

So What?

So the United Kingdom has a government – at last. So what is going to be the impact? Well firstly relief, as any further continuation of the political pontificating was going to increasingly draw attention to our lack of leadership and direction. I think we owe Greece a vote of thanks for drawing the attention of our inadequacies away from the UK to the Eurozone. Without them we could easily have had further pressure on our currency and debt markets.

Thus we have a coalition – so what is going to happen? The truth is of course we don't actually know – these are uncharted waters for the UK economy, and waters with some deeply unpleasant reefs and rocks just below the surface.

The first area that will have to be addressed will be the emergency Budget. As part of this, the most crucial element will be to provide a credible plan for the management of the economy and especially the reduction in the UK deficit over time. I would like to think that this does not just focus on the negatives of tax rises and cuts, but also the more positive elements of where the UK economy can grow - and is currently growing – the smaller the medium size companies and particularly those involved in exports.

Our new Chancellor must be charged with giving assurance and confidence to the international markets that the UK is not a financial basket case and certainly not to be lumped together with the unfortunate nations with the acronym of "PIGS".

Somewhat surprisingly Sterling has in fact not been as badly affected as might have been the case and UK Gilts are still proving attractive to investors both domestically and internationally. This is an encouraging first sign for the new administration. Additionally in the equity markets it has been the more UK focused FTSE 250 index that has shown most strength so far and this too would seem to be a positive tone for the government at least to start with.

So what, as investors, need we do?

The answer lies in being quite defensive until we can see really what effect the new policies will be having and how the international investors react. Thus we have already designed the 7IM portfolios for exactly this type of situation by being both broadly spread by way of asset and geography.

Tactically its often best to stand back and not make rash moves in portfolios when volatility is such as it is at present, particularly when events are playing out for the most part as we expected, as per the last meeting of our Asset Allocation Committee:

1. We expected the Pound to continue to be weak,
2. We expected volatility in markets to increase,
3. We also expected sovereign debt issues to be more at the fore of market events in the months ahead.

The good news is that the global economy is in far better shape than many had expected just 18 months ago, but there are still many issues to address, not the least of which is that equity markets do not rise continuously. The easy money has already been made. Time to be a little more circumspect until we can better chart these waters and steer around those wretched reefs.

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