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Summer 2024

Investment Review

The General Election

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According to opinion polls, the Labour Party is set to form the next UK government with a comfortable majority. The poor showing of the Conservatives in the May local elections also adds weight to the argument that opposition leader, Keir Starmer, is set to become the seventh Labour Prime Minister, a century after James Ramsay MacDonald became the first Labour Prime Minister on 22 January 1924.

No doubt, investors will be trying to figure out what a Labour government might mean for UK financial markets. Politics matters when it comes to valuing UK equities. For instance, UK stocks suffered a material de-rating in the lead up to and after Brexit, including the political paralysis in the Commons under Prime Minister Theresa May's minority Conservative government. During that time, the UK's stock market's limited exposure to the rallying technology sector has also contributed to its unloved status with investors.

To get an idea of the potential impact from a prospective Labour government we need to understand the party's economic agenda. A good starting point is Shadow Chancellor Rachel Reeves' speech at the annual Mais lecture in March.

It largely focused on delivering "broad-based and resilient growth" through greater state involvement in the economy and has some differences from the approach taken under the current Conservative government.

The bottom line is that the Labour party wants to raise the growth potential of the UK economy through its economic agenda, which can be largely summarised in two key parts:

Stability and investment: Reeves argues that businesses need economic and political stability to create the conditions to invest with confidence through a policy she's coined as "Securonomics".

Labour believes that by improving the information flow to firms through "partnership" with the government, as well as providing strategic direction and selective policy intervention, firms will be encouraged to invest their capital.

This tailored economic approach for Britain is similar to "Bidenomics" - the flagship policies of President Joe Biden's administration.

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In short, Labour wants to direct business investment to areas where it believes the UK will have a strategic competitive advantage (e.g., green technology); commonly known as modern supply side economics.

This is different to the traditional supply side economics championed by former Prime Minister Margaret Thatcher more than 40 years ago where regulations were cut to allow free markets to determine where private investment goes (think of the privatisations of British Telecom and British Gas in the 1980s).

Reforms: Reeves also made clear “the single greatest obstacle to our economic success” is the planning system. She argues that it creates barriers for opportunity, growth and home ownership and Labour will put “planning reform at the very centre of our economic and our political argument.”

Labour intends to address planning obstacles by streamlining applications with off-the-peg processes. Importantly, to address local opposition to planning proposals, Labour wants to devolve power away from the central government. The idea is that regions and local governments are assumed to have better knowledge of their respective areas and are better placed to fast-track high-value applications. While Labour’s policy is akin to the current government’s approach, Reeves wants to make even more progress on devolution. For instance, on planning reform, Labour intends to reintroduce mandatary local housing targets, employ more people to tackle backlogs and bring forward the next generation of “New Towns.”

Labour also wants to reform the labour market by strengthening workers' rights.

This includes banning zero hours contacts, repealing anti-union laws and ending "fire and rehire".

This will be unveiled in an employment bill within the Labour administration's first 100 days.

At this stage, it is unclear what impact labour reforms will have on the employment outlook.

Translating Labour's Policies into Economic Growth

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A new Labour government would face a vastly different backdrop compared to the last one under Prime Minister Tony Blair in 1997 when government debt and the budget deficit were much lower.

It's likely that a Labour government will need to make spending cuts and/or raise tax over the next parliament to stay within current fiscal rules.

Certainly, Labour will be wary that breaking fiscal rules could lead to financial market turmoil: the short premiership of Liz Truss in 2022, when gilt yields soared to leave her economic agenda in tatters is a case in point.

So, this will mean that fiscal policy could be a drag on growth and impact the independent Office for Budget Responsibility's average real GDP growth expectation of 1.6% per annum over the next five years.

Labour aims to raise economic growth to offset the downside to output from bringing in the deficit.

This will largely be dependent on encouraging firms to invest their shareholder's funds in government-directed strategic areas by providing a favourable and stable environment through "Securonomics".

Labour also expects its planning reforms and decentralisation to help raise workers' productivity.

However, this will be difficult to do when whole economy productivity (defined as output per hour worked) is already so low. It has increased by just 0.6% since 2009, after the end of the Global Financial Crisis (GFC).

Austerity, financial sector deleveraging, competition from imports affecting the manufacturing sector and the rising proportion of the workforce on long-term sickness leave are already contributing factors to the UK's poor productivity.

For comparison, productivity rose at an annualised pace of 2.3% from 1971 (when the data starts) to the end of 2006, the year before the GFC started.

How would a Labour Government Affect the UK Stock Market

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There is plenty of uncertainty over whether a Labour government delivers on its rhetoric and whether their policies work to support growth, company earnings and valuations.

Ultimately, what will probably drive UK equity returns is whether a Labour government can improve the investment landscape for UK companies. In the Mais lecture, Reeves recognised that unlocking private investment requires institutional reform to encourage UK financial companies to invest in productive assets domestically. This will be crucial, as the scrapping of the dividend tax credit by Chancellor Gordon Brown in 1997 led to the share of UK equities owned by pension and insurance companies to fall from around 46% to just 4% currently.

If Labour wins the election, only time will tell if their policies succeed in lifting the economy's growth rate. However, given the poor state of the UK government's finances and subdued productivity, it will be a hard task for the next government to achieve.

FTSE 100

Those of you who keep a keen interest on the markets will have noticed that the FTSE 100 has broken through 8000 and has reached heights of 8400.

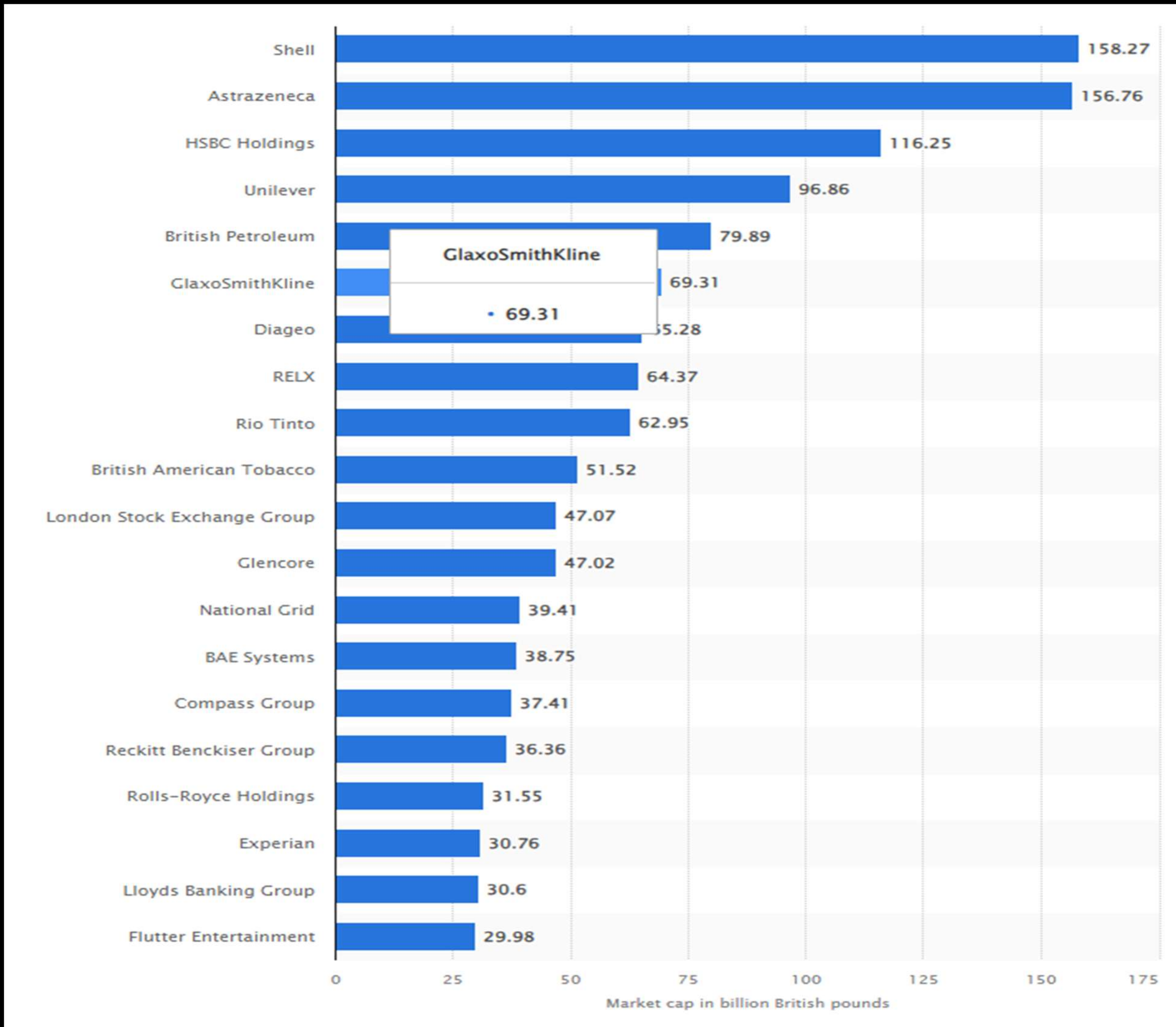
We are often asked "why doesn't my portfolio track the FTSE" and the simple answer is that we invest in a risk rated portfolio which is geographically diversified.

I thought it would be interesting to give you some information on the FTSE 100 and how it does not always reflect the true position of the UK economy.

The FTSE 100 is made up of the top 100 companies listed by market capitalisation and when it was launched in 1984 it was an attractive place for global corporations to list their shares. The performance of the index is calculated by the weighting of each component by market capitalisation.

The following chart from statista.com highlights the biggest companies listed in the FTSE 100 as at 6th March 2024.

These weightings lead to the biggest companies having the biggest influence on the FTSE 100 value.



Shell
158.27
Astrazeneca
156.76
HSBC Holdings
116.25
Unilever
96.86
British Petroleum
79.89
GlaxoSmithKline
69.31
GlaxoSmithKline
• 69.31
Diageo
RELX
64.37
Rio Tinto
62.95
British American Tobacco
51.52
London Stock Exchange Group
47.07
Glencore
47.02
National Grid
39.41
BAE Systems
38.75
Compass Group
37.41
Reckitt Benckiser Group
36.36
Rolls-Royce Holdings
31.55
Experian
30.76
Lloyds Banking Group
30.6
Flutter Entertainment
29.98
0
25
50
75
100
125
150
175
Market cap in billion British pounds

Media outlets and news channels use the FTSE 100 as a benchmark to demonstrate how the UK economy is performing but this has become more and more skewed as most of the companies in the index are international in focus with the UK representing a small proportion.

The FTSE 100 does not truly indicate the performance of the UK economy as only 18% of the revenue generated by its constituents comes from the UK with the remaining 82% coming from abroad.

Currency fluctuations also distort the FTSE value.

The FTSE 250 has 52% of its revenue from the UK and the FTSE small cap index around 70%.

Market Update

It is fair to say that we have seen the World change since 2020 with Covid, political risk, inflationary risk caused by the Ukraine war and the current turbulence in the Middle East.

The above have influenced markets and contributed to the cost-of-living crisis and higher mortgage rates for those coming out of fixed deals.

The good news is that we are starting to see the markets recover as we expected given that inflation is falling, not just here but globally and this has the markets anticipating reductions in interest rates with equities increasing in value.

Most of the World enter elections this year and we will monitor this carefully within the portfolios.

We ensure that portfolios can withstand market volatility by spreading risk across various asset classes and regions.

The Future

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What is certain is that the investing environment over the next ten years will be different to the last ten years.

It is critical that investment portfolios are positioned to combat any challenges and benefit from the opportunities that are likely to prevail. Equity and fixed interest markets will likely remain turbulent as speculation over interest rate cuts continue, certainty will return once the first cuts are seen.

Equity markets remain the best long-term hedge against inflation. The ability to actively manage your portfolio to best benefit from any given situation is key, as this can offer a degree of protection in downward markets – holding more defensive equity strategies and hand pick exposure to certain sectors, whilst also increasing alternative investment exposure.

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It also means the maximum participation can be had in rising markets to take advantage of areas that are likely to outperform.

It has never been more important to have a good balance of asset classes and investment strategies. Successfully managing an investment portfolio requires time, discipline and investment knowledge.

Your portfolio benefits from ongoing professional investment management which is aligned to your risk profile and investment objective along with an active view of market conditions.

Aegon ARC Platform Update

For those of you that have investments on the Aegon ARC platform this is to confirm that they launched a new website on the 21st May.

If you receive an e-mail and activation code and you wish to look at their website, please do register.

As a reminder all your information can be found on your Hurst Financial Consultancy personal website which can be found at:

https://valuations.fenetra.co.uk

PLEASE ENSURE YOU COPY ALL OF THE WEBSITE ADDRESS STARTING AT HTTPS

If you require a reminder of your username or password, please contact your adviser.

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