



# UK GENERAL ELECTIONS RESULTS & IMPLICATIONS

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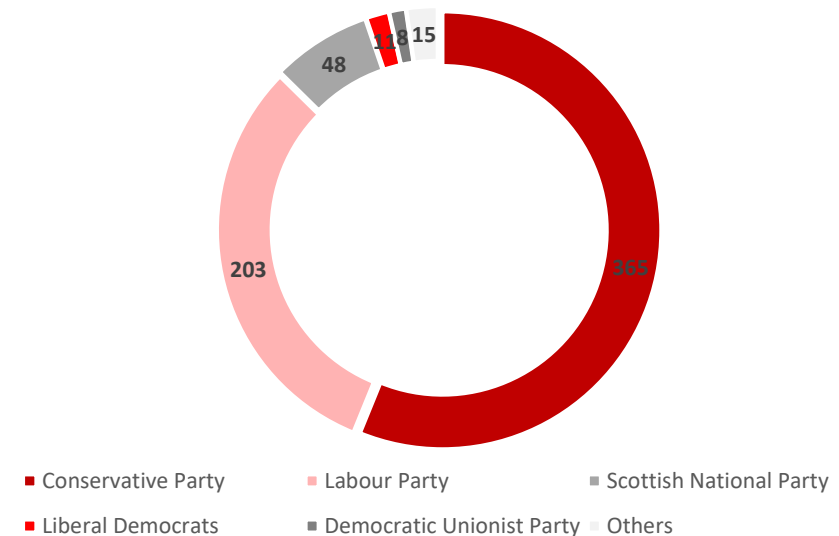
## A landmark victory for the Tories

Following a short campaign, the British Tories led by Boris Johnson won the election gaining a significant majority at the General Election on December 12th. Out of 650 seats, the **Conservative Party** won 365 seats, significantly outpacing the **Labour Party** – 203 seats -, the **Scottish National Party** – 48 seats - and the **Liberal Democrats** – 11 seats.

**Boris Johnson's** strategy to focus on **delivering Brexit** has paid off, letting the **Tories** win a historic victory with 47 seats gained mainly at the expense of the **Labour party** – 59 seats lost – led by **Jeremy Corbyn** who has chosen to focus his campaign on increased state interventionism, new nationalisations and promises to increase tax for corporates and high net worth individuals. Despite increased participation of younger generations, the **Liberal Democrats**, perennial supporters of **Bremain**, failed to convince and lost 1 seat, their leaders' one.

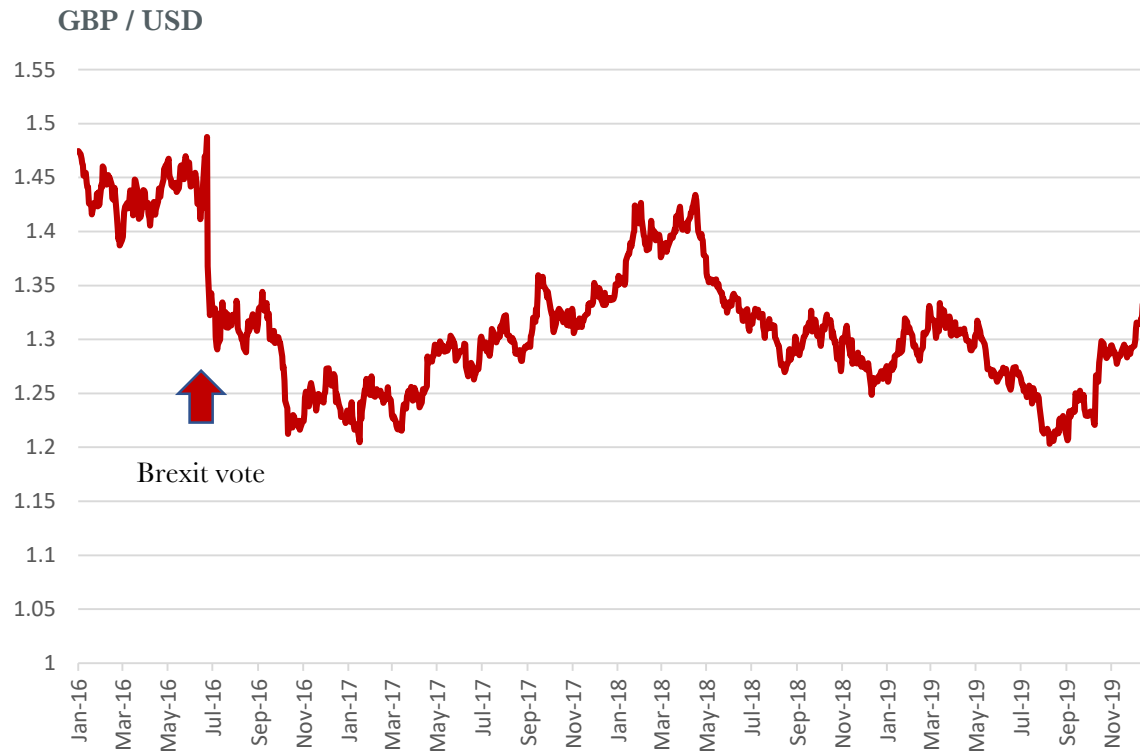
This result does not conceal the rise of the **Scottish National Party** – 13 seats won- or the setback for the Irish **Democratic Unionist Party** – 2 seats lost -. that indicate ever more pronounced regional claims.

General Election – Seat breakdown



Source BBC

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Source Bloomberg

## Does this mark the end of the Brexit?

Reinforced by a strong majority and electoral legitimacy, **Boris Johnson** should be successful in passing the *Brexit Withdrawal Act* before the deadline of January 31<sup>st</sup> 2020.

## Does this mean end of the Brexit story?

The answer is **NO**. Once the withdrawal agreement signed, the United Kingdom and the European Union will have up until the end of 2020 to define their future relationship – social, environmental norms, taxation fair dealing, free circulation of people - and to come up with a **free trade agreement**.

It is worth remembering that to reach this kind of agreement is generally a lengthy process. It took two years for the fastest example of one between the EU and South Korea while over 20 years for the one with MERCOSUR, that is still not yet ratified...

Under these conditions and given the significant divergences between the two, it seems highly likely that the United Kingdom could request an **extension period**. Even if Britain has taken a step forward, the country is far from having formally exited the European Union...

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## What are the implications?

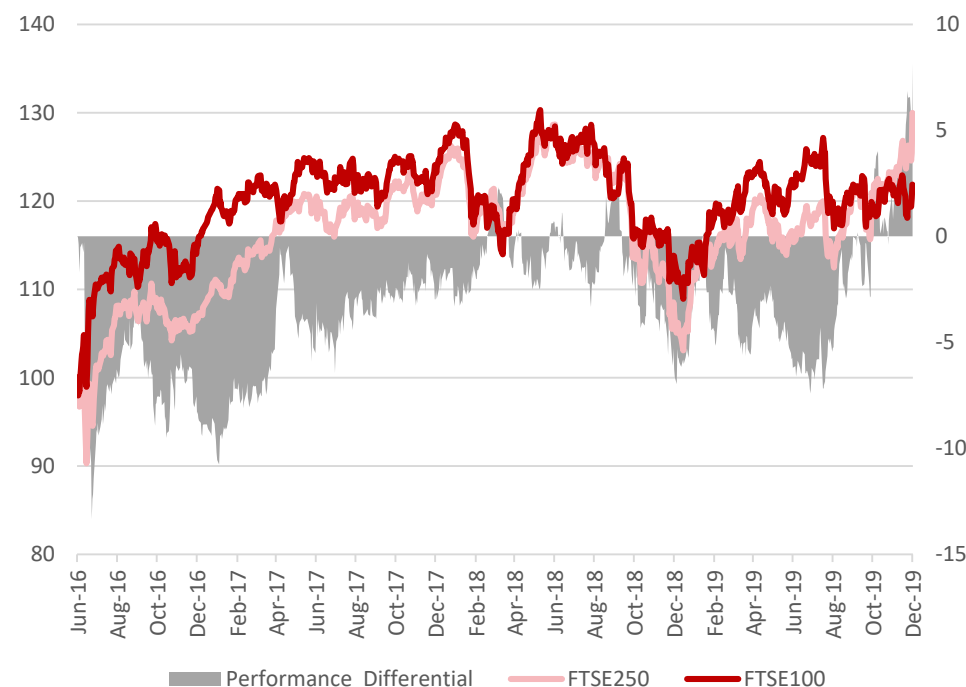
From a macroeconomic standpoint, the uncertainty created by this situation and the risk of **Hard Brexit** have translated into weaker economic growth in the United Kingdom and negative ripple effects for their main trading partners. Even if a negotiated withdrawal process means a decrease in the **Hard Brexit** risk, uncertainties shall continue to prevail to some extent, given the unknowns on the future relation between the EU and the United Kingdom.

The **British Pound** is the big benefactor. The currency has appreciated against the US Dollar by more than 10% since the beginning of August, as the risk of the UK exiting the EU without an agreement receded. This move has been confirmed following Election results.

On a short-term basis, the **FTSE 100** is also benefiting from the election results, but continue to lag the European indices since the beginning of the year. The more international companies represented in the **FTSE 100** index could also be penalized by the strength of the British Pound, were it to continue. It could be tempting to consider that small and medium-sized companies represented in the **FTSE 250**, deemed to be more domestic in operation, should start to do better. In fact, they have not only caught up the lag accumulated since the Brexit vote, but they have even lately outpaced the FTSE 100.

Interestingly enough, this result arrives at a time when European equities – both UK and Continental ones – are barely represented in institutional investors' portfolios, notably because of the uncertainties created by the Brexit. Another reason to stay tuned...

FTSE 100 & FTSE250 performances (lhs)  
Cumulative performance spread (rhs)



Source Bloomberg, base 100 as of 01/06/16

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