

Outlook for Investments - A Summer of Political Noise

26 June 2024

Changes in personal tax in the UK could have a significant impact on individuals, as set out below in the summaries of the Conservative and Labour manifestos. In the US, we will continue to monitor the policy platforms as they emerge. Central bank policy will continue to be the main driver for investors in the near term.

In the UK, polls suggest strong support for a change in government. Whilst there continue to be ideological differences between the Labour and Conservative parties, these are less pronounced than they were at the last General Election. We expect capital gains tax and inheritance tax to be on the radar of the new government.

Summary points from Conservative and Labour manifestos

	Conservative	Labour
Taxation and economy	<p>Tax reform</p> <ul style="list-style-type: none"> Reducing main rate of NI by a further 2% and abolition of main rate of Class 4 NI for the self-employed Increased personal tax-free allowance for pensioners – triple lock plus Crackdown on tax avoidance No increases to income tax, VAT, Corporation Tax No further council tax bands, no cuts to council tax discounts No new taxes on pensions Maintain 25% tax-free lump sum and tax relief on pensions at marginal rate Maintain National Living Wage at two-thirds median earnings 	<p>Tax reform</p> <ul style="list-style-type: none"> No increases to NI, income tax, or VAT Abolish VAT-exempt status of private schools Scrap 'non-dom' tax status Cap corporation tax at 25% Removing age bands for adult minimum wage Ensure minimum wage is a "genuine living wage"



	Conservative	Labour
Foreign policy	<p>Defence spending</p> <ul style="list-style-type: none"> • Increase military spending to 2.5% of GDP by 2030 • Reintroduce National Service for school leavers <p>Binding annual cap on visas</p> <ul style="list-style-type: none"> • Introduce legal cap on migration • Introduce an inflation link to salary requirements for skilled workers • Commitment to Rwanda scheme to remove illegal migrants • Always choosing national security over European Court of Human Rights 	<p>Defence spending</p> <ul style="list-style-type: none"> • Will 'set a path' to 2.5% of GDP defence spending • 'Absolute' commitment to the nuclear deterrent <p>Reduce net migration</p> <ul style="list-style-type: none"> • Reform current points-based approach and upskill British workers • End Rwanda scheme – replace with a new 'Border Security Command' • Seek new security agreement with EU
Education	<p>Childcare and apprenticeships</p> <ul style="list-style-type: none"> • Continued focus on childcare reform – giving parents with children from 9 months old access to 30 hours of free childcare a week from September 2025 • Create 100,000 further apprenticeships by 2029, funded by scrapping 'poor quality' degrees • Increase in child benefit threshold for single-earner households to £120k • 60,000 more school places and 15 new free schools for children with special educational needs 	<p>Use VAT from private school fees to fund:</p> <ul style="list-style-type: none"> • 6,500 more teachers • Mental health specialists in every school • Free breakfast clubs in every primary school <p>Childcare and parental leave</p> <ul style="list-style-type: none"> • Open an additional 3,000 primary school-based nurseries • 100,000 additional childcare places • Review of parental leave system
Housing	<p>Housing and planning reform</p> <ul style="list-style-type: none"> • 1.6m 'well-designed homes in the right places' • No stamp duty on homes for first time buyers, up to £425k • Temporary capital gains tax relief for landlords selling to existing tenants • New Help to Buy scheme 	<p>Housing and planning reform</p> <ul style="list-style-type: none"> • Reduce barriers to permission for new house building • Immediate end to no-fault evictions • End to new flat developments being sold as leasehold • 1.5m new homes
Healthcare	<p>NHS commitments</p> <ul style="list-style-type: none"> • 92,000 more nurses and 28,000 more doctors by the end of the next Parliament • 2.5m more dental appointments • Above-inflation increases in NHS spending each year and improved productivity drive • Build / modernise 250 GP surgeries and cut NHS managers by 5,500 	<p>NHS commitments</p> <ul style="list-style-type: none"> • Patients should wait no more than 18 weeks from referral to treatment for non-urgent conditions • 40,000 more appointments each week and 700,000 more urgent dental appointments each year
Environment	<p>Net zero</p> <ul style="list-style-type: none"> • 'Affordable and pragmatic' plan for net zero • Annual licencing rounds for oil and gas in the North Sea • Treble offshore wind and seek 'democratic consent' for onshore wind • Household green levies to be reduced 	<p>Net zero</p> <ul style="list-style-type: none"> • Zero-carbon electricity by 2030 • Double offshore wind, triple solar power, and quadruple offshore wind by 2030 • Creation of a new publicly-owned energy company 'Great British Energy' • No new oil and gas licenses in the North Sea • Ban fracking
Other	<p>Crime</p> <ul style="list-style-type: none"> • 8,000 new police officers • 25-year prison term for domestic murders 	<p>Electoral reform</p> <ul style="list-style-type: none"> • Introduce voting for 16 and 17-year-olds <p>Nationalisation and devolution</p> <ul style="list-style-type: none"> • Devolve transport, skills, housing, and planning powers • Nationalise railways <p>Crime</p> <ul style="list-style-type: none"> • Extra 13,000 neighbourhood police and PCSOs • Halve knife crime in a decade

In the US, we are further away from final policy commitments, but that has not stopped this race from gathering huge interest. Despite a crowded primary, it is now clear that the US will face a reprise of the 2020 election in a choice between incumbent Democrat Joe Biden and former Republican President Donald Trump.

For the Democrats, concerns about Biden's age remain a priority for the voter base. In 2020, he was the oldest person to be inaugurated as President in the US. Now aged 81, questions around his ability to lead another term have been temporarily dulled by the lack of attractive challenging candidates from within the party.

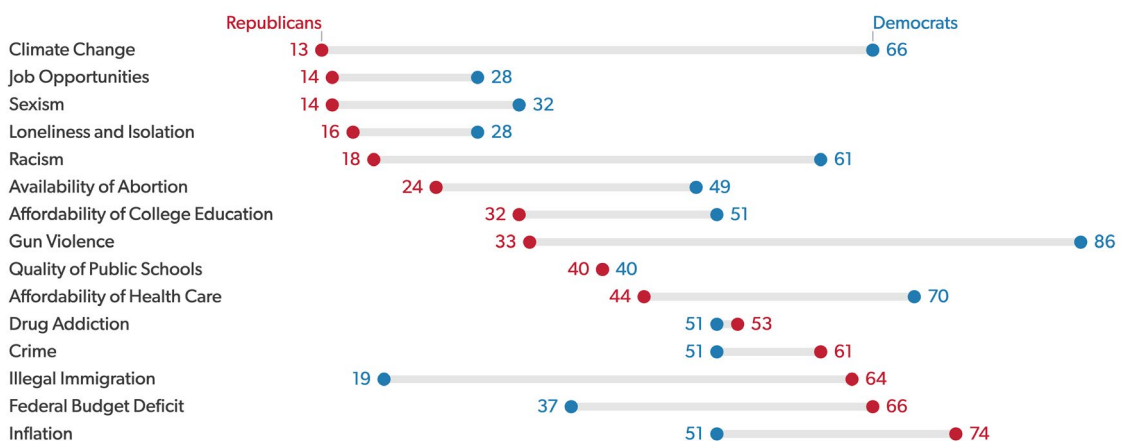
For the Republicans, the final challenger to Donald Trump – Nikki Haley – withdrew in March from the race after winning only one Super Tuesday contest. Trump is now a known entity, having held office from 2016 to 2020. He is a contentious and controversial character, perhaps more so now than ahead of the 2016 election, having recently been found guilty on 34 felony counts of falsified business records.

With the American voter base and political parties more 'polarised' than we are accustomed to in the UK, the likely policy priorities will differ between the Republican and Democrat forums. A recent survey conducted by the Survey Center on American Life demonstrates the challenge, indicating that there remain several areas of high priority for each side of the political spectrum that are barely registered by the other side.

For Democrat voters surveyed, gun violence, affordability of healthcare, and climate change were top of the agenda. For Republican voters, inflation, the federal budget deficit, and illegal immigration topped the list.

Democrats and Republicans Have Very Different Views About America's Biggest Problems

Percentage of Americans who say the following represent a "very big problem" in the US today . . .



Note: Survey of US adults [N = 6,014].
Source: Political Coalitions Survey, April 2023.

Conclusions are not straightforward to draw in terms of readthrough for markets or the wider economic environment at this stage. We anticipate significant global media attention as the political process plays out in the US. Key areas of interest for investors will be: any signals around the political establishment's engagement with global geopolitics; antitrust indications – particularly in the context of the Magnificent Seven's concentration in global equity indices; corporate tax policy; and any changes in the relationship between the President / elected representatives and the Federal Reserve.

As ever, we believe that the noise around political developments will tend to have more of an impact on personal finances (and dinner table conversation!) than on wider markets. In both regions, we see relatively modest macroeconomic implications to the suggested policy priorities of competing parties.

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