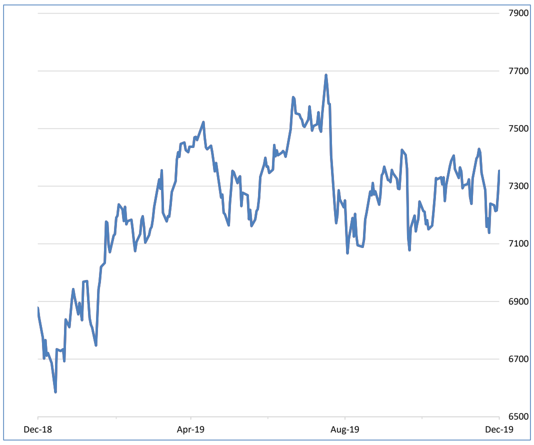
Source: FactSet

Year to Date Market Performance



Source: FactSet

FTSE 100 Index, Past 12 Months



Source: FactSet