Investment update

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Ashton Bradbury, Head of Equities

Ashton Bradbury joined OMAM in September 2000, focusing on UK mid cap and smaller companies funds prior to being appointed to his current position in April 2008. Before this he was at Hill Samuel Asset Management, initially as Head of UK Smaller Companies and subsequently as Head of UK Retail. Ashton has a BSc in Banking & Finance from Loughborough University.

Election thoughts: where next for the UK equity market?

By Ashton Bradbury, Head of Equities

In the run-up to the election, opinion polls have moved from suggesting a modest working Conservative majority to some form of hung parliament. I believe the market would prefer the Conservative win for the simple reason that it would remove uncertainty. (There is very little evidence to suggest that it makes much difference to the stock market whichever of the main parties is in power.) If we do get a Conservative win, it would be reasonable to expect a rally in most domestic asset classes.

But what effect on markets would a hung parliament have? Conventional wisdom is that this would be negative for UK assets due to the policy uncertainty it would create. For example, if there are delays due to political haggling in putting forward a credible government deficit reduction plan, sterling might come under pressure, gilt yields could rise and hence equity prices suffer a setback. Also, UK hung parliaments tend not to last very long so we could expect another election in the near future. As Citigroup have pointed out in their work on this subject, there have been four hung parliaments in the UK in the last one hundred years and only one of them lasted for longer than a year!

The basic logic of this argument is difficult to refute. However, the opinion polls have been highlighting the chance of a hung parliament for months now and so this should be priced in to UK asset classes to some degree already. As such, the impact of the result that the markets don't want might actually be far less than feared.

On balance we retain a positive view on UK equities. The global economy is clearly recovering, profit expectations are likely to be exceeded this year and the UK market is inexpensively priced. Of course there are risks - a hung parliament being one of them - which will lead to periodic bouts of volatility, but for now we feel that the medium term trend remains up.

Old Mutual Asset Managers (UK) Limited
2 Lambeth Hill
London, EC4P 4WR, UK

www.omam.co.uk
+44 (0)20 7332 7500

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