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UK general election: Liontrust fund manager reaction

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After Labour secured the expected landslide majority overnight, Liontrust's investment teams provide their reaction to the general election and look at what the result might mean for investors and markets.

Natalie Bell: Fund Manager, Economic Advantage team

For some time now, we have been discussing with clients the significant investment opportunity in UK equities as a result of their extremely low valuations. We feel that the clear valuation gap presents a compelling opportunity for investors in UK shares with the market poised to benefit from more imminent catalysts.

We were delighted to see in the Labour Party manifesto an explicit commitment to increase investment by UK pension funds in the domestic stock market. Reform such as this would be transformative to the capital flow dynamic in the UK market following ten years of net outflows from the IA UK All Companies sector.

After the election a number of stars should align – a stable government, interest rates falling, inflation stabilising and growth returning. This, coupled with likely policy intervention, should help turn the tide following decades of outflows. We hope the next government recognises the opportunity to promote economic growth and domestic prosperity via a thriving stock market sooner rather than later.

Peter Michaelis: Head of the Sustainable Investment team

We invest in long term structural trends around delivering a cleaner, healthier and safer world. Changes in political parties can act to speed up or slow down these trends but they rarely derail them.

For example, coal generation of electricity fell precipitously through the Trump presidency. Equally, the pace of innovation in development of medicines is driven by the pace of research breakthroughs which may be decades in the making.

We take heart from the commonality of many of the promises in UK manifestos: better healthcare, more housing, cleaner technology, and wealth generation. What is different between political parties is their view of the pace of change and the mechanism of supporting it.

At the end of the next five-year term, we are confident that in the UK we will see even cleaner generation of electricity due to more renewables coming on stream; greater penetration of electric vehicles making our city air cleaner; development of innovations in medicine which will improve survival rates in cancers and heart disease; improvement in the quality of our housing stock and newly built homes making them better to live in and lower energy users; and even dare hope we see improved management of pollution in our rivers and seas.

Emily Barnard: Fund Manager, Global Fundamental team, and Deputy Portfolio Manager of the Edinburgh Investment Trust

While there is usually a gap of varying widths between what a political party promises in a manifesto and what it can deliver in government, the Labour victory should see a meaningful reduction in the political uncertainty risk premium which has been attached to UK assets for a number of years. As we enter this next period, we retain our focus on identifying business that can deliver whatever the economic and political weather.

Philip Milburn: Co-Head, Global Fixed Income team

Now that one of the most uninspiring elections in UK history has reached its natural conclusion, it is time for the UK to face cold hard reality. The government faces some difficult spending choices amid a distinct lack of fiscal headroom. Maintaining fiscal discipline will be viewed as paramount given the Truss/Kwarteng debacle remains fresh in the mindset.

The one variable that would help give some leeway to government spending plans is economic growth. There are two main ways for the UK to stimulate growth. Firstly, attracting long-term capital to reverse the chronic underinvestment over preceding decades is key. Freeing up planning constraints for both business and homebuilding would help. Secondly, unwinding some trade frictions would be sensible. Brexit is still the elephant in the room that the two main UK parties chose to avoid during the campaign. The OBR estimate of a cumulative 4% GDP hit cannot just be reversed, but we may see some attempts to moderate the negative impact. A truthful identification of the many challenges the UK faces would be a good place to start a more mature political discourse.

John Husselbee: Head of Liontrust Multi-Asset Investment

As long-term investors, we take the stance that political events such as this election may create short-term noise, but they are unlikely to materially impact the long-term path of markets. Looking back through history, you can generally see that the performance of markets has more to do with valuations at any given entry point than the prevailing political winds, especially in relatively centrist democracies.

Examples in the recent past of political surprises that caused short-term noise but didn't derail a stock market are the Trump presidency and the Brexit vote. Markets were choppy in the immediate aftermath but didn't stay in the doldrums for long. Even if you had perfect foresight of these events happening, would you have predicted that markets would be up in fairly short order afterwards? However, the Labour Party would do well to take heed of Liz Truss' disastrous 'mini-budget' which was clearly a 'negative surprise' from a markets perspective.

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https://www.liontrust.co.uk/benefits-of-investing/guide-financial-words-terms

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The issue of units/shares in Liontrust Funds may be subject to an initial charge, which will have an impact on the realisable value of the investment, particularly in the short term. Investments should always be considered as long term.

Investment in the Fund involves foreign currencies and may be subject to fluctuations in value due to movements in exchange rates. The Fund may invest in emerging markets/soft currencies or in financial derivative instruments, both of which may have the effect of increasing volatility.

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