Evenlode Investment View

July 2017 - UK Election: Initial Thoughts

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This morning it has become clear that yesterday's UK election produced a hung parliament. This outturn has come as something of a surprise to financial markets, given consensus expectations were for the Conservative party to win a majority. Thoughts will now turn to details on the formation of a new minority or coalition government, the possibility of yet another UK election later in the year, and the impact this new political reality may (or may not) have on both Brexit negotiations and the UK economic outlook.

The initial reaction in financial markets has been reasonably contained. The impact has been most obviously felt in currency markets, with the pound weakening approximately -2% against most major currencies in early trading. The UK market has rallied, given its bias towards multinational companies for whom weaker sterling provides a boost to earnings. Other areas of the market (particularly more economically sensitive, UK-focused companies) have seen some weakness.

As discussed in recent investment views we remain very reassured by the Evenlode portfolio, comprised as it is of a collection of companies that in aggregate enjoy strong competitive positions, compounding cash flows, strong balance sheets and geographical diversification. Their globally derived earnings are particularly helpful on a day like today, shielding the portfolio from UK-specific risk. However, we also remain open to gradually evolving the portfolio if and when new opportunities emerge. Uncertainty may lead in time, for instance, to opportunities in certain high quality, domestically focused companies that are not currently in the portfolio for dividend and valuation reasons.

As always, we look forward to updating you on our thoughts over coming weeks.

Hugh Yarrow
Fund Manager
9th June 2017

Please note, these views represent the personal opinions of Hugh Yarrow as at 9th June 2017 and do not constitute investment advice.