



FIXED INCOME

How Theresa May's Election Gambit Could Strengthen Her Brexit Hand

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UK Prime Minister Theresa May's decision to call a snap general election for June 8, 2017 caught just about everybody off guard, but we think it could prove a shrewd political move.

Like many observers, we were left wondering, "why now?" especially as Brexit negotiations are likely to be put on a back-burner for the seven-week duration of the election campaign.

However, with May's Conservative Party riding high in opinion polls, and the Prime Minister herself enjoying strong approval ratings, we think an election victory could strengthen her position at home and on the international stage at a crucial time.

And we think that is something that would be welcomed by the financial markets.

Brexit Negotiations

We expect the Brexit negotiations with Europe to throw up some difficult decisions for the UK administration. The polls are currently predicting an enhanced Conservative majority in Parliament, which we believe should provide some extra comfort for the UK government.

That could be particularly important when it comes to securing Parliamentary approval for the final deal, expected in around two years' time.

UK markets have historically favored Conservative governments, so with the Conservatives apparently so far ahead in the polls, markets seem to be taking the news of the election relatively positively.

UK government bonds, known as Gilts, have continued to be up and the pound has responded positively to the news.

A Manifesto for May

Another consideration, in our view, is that a new election campaign would allow May and her team to construct their own manifesto and win their own mandate.

There has been a lot of speculation that there were a number of policy commitments and restrictions she inherited from the previous Prime Minister that we suspect she would like to ditch. That could lead to some significant changes in government policy.

All of this, we think, could be positive for UK government finances in the long term.

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