

# alexander beard

Group of Companies

## Pre-Election Report

**The manifestos have been published, the battle lines have been drawn**

### Introduction

**On Thursday December 12<sup>th</sup>, the UK will go to the polls in the first December General Election since 1923. In that election, the Conservatives, led by Stanley Baldwin, won the most seats – but the election resulted in the first Labour government, as Ramsay MacDonald became Prime Minister with the support of the Liberal Party, who won nearly 30% of the votes cast and 158 seats.**

In the event, MacDonald's minority government only lasted ten months, and another election was held in October 1924.

Ninety-six years later, will we see a repeat of the 1923 result? Will the pro-Remain Liberal Democrats win enough seats from the Conservatives to help Jeremy Corbyn enter 10 Downing Street? Or will Boris Johnson be returned as Prime Minister with a working majority, allowing him to finally deliver his pledge to 'Get Brexit Done?'

In this special Pre-Election Report, we look at what all the main parties are proposing, what the polls suggest the result might be, what the result is likely to mean for Brexit and – most importantly – the impact it could all have on your savings and investments.

### How did we get here?

In May 2017, Theresa May went into the General Election campaign promising that 'Brexit means Brexit' with a substantial lead in the opinion polls. In the event, that lead reduced substantially, with the Conservatives winning 317 seats and being reliant on the support of the DUP to form a government.

Theresa May eventually negotiated a deal with the EU, but failed three times to get it through Parliament. She subsequently resigned as Prime Minister, with Boris Johnson taking over as PM on July 24<sup>th</sup> 2019.

Johnson made a firm pledge that the UK would leave the EU on October 31<sup>st</sup>. That was blocked by Parliament and it became clear that a general election was the only way to break the impasse. With both the Liberal Democrats and the SNP supporting Johnson's move for a December election, there was a clear majority for overturning the Fixed Term Parliament Act and the election was duly scheduled for December 12<sup>th</sup>.

Yes, it will be cold and dark and depending on where you are in the UK, sunset will be around 3:30pm – but the die is now cast, the battle lines are drawn and two weeks from now we'll know the result.

### The Party Manifestos

#### **The Labour Manifesto**

Labour launched its manifesto last week, promising 'real change' and a raft of spending commitments.

The party say their proposals will cost £82.9bn but that doesn't include the cost of the 'green' commitments, or the cost of re-nationalising the railways, Royal Mail, the power companies and the water companies. Labour claim that re-nationalisation will cost nothing, as they are 'buying an asset.'



Specific spending commitments include an increase of 4.3% in the NHS budget each year, an increase in the National Living Wage, from £8.21 an hour to £10, an immediate 5% pay rise for everyone in the public sector and a huge programme of council house building.

There was also a promise that everyone would move to a four day week within ten years, and a further promise of free broadband for everyone in the UK.

The key question, of course, is who will pay for it? Analysts estimate that if you compare the manifestos, Labour is planning to spend £28 for every pound spent by the Conservatives. So how will it be paid for?

Taxes on the top 5% of earners, increasing corporation tax and stringent action against tax avoidance is the answer – with a windfall tax on the oil companies apparently being decided on too late to be included in the manifesto. Labour claim that only the ‘top 5%’ would pay more tax under their proposals: not so, say the Conservatives, claiming that Labour’s plans would make everyone £2,400 per year worse off.

The Institute for Fiscal Studies described Labour’s proposals as ‘the most punitive corporate tax system in the world.’ It is difficult to comment while remaining neutral, but you do have to wonder if all these companies and wealthy individuals would remain in the UK to pay these higher levels of taxation.

According to a recent article in *City AM*, there are only 393,000 additional rate taxpayers in the UK (that is, people earning more than £150,000 per year). Between them, these taxpayers provide one third of the UK’s total income tax ‘take.’ According to the article, 10,000 additional rate taxpayers have left the UK since 2017: the rest may be unlikely to hang around to pay the rates of tax John McDonnell has in mind...

### **The Conservative Manifesto**

Boris Johnson launched the Conservative manifesto on Sunday. He did this in Telford, which is a seat his party currently holds with a majority of just 720. It was described on the BBC as a ‘steady as you go’ manifesto, with the *Guardian* headline saying, ‘Johnson stakes just £2.9bn in public spending gamble.’

The *Financial Times* described it as ‘the end of austerity without courting bankruptcy’ while in the tabloids the pledge to recruit many more nurses made the headlines.

So what were the main points of the manifesto that had ‘Get Brexit Done: Unleash Britain’s Potential’ writ large on the cover?

On the NHS, the manifesto promised 50,000 more nurses, 50m more GP appointments and an extra £34bn of funding. There was a commitment that income tax, VAT and national insurance would not rise in the five years of a Conservative government.

Theresa May’s manifesto in 2017 famously included the ‘dementia tax.’ This time there were no such own goals, with a very firm commitment that no one will have to sell their home to pay for care.

There were some typical Boris one-liners from the Prime Minister, with a commitment to make the UK “carbon neutral by 2050 and Corbyn neutral by Christmas.” Alongside the environmental commitments, there were also declarations to infrastructure – notably a new rail line between Leeds and Manchester. And there was good news for students, with a pledge to cap tuition fees.

On business there was a promise of £600m a year - £3bn over the life of the next parliament – for additional skills funding. Edwin Morgan of the Institute of Directors said, ‘There is much for business to like, with a focus on skills, infrastructure and research.’

...And there was a promise of £2bn over the next four years to combat potholes in our roads.



## The current state of the polls

On Sunday 24<sup>th</sup> November, the *Observer* published its most recent poll, which gave the Conservatives a 19 point lead over Labour ahead of its manifesto launch that afternoon. This was three points up from the previous week's lead over Labour, with the Conservatives on 47% and Labour on 28%, as support ebbed away from the Brexit party and back towards Boris Johnson.

This is a bigger lead than any other poll has given the Conservatives, with IpsosMORI's latest survey showing a lead of 16 points and ComRes giving Boris Johnson a lead of 11 points.

The site Electoral Calculus – which uses a running average of all the polls – is currently forecasting a Conservative majority of 68 seats, with even the ComRes poll translating into a majority of 58 on that site.

In recent elections, though, the polls have often been wide of the mark. Anecdotally, there are stories of some internal Labour polling showing that even previously safe seats have become vulnerable. Then again, the Brexit Party will almost certainly split the 'Leave' vote in some constituencies that Labour might otherwise have lost.

Perhaps, therefore, the bookmakers offer a better guide than the polls. To reassure supporters of Boris Johnson, they currently have the Conservatives as overwhelming favourites to win the most seats, and put the chances of a Conservative majority at around 70%.

## What does this mean for Brexit?

The Brexit positions of the two main parties are very different. There cannot be anyone reading this who has not heard Boris Johnson say, "Get Brexit done." If we wake up to a Conservative majority on December 13<sup>th</sup>, we can expect exactly that.

All 635 Conservative candidates have pledged to support the deal he has negotiated with the EU. A Conservative majority would undoubtedly see that deal pass through parliament, with the UK leaving the European Union on or before January 31<sup>st</sup> next year.

Labour's position – should they form a government – is that they would negotiate 'the best possible deal' with the EU within three months, and then put that deal to the people in another referendum, where the choice would be Labour's deal or Remain.

Jeremy Corbyn has consistently refused to say whether he would support the deal he had negotiated or whether he'd campaign for Remain.

There is a small chance of the Liberal Democrats and/or the SNP supporting a minority Labour government: both those parties are openly campaigning to stop Brexit happening.

## How is the pound likely to react?

The pound famously declined sharply following the 2016 vote to leave the European Union. It closed October at \$1.2944, having broadly traded this year in the \$1.26 to \$1.32 range. As we write this section of the report, the pound is trading at \$1.2878 and €1.1696: so what is the likely impact of the various General Election results?

If the Conservatives win with a working majority, the pound is likely to rise, with experts forecasting a figure of around \$1.40. This would make imports cheaper, but would be a disadvantage to manufacturers who export. And, of course, if you are going abroad on holiday, your pound would go further.

A Labour government is viewed more negatively in relation to the pound, which is forecast to fall to around \$1.15 in that event. This would make imports and foreign holidays more expensive – but would be good news for exporters.



What about a hung parliament? A Conservative government propped up by the DUP and/or the Brexit Party would make a no-deal Brexit more likely. A minority Labour government supported by the Lib Dems and/or the SNP might well see some of Labour's more radical policies curbed, but would still see sterling fall. What the markets want is certainty and – if we are to exit the EU – that exit to be managed and orderly. Any outcome that results in a hung parliament is very unlikely to offer that.

### What could this mean for your savings and investments?

As has been written countless times – possibly even more times than Boris Johnson has said 'Get Brexit done' – what markets value above all things is certainty. Whether you are in favour of Brexit or not, a Conservative majority would at least provide that certainty.

It is difficult to write this without making a political point but it is likely that a Labour government with a commitment to higher corporate tax, big changes to corporate governance and a programme of public spending could not do anything other than bring uncertainty to UK business and the stock market. A majority Labour government or a minority Labour government supported by the SNP is likely to see both the pound and the stock market falling. In addition, the credit ratings agencies are unlikely to be impressed by what they will see as excessive borrowing, and that could lead to UK interest rates increasing.

So a Conservative victory on December 12<sup>th</sup> should, in the shorter term, be better news for your savings and investments. The same simply cannot be said about a victory for Jeremy Corbyn, and the short term uncertainty that it would bring.

### Summing it all up

As we have commented above, Thursday December 12<sup>th</sup> is likely to be cold, wet and dark. The polling stations will be open long after the sun has set. But by the time the sun rises at 8:15 on the morning of Friday 13<sup>th</sup>, we will know the result.

In truth, we will have a good indication of the result much earlier, both from the BBC's exit poll and the first constituencies to declare. If, for example, there is a significant swing away from Labour in a seat like Sunderland, then Boris Johnson could be on course for a substantial majority.

However much the Liberal Democrats might talk about winning a majority, the simple fact is that on December 13<sup>th</sup> either Boris Johnson or Jeremy Corbyn will be going to see the Queen. The differences between the two main parties are now very clear, both on Brexit and on the economy. As Boris Johnson commented on Sunday, "the choice could not be starker."

Hopefully, the election will produce a clear result that will allow both the country and UK businesses to finally move forward with some certainty. However, whatever result is being predicted as the polls close, whatever the swing is in Sunderland and no matter how late we go to bed, rest assured that we will be back at our desks on Friday morning, ready as always to answer any questions our clients might have.

We will also be producing an immediate 'post-election' report, summarising the results and exactly what they mean for your financial planning. That will be with you in the week commencing Monday December 16<sup>th</sup>.

*Compliance note: this Special Report was written on Sunday and Monday 24<sup>th</sup>/25<sup>th</sup> November. All the figures quoted were correct at the time of writing.*

