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Do Elections Matter for Markets?

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The imminent General Election will be the 12th since Margaret Thatcher's epochal win in 1979. Of those elections Labour or "New Labour" won three and the Conservatives won eight, albeit with one as a coalition (the Cameron/Clegg administration) and one as a minority with Theresa May's administration supported by the DUP in a "confidence and supply" agreement.

The period since Mrs Thatcher's accession encompasses the entire career trajectories of market practitioners working today. What lessons, if any, can we learn?

James Callaghan, the losing Labour Prime Minister in the 1979 contest with Mrs Thatcher noted rather ruefully that,

"There are times, perhaps once every thirty years, when there is a sea-change in politics. It then does not matter what you say or what you do. There is a shift in what the public wants and what it approves of. I suspect there is now such a sea-change and it is for Mrs T."

He was clearly right: the public mood had changed and badly wanted a clean break with what had become the stale consensus of the immediate post WW2 economic settlement or "social contract."

Mrs T deregulated and her policies gave birth to a golden era of shareholder capitalism. In her first two terms of unparalleled ascendancy, between December 1979 and June 1987, UK stocks delivered a return of 365% (23.3% in her very first year of office alone) which is a compound annual return of some 22.75%. UK stockmarket returns haven't come remotely close since. Nonetheless, the period ended with the stockmarket crash of October 1987 paving the way for John Major's largely forgotten but quietly successful administration.

In a further echo of Callaghan, the emergence of "Cool Britannia" under Tony Blair marked a definitive change of public mood and a break with the immediate "Thatcherite" past.

Tony Blair's first year in office, again in an echo of Mrs T's first term, was accompanied by a 25.8% rise in the stockmarket, although the entire Blair/Brown period was blighted by the bursting of the "tech bubble" and the later "global financial crisis," which saw the stockmarket decline by over 40%, recover, and then decline again by 40% as the financial crisis unfolded under Gordon Brown's premiership.

Outside the seismic political changes associated with Thatcher and Blair, the stockmarket response to changes in administrations has been significantly less dramatic and within the statistical parameters of "normal" annual market volatility of plus or minus 10% one year after each change of administration.

The two giants of recent British politics, Thatcher and Blair, provoked and released a wave of public optimism and entrepreneurial dynamism at their outset but both regimes ended in tears in stockmarket terms with the final Thatcher/Major administration presiding over a stockmarket fall of 21% and the Blair/Brown administration overseeing a decline of 17.1%.

Looking forward, many political commentators have noted that the public is "disengaged" with the current election. It is hard to identify any strong groundswell in an electorate looking to its political class with a sense of optimism or euphoria in the way that Thatcher and Blair captured the public imagination. In fact, the British public seems tired of politics.

The answer to the question is, “sometimes;” elections can matter but mostly they don’t. Mrs T and Tony Blair did change the climate; business, investment and markets responded. This time around this election, as with most elections, is just noise that investors can ignore. Other developments beyond the British shores could be more consequential.