5 July 2024

UK General Election

Landslide victory for the Labour party

- **sThe Labour party won a landslide victory at this general election, winning more than 400 seats of the total 650. This is the largest victory for Labour since 1997.**
- **On balance, reduced policy uncertainty, closer cooperation with the EU and higher focus on supply side reforms are likely to be seen as positives for UK assets by foreign investors.**
- **Overall, we expect the market impact to be limited given the limited fiscal headroom and the ghost of the "mini"-Budget still enforcing fiscal responsibility.**

After 14 years of Conservative party rule, the Labour party led by Keir Starmer won a landslide victory at the 2024 general election. Labour secured an outright majority, winning more than 400 out of a total of 650 seats. On the other hand, the Conservative party suffered a crushing defeat winning with close to 120 seats, their worst result on record. The results were fully in line with expectations and hence the initial market reaction was muted.

Despite an impending change in government, fiscal policy is likely to remain constrained as a result of the large public debt and a challenging structural outlook. In March, the UK fiscal watchdog, the OBR, estimated that the fiscal headroom is historically slender at GBP 8.9bn against the objective of lowering the debt-to-GDP ratio over the rolling five-year forecast horizon. This was highlighted in the Labour manifesto, which included only modest increases in spending and public investment, expected to be funded via tax raises. Given the substantial majority, more widespread policy action could be on the table including a reform of debt measures and to increasingly borrow to invest.

We expect a more cooperative stance towards the EU under a Labour government to initially be positive for the UK economy and UK assets by boosting growth and improve the supply side. However, we highlight the risk of the political process falling short of expectations, which would leave the lasting impact as much more muted.

Expect a limited market impact

Overall, we expect the market impact of the change in government to be fairly muted. With the "mini"-budget still fresh in mind, also it should limit the possibility of the Labour party to turn to unfunded spending. Shadow chancellor Rachel Reeves has previously noted that a full budget will not be delivered until September where the OBR will deliver its independent forecasts.

On balance, reduced policy uncertainty, closer cooperation with the EU and higher focus on supply side reforms are likely to be seen as positives for UK assets by foreign investors., although we do not want to overstate the impact. More broadly, we believe the cyclical backdrop, the global investment environment alongside the policy action from the BoE to prove more important overall for UK assets. Importantly, the black-out period for the BoE is now over and with speeches set to resume next week, we think this is more important for markets in the near-term. Overall, we maintain a moderately negative view on GBP on the back of a dovish BoE and relative growth outlooks, which we expect to support EUR/GBP. We forecast EUR/GBP at 0.87 in 6-12M.

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Expected updates

None

Date of first publication

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Report completed: 05 July 2024 at 09:00 CET
Report disseminated: 05 July 2024 at 09:15 CET