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INVESTMENT SERVICES

Hymans Robertson Investment Services (HRIS)

UK Election announcement

May 2024

- The UK is set to have a general election on 4th July. We anticipate any impact on markets/portfolios on the back of the election to be low.
- Equity markets typically perform well in the year leading up to an election, but volatility may increase as the election approaches if the outcome is uncertain. Owing to the considerable lead in the polls for Labour, markets have mostly “priced in” a Labour victory already.
- In the long-term, elections’ impacts on markets tend to be fleeting with global macroeconomic drivers being more important.

On 22nd May, the Prime Minister called for an election to take place on 4th July. Away from the political significance, investors may also be considering how this will affect their portfolio. In all likelihood, the impact should be limited, but we provide further comments below.

Equity markets’ “typical” performance in the lead-up to an election

The medium-term run up to a general election tends to be relatively positive for equity markets. In the past 50 years, the FTSE All Share has returned an average return of 19.8% in the year preceding an election. This could be a result of looser fiscal policy boosting stock markets, as governments try to gain favour with the electorate. There should be an element of caution in reading too much into this though. In the UK, where governments decide when to call an election, they are more likely to do so when there is a positive economic backdrop. In other words, strong markets could cause the election, not the other way round.

In the weeks approaching an election, markets may be more sensitive to the polling data, depending on how tight they are. There is a misconception that the markets prefer Conservative governments and react poorly to Labour wins. In reality, what markets crave is certainty. A strong government majority, whatever the colour, is preferable to a hung parliament or minority government. It’s also worth remembering that markets price based on expectations. If the polls predict a landslide victory and they are correct, then market reaction should be muted on election results day, as seen in 1997 with the Labour victory.

What does this mean for the upcoming election?

The commanding lead in the polls that Labour currently enjoys means that markets have already mostly priced in a Labour government. This explains why there was little market reaction to the election announcement. If this follows through to election day, then we expect minimal market reaction to the results too.

As always with politics though, anything can happen. Any result leading to a hung parliament could cause a pickup in market volatility, whether that is a slow improvement of Conservative polling over the next few weeks or a sudden shock result. As explained above, this is not necessarily because investors favour Labour, but because certainty over the outcome is preferred. Even if this were to transpire, we would anticipate the overall impact at a portfolio level to be relatively small (indeed any weakness in sterling would boost the value of unhedged overseas assets).

Over the long term, global macro-economic trends have a much larger impact on markets than elections. There may be short-term volatility where elections are tight, but Labour’s comfortable lead means this is unlikely to be the case. Instead, investors are likely to remain more focused on inflation and the prospect of central bank interest rate cuts.

Jack Richards
Investment Manager

Risk warning

The value of your investments and the income from them may go down as well as up and neither is guaranteed. Investors could get back less than they invested. Past performance is not a reliable indicator of future results. Changes in exchange rates may have an adverse effect on the value of an investment. Changes in interest rates may also impact the value of fixed income investments. The value of your investment may be impacted if the issuers of underlying fixed income holdings default, or market perceptions of their credit risk change. There are additional risks associated with investments in emerging or developing markets. The information in this document does not constitute advice, nor a recommendation, and investment decisions should not be made on the basis of it. The material provided should not be released or otherwise disclosed to any third party without prior consent from HRIS.