



UK Election: Voters Continue To Surprise Markets

The markets have once again been wrong-footed by voters, with the UK election resulting in a hung parliament rather than the expected strengthening of the Conservative Party's majority. As the dust settles, Manulife Asset Management's Head of Europe and EAFE Equities, David Hussey considers what the outcome could mean for UK equities and the ongoing Brexit negotiations.

We wrote some time ago that politics globally was the major factor that could surprise markets and this continues to be the case. The UK election is the latest in a line of surprise results where electorates reject the status quo and vote for change. The results suggest Brexit has divided the British population and Prime Minister Theresa May's single focus on 'Hard Brexit' has alienated many voters who are more focused on domestic issues. It seems the British public is less interested in Brexit negotiations than jobs, healthcare, affordable housing and schooling for the younger voters.

At the time of writing, a coalition government with the Conservative Party and the Northern Irish DUP unionist party appears to be a likely scenario. However, we could see a change at the helm of the Conservative Party.

So how will the turn of events impact UK equities? As with the aftermath of Brexit, the names we like are almost exclusively global businesses with very little domestic exposure. They are all good companies generating enduring free cashflow with strong market positions and trade at a healthy discount to their underlying cashflows. We believe they will continue to return growth in earnings and dividends and reward shareholders.

Turning to the Brexit negotiations, these look to be in disarray. I think Brexit was a protest vote led by the older voters and it left the younger voters angry. They have registered their disapproval in this election. I view this outcome as a rejection of the 'Hard Brexit' stance and it places the UK in a difficult position. Perhaps it will result in a much 'softer' exit, a second referendum or indeed, another election based on a proposed deal or a re-engaging with Europe. Uncertainty will prevail until we have a clearer understanding of what Brexit means.

Initial market reactions look muted and that seems a reasonable response, which begs the question: what will it take to derail the risk trade? Only time will tell.



Investment Note

12 June 2017

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