

# The UK - 2020 vision

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Two weeks has passed since the shock General Election result in the UK. Now that the dust has settled, it seems like a good opportunity to consider what we can expect over the next five year parliament. There has been plenty of analysis dedicated to the shorter term implications of the election result, but I hope to look through the noise and better understand the broader themes that will challenge us all as well as the positive implications for UK investors.

While all seems settled politically for the next five years, there are a number of very important decisions that we face. Issues such as the UK's relationship with the European Union (EU), Scotland's position in the United Kingdom, electoral reform, the Human Rights Act, David Cameron's gradually waning influence and, of course, the economy, will all be sources of concern and, from time to time, market volatility.

Although the poorly functioning polls have served to remind us of the folly of forecasting, it is nevertheless tempting to look forward to see to what we might be talking about in five years' time. Over the next five years I expect to see a reformed and, if not resurgent, opposition Labour party, at least one that has more appeal to the centre ground; a somewhat weakened SNP; a UK Independence Party (UKIP) shorn of its core electoral attraction; and an early start to the Tory leadership battle. I do not expect to see Brexit from the EU, but the Prime Minister will likely secure meaningful concessions from Brussels in what could be tortuous negotiations with the more committed believers in the great European experiment.

It is remarkable to think that just a couple of weeks ago discussions around UK politics centred on the vast array of iterations of potential coalition governments or governing minorities. The good news from a political certainty perspective is that we have a majority government. Indeed, it is the first majority Conservative government for 18 years and this gives a Conservative government, unfettered by the popular liberalism of Nick Clegg's Liberal Democrats, a mandate for a truly 'Conservative' legislative and administrative agenda. The Prime Minister is unlikely to have everything his own way, however. For a start, he enjoys only a slim majority and therefore the key for the new government will be ensuring that backbench rebellions are quelled quickly, and that views that are inconsistent with the party line are whipped into shape urgently.

The next budget and the first few Bills will be an important opportunity for the new government to set out its stall and to demonstrate how well orchestrated its MPs are. For the time being the Prime Minister, having delivered the surprise majority, has unprecedented authority. But a year or so from now as the more contentious issues are tested, such as a referendum on EU membership; a small Tory rebellion combined with well-coordinated voting by the minority parties could cause bruising losses for the Prime Minister.

## The economy

The majority Conservative government will be pro-business and pro-enterprise which, in turn, should benefit the economy. This should be rewarding for investors in UK PLC as long as Cameron does not take too much notice of the isolationists in his party. It is worth bearing in mind that a large portion of the UK stock market comprises global companies that happen to be listed in the UK rather than being a list of exclusively UK-centric companies. The UK has done well from its outwardly demeanour in the past and it would be a massive strategic error for the UK to become too insular now both in terms of attracting top businesses and staff but also in terms of remaining a pertinent voice on the global stage. If the economy can fire on all cylinders then the longer term issues of budgetary imbalances become less of a worry because growth in tax receipts will be meaningful. At some point the UK has to get over its recent addiction to debt (whether consumer or government issued) and become more fiscally sensible. While the nascent recovery remains fragile, there will be a reluctance to do anything too drastic.

In the meantime the new government has a clear mandate and is likely to move quickly to implement further painful spending cuts and reforms. This would give the economy as much opportunity as possible to heal and prosper in time for the next election. Furthermore, recent data suggests that the economy is performing well on most fronts and the consumer will have a confidence boost from a decisive election victory to compound the feel-good factor from a low oil price. This, therefore, should be a positive environment for UK businesses; early fiscal contraction will mean that interest rates remain lower for longer and this, coupled with pro-business and pro enterprise government policy, a slowly improving fiscal position and falling debt could combine to provide meaningful impetus to this cycle.

## New political landscape

Ed Miliband's pronounced lean to the left proved popular amongst the unions and, given his reliance on their backing for his leadership bid, he was unlikely to move to the right once leading the party. This move from 'new' to 'old' Labour has been a clear failure and has left a weakened Labour party deemed electable only in the Labour heartlands of the north of England, Wales and in metropolitan London. Looking back, it is fair to say that Ed Miliband presided over one of the most spectacular opposition slumps in electoral history. Part of the Labour party's apparent unpopularity, however, is a result of the massive swing of voters to the Scottish National Party (SNP). The SNP won a remarkable 95% of contested seats in Scotland – a result which would raise more than a questioning smirk were it to have occurred in a less reliable democracy. The SNP has cleverly ridden a wave of nationalism and populism in Scotland and this is the single largest change in the UK's political landscape in recent years. There is no doubt that the SNP will be a strong voice aside the Labour party to act as effective opposition to the Government in the House of Commons and (given the entrenched nature of the SNP's opposition to much that the Conservative Party stand for) this will be as a result of force of habit as much as it will be due to genuine points of principle on the particular Bill being debated. While the SNP may prove to be a thorn in the side of the Conservative government, from a tactical point of view, the Scottish nationalists are, on balance, probably preferable for the Tories than a united Labour opposition. Finally, if there is an in-out vote on the UK's membership of the European Union, it will likely settle the UK's stance for a generation. In which case, UKIP's core value proposition would disappear. Indeed, this election may well prove to be the high water mark for the party's popularity.

## Challenges facing the SNP?

The SNP has secured an impressive victory, breaking the Labour grip on Scotland. They are justifiably thrilled about this result at the moment, but they must remember that the key challenge for a populist party that moves into a position of political power is to remain popular. There is a risk that, unless Nicola Sturgeon delivers tangible and meaningful concessions from Westminster in the short term, that the SNP is viewed as just 'another' political party assimilated into the political elite which would diminish their *raison d'être* significantly in the eyes of the Scots. This is why the SNP will need to be seen to be 'taking it to the Tories' in the coming months as this will at least placate their supporters while buying time to secure the large concessions that they will ultimately target.

For a textbook example of these risks, the SNP need look no further than the noble efforts of the Liberal Democrats over the past five years to put the needs of the country for a stable government over and above the centre-left liberalism that proved popular for the party until a week or so ago. The Liberals suffered a devastating election night which saw many of their heavy hitters, including Danny Alexander and Vince Cable, lose seats. Indeed the Liberals fell from 56 to 8 seats, providing a salutary lesson of the potential dangers that come with power and influence for a party whose supporters have become accustomed to being quasi-activists campaigning at the margins rather than being the political rainmakers. The Liberal Democrats have moved from being comfortably Britain's third political party to just 'another' minority party enjoying little more influence than UKIP and the Greens. I believe that there is a real chance that in 2020 the SNP has a very similar experience.

### **Electoral reform?**

The other minority parties, notably the Greens and UKIP, may feel harshly treated by the 'first past the post' voting system used in the UK. These two achieved one seat each from five million votes whereas the SNP gained 56 seats thanks to 1.5 million votes. That means that the Greens and UKIP received over ninety times more votes per seat than the SNP did. While the Labour and Conservative parties believe they have a chance of winning a 'first past the post' poll, they would be unlikely to back material electoral reform however stridently the minority parties seek it. Finally, it is also worth remembering that the UK voted on electoral reform in 2011 and the decision was for the status quo. The Conservative party are more likely to focus on revisiting 2013's failed redrawing of the electoral map to even out the size of constituencies (a change that should benefit the party) than risk a move to proportional representation.

### **Regional autonomy?**

One tactic that David Cameron may wish to use is to give the SNP a large swath of power. This would serve to gain some goodwill (or at least the avoidance of negative goodwill) north of the border whilst providing scope to rebut any SNP allegation that Westminster is standing in the way of reform. The SNP will be acutely aware of the risks inherent in this power, however. If the Government handed over significant autonomy on spending to Scotland on the proviso that the Scots were also responsible for raising the necessary revenue, then it may, over time, force the SNP to make the type of difficult decisions that they have been able to vilify Westminster for in the past. This would rapidly impact the SNP's popularity. This 'devolution' would likely prove rightly unpopular with other large UK regions that may also see an allure in greater fiscal independence. We have seen a start of this appeasement in the form of greater powers for cities such as Manchester and it is possible that these sorts of powers could be offered to other regional powerhouses. Conveniently many of these areas are also 'anti-Tory' so this may prove a powerful goodwill venture over time, and if successful economically, could restore popularity of the Tories in some Labour held seats.

If the SNP achieves substantial concessions for Scotland then I would expect to see a growth in support for regionally focused parties in Wales, Northern Ireland and perhaps even in the English regions. This would be particularly likely if the SNP are seen to deliver a 'favourable' deal for Scotland. Such a transformation would be a further step away from the traditional two party political environment.

### **Brexit?**

I do not believe that a pro-business party such as the Conservatives would honestly believe that there is benefit, other than political expediency perhaps, to exiting the European Union (EU). Indeed, the party is already arguing to stay within a 'reformed EU' rather than completely turning its back on the Union. In a globalised world, where the axes of power are slowly shifting away from the old superpowers to the new, it seems counterintuitive to become a smaller isolated operator rather than remain a member of a large, albeit dysfunctional and economically hamstrung, one. Having said that, there are elements to the membership of the EU that are taxing and that make Britain's position as a very strong economy in a bloc with a number of notably weak ones difficult indeed. As a result I would expect David Cameron to do all he can to renegotiate the UK's relationship with the EU to dim the desires to leave the European Union. Given that the referendum was a pledge in the Conservative manifesto and a 'red line' for the expected negotiations to form a minority government it seems highly likely there will be a referendum. If the Prime Minister can secure some meaningful concessions then this, combined with the gravity of an 'in-out' decision, would

likely result in the status quo being maintained. While it was close, the recent Scottish referendum is a good example of how rhetoric falls away once one is in the polling booth, especially if combined with attractive concessions from the larger party.

While it is an imperfect relationship today, the level of trade between the UK and continental Europe is very substantial and it would seem odd, given this level of interdependence, if a sensible resolution could not be found that protects trade across the channel. A period of honest introspection might be valuable and could result in the European Union having a renewed vigour and purpose. If we are to remain in the club, we must do what we can to ensure that we work with partners such as the Netherlands, Denmark and Germany who share the UK's stance on many EU-wide issues, to create a more 'fit for purpose' Union that places greater emphasis on the same ideals as ours, especially relating to economic liberalism and free markets.

### **European concessions**

The question is, therefore, what concessions should the Prime Minister aim to get from the EU? Popular European bugbears include immigration, over-regulation of business and the Human Rights Act. David Cameron has a difficult path to tread today as he should first look to ensure that Britain has enough allies in Europe to have a meaningful say in what's going on, but he will be conscious that if he is not seen to take the initiative soon then the risk of rebellion grows. Immigration is a difficult issue and one that I hope is treated sensibly. Our economy has done very well from the influx of European workers and to choke that off would be decidedly anti-business. Nevertheless the Union did not envisage 'benefits tourism' when it was set up and so that side of the fiscal equation needs to be readjusted Europe-wide. The reduction in regulation and red tape would be very welcome with the electorate, whether or not they are business managers. For many the EU has become synonymous with nannying directives which serve only to slow economic activity. Furthermore the UK needs to ensure that it protects and enhances London's position as a preeminent global financial centre. Finally, the Human Rights Act is another Europe-related area where I hope the government treads carefully. The legislation is fundamentally well intentioned and it has undoubtedly helped introduce a codified culture of protection of human rights into the UK constitution, which at its heart is a very positive step indeed. The real issue here is in the interpretation of the legislation and as a result it is these unintended consequences of the legislation that allow the legally literate to run rings around domestic courts. If we do move to a British Bill of Rights, my hope is that it fixes the mistakes of the Human Rights Act while remaining suitably liberal and well-intentioned in its approach, or we are taking a big retrograde step.

### **A resurgent Labour Party?**

Two main issues hampered Labour's chances at this election. The first is the popularity of the SNP in Scotland. This cost Labour seats both in Scotland itself, but also throughout the UK as voters weighed the risks posed to their own interests by a Labour SNP coalition government that had 'return to the 1970s' written all over it. Secondly, it is clear that Labour failed to provide a sufficiently aspirational message for the electorate to get behind. Ed Miliband used a patronising definition of 'hard working families' which implied the vast majority of the UK were not. To succeed from here the Labour party will need to elect a leader from the New Labour mould to bring the party back to the fore of mainstream UK politics. Labour needs to show that it is the party for the middle class as well as its current catchment comprising the downtrodden and a self-styled metropolitan political elite. I have been surprised that Chuka Umunna has withdrawn his very short lived leadership campaign because looking at his likely opposition in the Labour front benches; he should have walked a leadership battle. Regardless of whom ends up leading the party in 2020, with ten years in opposition, the Labour party should face far fewer difficult economic questions than they have this year, affording them the opportunity to be far less defensive and a decent leader should be able to capitalise on this.

### **A poisoned chalice for Cameron?**

It may end up that David Cameron does not enjoy his five years at the helm of a Tory majority government as much as he may imagine. For a start he is no longer in the enviable position of being able to blame the previous incumbent for any shortcomings in the economy. Furthermore, sharing government with the Lib Dems afforded him an opportunity to blame the minority partner as the cause for reigning in his own party's excesses, which he will now need to do himself. The Prime Minister also faces some difficult and expensive decisions at home such as defence



spending, the fate of High Speed Two, the shortage of runway capacity in the South East of England, while at the same time he must appease the northern powerhouses and other regions which will feel short changed by any devolution of power to Scotland. While the UK is no longer a global powerhouse, its financial services sector remains of superpower proportions and so it will be incredibly important for the Tories to attempt to reduce inequality across the country, whilst at the same time ensuring that the financial services sector can gather momentum and drive economic growth once more. Finally, David Cameron has told us all that he will not seek a third term in office. As a result, one of his main challenges in the second half of his premiership will be to ensure he is not confined to 'lame duck' status too early. His ability to keep the party united while staying one step ahead of ambitious members of the Cabinet will be difficult.



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