Shock UK election call could strengthen May's Brexit hand

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UK Prime Minister Theresa May's call for a snap general election could bolster her negotiating position with the European Union (EU) and within her own party.

Schroders Chief Economist, Keith Wade, and Fund Manager, UK Equities, David Docherty, comment:

Keith Wade, Chief Economist, Schroders:

“If Theresa May can increase the Conservatives’ majority that would give her more power and room for manoeuvre when it comes to negotiating the UK’s terms of exit from the EU.

“With the Brexit negotiations expected to finish in March 2019, it would take away the pressure of a General Election in 2020 coming up. It would also give May a little bit more breathing space and less need to strike a final deal with the EU.

“We did see after the Budget that there was a small rebellion of Conservative MPs which was enough to cause the government to do a U-turn on its tax proposals for the self-employed and I think May has realised this could happen several times during the negotiations.

“In many ways it would mean that we have probably got more chance of a softer Brexit. The worry before was that the Conservatives would get very frustrated at the lack of progress made during the process and would push for a complete break and a move to the World Trade Organisation (WTO) option.

“A successful election would give May the mandate to pursue her own Brexit strategy. My sense is that a stronger mandate and more time would allow a more patient approach and a softer Brexit, probably more in line with May's instincts."

David Docherty, Fund Manager, UK Equities, Schroders:

“Recent elections have shown that anything can happen at the ballot box with market and media analysts wrong-footed by the Brexit vote in 2016 and by the unexpected success enjoyed by anti-establishment candidates and parties around the world. Given this backdrop, definitive predictions are therefore hazardous.

“Nonetheless, it is fair to assume that the announcement of a UK General Election to be held on 8 June will lead to some increased uncertainty for the UK economy as consumers and corporates try to identify the implications of the visions articulated by the competing parties. This uncertainty will be compounded by the fact that May is explicitly seeking a mandate to push Brexit through Parliament.

“In many ways it could well take the shape of a re-run of the referendum, but this time overlaid by party politics. Throughout the campaign, we will therefore be carefully watching surveys of corporate investment intentions and consumer confidence to measure any economic effects and their bearing on the performance of UK equities.

“Whatever the outcome, uncertainty will continue after the votes are counted. On Brexit, for example, were May to achieve a strengthened mandate, as the odds currently suggest, it would still be unclear whether this would lead to the EU agreeing to our demands in such a way as a WTO fall back outcome could be avoided.

“On her other policy platforms, markets would also have to weigh up the extent to which she might be a more economically interventionist premier than her Conservative predecessors. There will also be implications for the Union depending on how the Scottish National Party performs at the ballot box.

“In short, the election and its aftermath will bring new uncertainties for investors. Our task, as always, will be to look for mispriced stocks possessing the inflection points for a revaluation and material outperformance. If the market behaviour around recent political events provides any guide, the coming weeks and months should throw up many such opportunities.”

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