



## ELECTION RESULT LEAVES LEGACY OF UNCERTAINTY



**Theresa May's decision to call an early election has surprisingly backfired, leaving the country with a hung parliament rather than an increased majority for the Conservative Party. This raises all sorts of questions, not least over the future of Mrs May herself. It also raises significant doubts about the Brexit negotiations, which are due to start imminently.**

While markets would have preferred a comfortable Conservative majority, there is a school of thought that a hung parliament may lead to a softer outcome in the Brexit talks. Negotiations with the European Union will be made much more complicated by this result, with the possibility that another election may even be necessary. One thing that is certain is that the cause of Scottish independence has been dealt a significant blow by the Scottish National Party's substantial losses.

So far, markets have reacted fairly calmly, with Sterling down about 2%, and the FTSE 100 in positive territory boosted by the impact of the weaker currency on companies with large overseas earnings. Stocks with a domestic focus are weaker though, with the FTSE 250 down modestly. Gilt yields have risen modestly, partly on predictions of a softer Brexit but also due to higher inflation expectations.

Whoever is Prime Minister, whether Mrs May or someone else, faces a number of challenges, including how to negotiate Brexit against the backdrop of a hung parliament, while the economy is beginning to weaken amid the ongoing uncertainty and the squeeze on real incomes.

Our positioning and outlook remains unchanged. Overall, we retain a generally positive view, given the backdrop of solid global growth, with a preference for overseas equities over UK equities, and underweight gilts. We have a sizeable exposure to overseas earners on the FTSE 100, and a meaningful position in gold, in part due to geopolitical uncertainty. We are also positioned for other important global themes, such as the continuing growth of the US and Eurozone economies.

Sterling has fallen modestly on the back of the result, but we are keeping our exposure under review. We expect it to remain at a historically low level, due to the increased uncertainty, and the likelihood that the Bank of England will keep interest rates low for now.

We would like to reassure clients that we continue to monitor developments very closely. Diversification by asset class and geography remains central to our strategy, and it goes without saying that we will continue to manage portfolios in the best interests of our clients at all times.

### CONTACT

Richard Carter, Head of Fixed Interest Research  
[richard.carter@quiltercheviot.com](mailto:richard.carter@quiltercheviot.com)

