BROMPTON ASSET MANAGEMENT

UK election comment

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All eyes on the Fed as Tory victory ends UK political uncertainty

After weeks of punditry that the result of the UK general election was too close to call, the outcome was ultimately not close at all, with the Conservatives winning an outright House of Commons majority, admittedly by a narrow margin.

How does this affect Brompton clients' portfolios? The surprise outcome was initially positive for sterling, which rose against the dollar and the euro this morning, and for UK equities. Banks and utilities, which faced tougher regulations had Labour triumphed, were particularly strong. Small and medium-sized companies also benefited as the period of political jockeying and horse-trading that might have followed a closer vote, deterring companies from making long-term investments in the UK, was avoided.

Our clients' portfolios went into the election with relatively-low holdings in sterling assets in general and UK equities in particular although those equity funds we have favoured include PFS Chelverton UK Equity Income and the iShares UK dividend and UBS FTSE 250 exchange-traded funds, which benefit from outperformance by small and medium-sized companies.

One reason for this low allocation is that politics, after the initial post-election euphoria, may weigh on sterling. The Conservatives have a workable majority but must now confront the issue of a referendum on European Union membership by 2017 and consider the implications of the Scottish National Party's sweeping victory in Scotland for the future of the Union.

As a fundamental investor, I focus on economic data, not politics, when making investment decisions on behalf of clients and I will not be changing our portfolios significantly in response to the surprise Conservative victory. The arrival of the first US interest rate rise for many years is likely to have a far greater impact on markets. Recent US economic data has been soft but this could prove transitory as the effects of poor winter weather and a docks dispute fall away. The Federal Reserve's interest rate decision will depend on inflation and employment data. Today's US non-farm payrolls revealed a recovery after weak March data, with unemployment falling to 5.4%. I have already reduced equity holdings in client portfolios in anticipation of a sea-change in US monetary policy.

I remain positive on prospects for Europe excluding the UK, Japan and some emerging markets where monetary policy remains supportive and lower energy costs will prove stimulative. Overall, however, a more cautious stance is warranted following the strong gains made in the first quarter of 2015.

Important information

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