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Six Minute Strategy

All change for no change – the UK election and economic policy

June 2024

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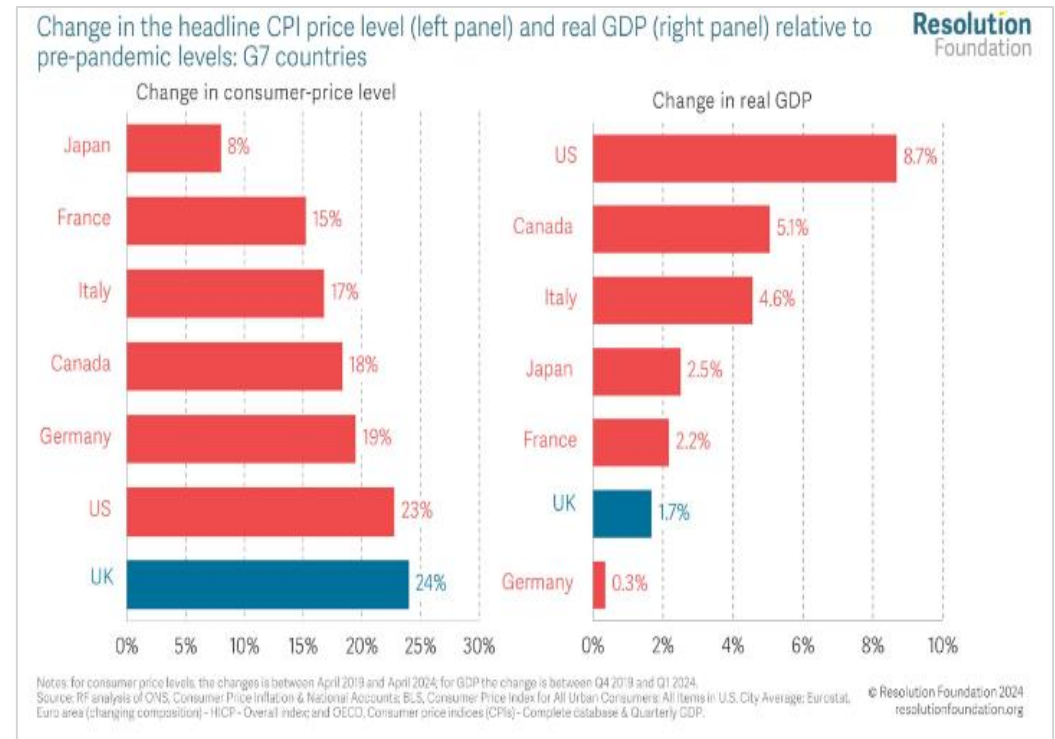
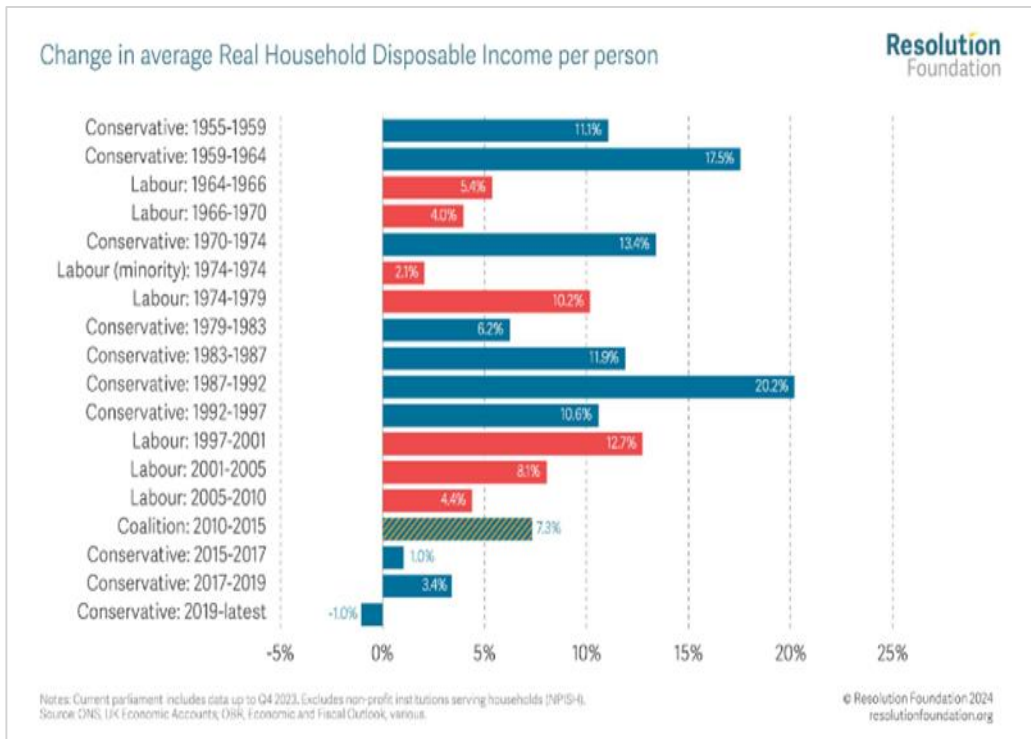
Keir Starmer's economic challenge to the Conservatives



First UK post-War government to see lower income per head



UK inflation & growth – among the worst since the Pandemic



Source: Resolution Foundation <https://www.resolutionfoundation.org/>, May 2024

18 Governments since 1955

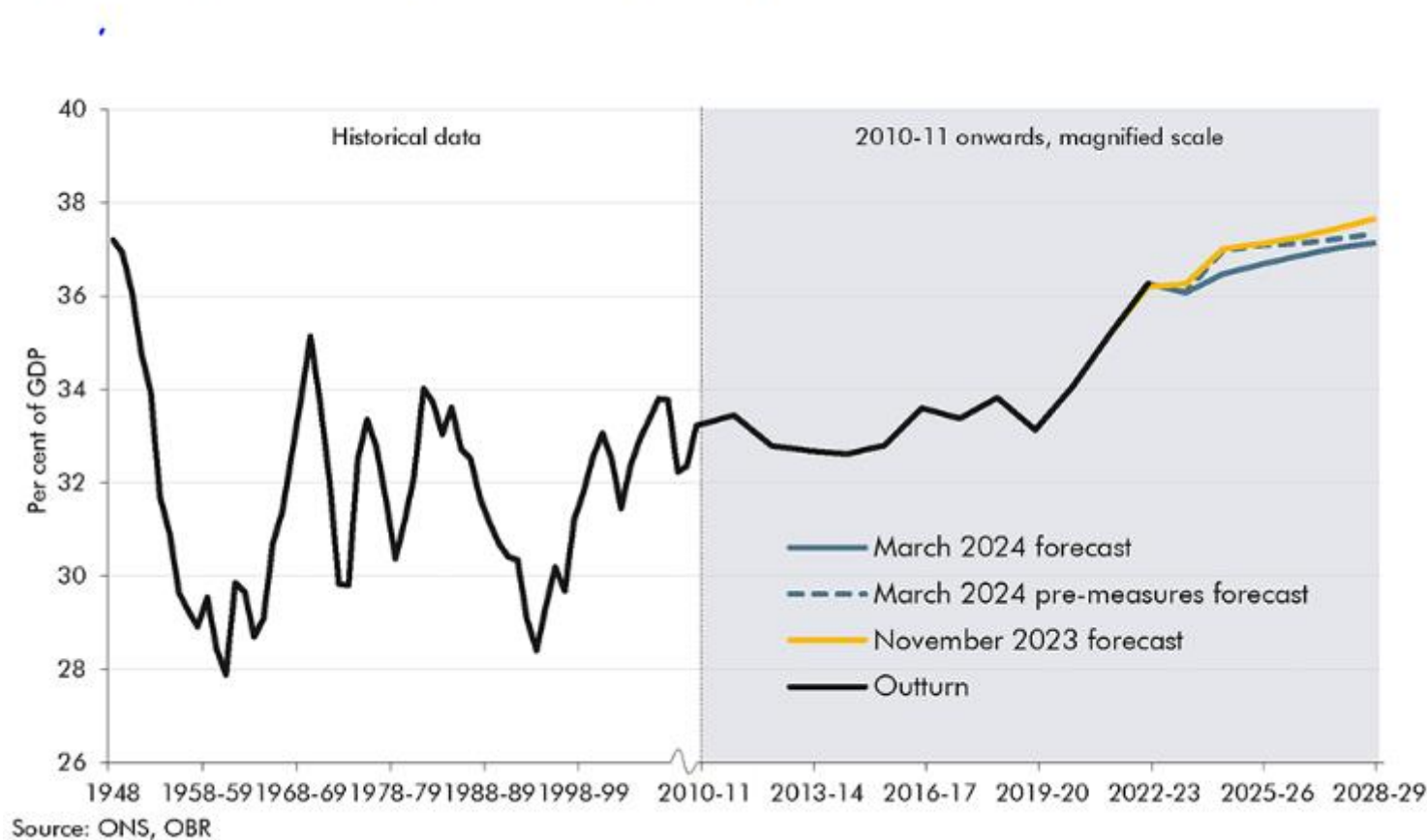
Source: Resolution Foundation <https://www.resolutionfoundation.org/>, May 2024

UK on track for the highest tax burden since WW2



UK taxes as a proportion of GDP

Chart 4.1: National Accounts taxes as a share of GDP



'For a Chancellor with a goal of reducing debt as a fraction of national income, things have arguably never been so bad...'

IFS May 2024

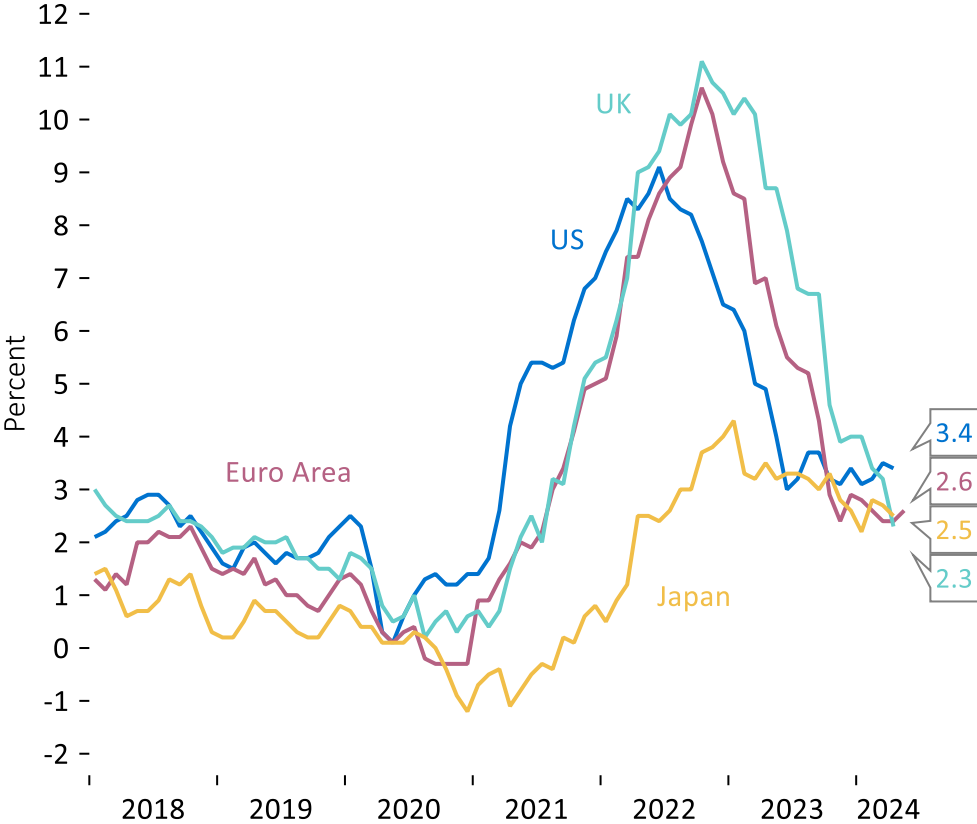
Source: OBR March 2024

The Conservative Party's response

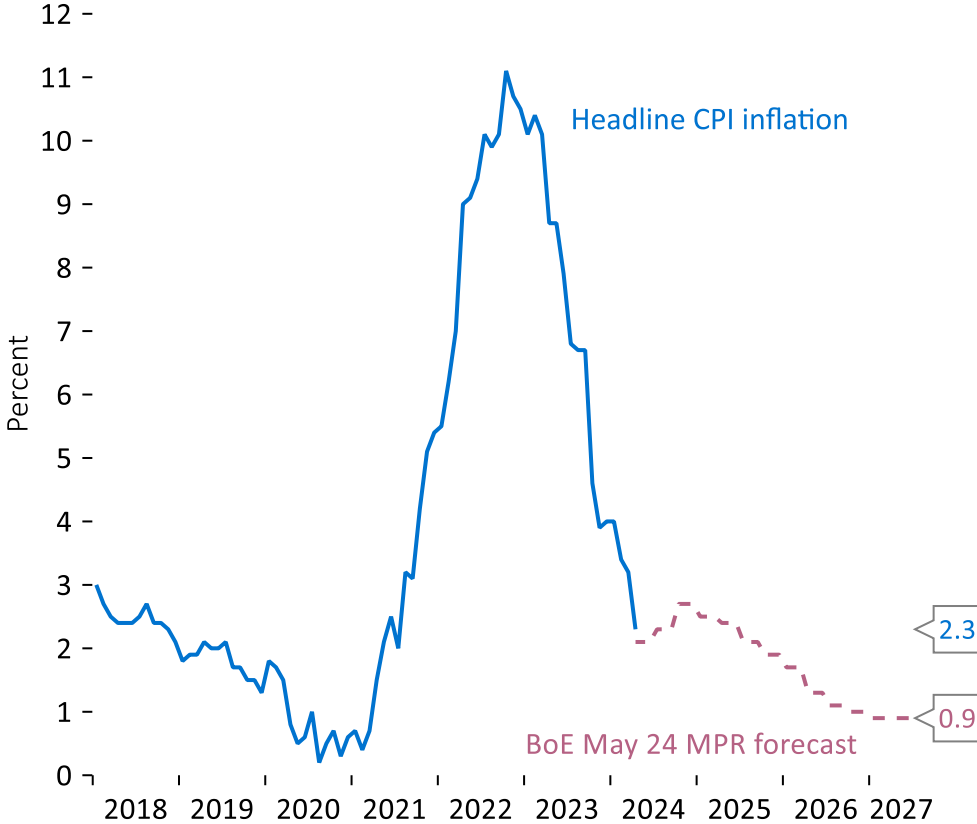
Inflation close to BoE target and lower than US, Euro Area and Japan

 UK CPI inflation lower than in the US, Japan or the Euro Area

 Bank of England forecast sees UK CPI below target in 2025



Source: Macrobond, 06.06.24



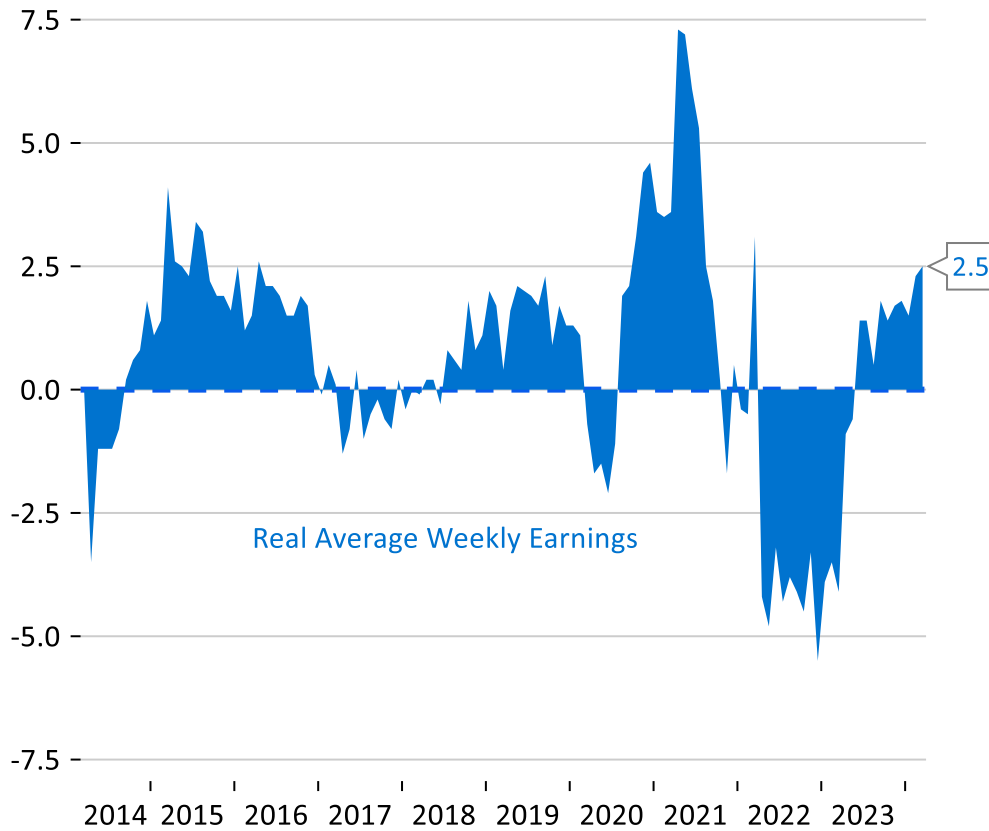
Source: Macrobond, 06.06.24

Past performance is not a reliable indicator of future results and may not be repeated.

UK real wages and economic surveys are improving



UK real wage growth turns positive



Source: Macrobond, 06.06.24



UK PMIs suggest recovery gaining traction

	PMI Composite				PMI Manufacturing					PMI Services							
	47.5	52.5	57.5	62.5	45	47	49	51	53	55	57	49	51	53	55	57	59
India	██████████				61.7	██████████					57.5	██████████					61.4
Spain	██████████				55.7	██████████					54.0	██████████					56.2
Brazil	██████████				54.8	██████████					55.9	██████████					53.7
United States	██████████				54.4	█					50.9	██████████					54.8
Emerging Markets	██████████				53.6	██████████					52.0	██████████					53.7
China	██████████				52.8	██████████					51.7	██████████					52.5
United Kingdom	██████████				52.8	█					51.2	██████████					52.9
Australia	██████████				52.6	█					49.7	██████████					53.1
Italy	██████████				52.6	██████████					45.6	██████████					54.3
Japan	██████████				52.4	█					50.4	██████████					53.6
World	██████████				52.4	█					50.3	██████████					52.7
Euro Area	██████████				51.1	██████████					47.3	██████████					53.3
Germany	██████████				52.2	██████████					45.4	██████████					53.9
Developed Markets	██████████				51.8	██████████					48.6	██████████					52.3
EU	██████████				51.7	██████████					47.3	██████████					53.3
Ireland	█				50.4	██████████					47.6	██████████					53.3
France	█				49.1	██████████					46.4	██████████					49.4

Source: Macrobond, 03.06.24

Note: PMI >50 = explains indication of expansion of economy
 < 50 = explains indication of contraction of economy

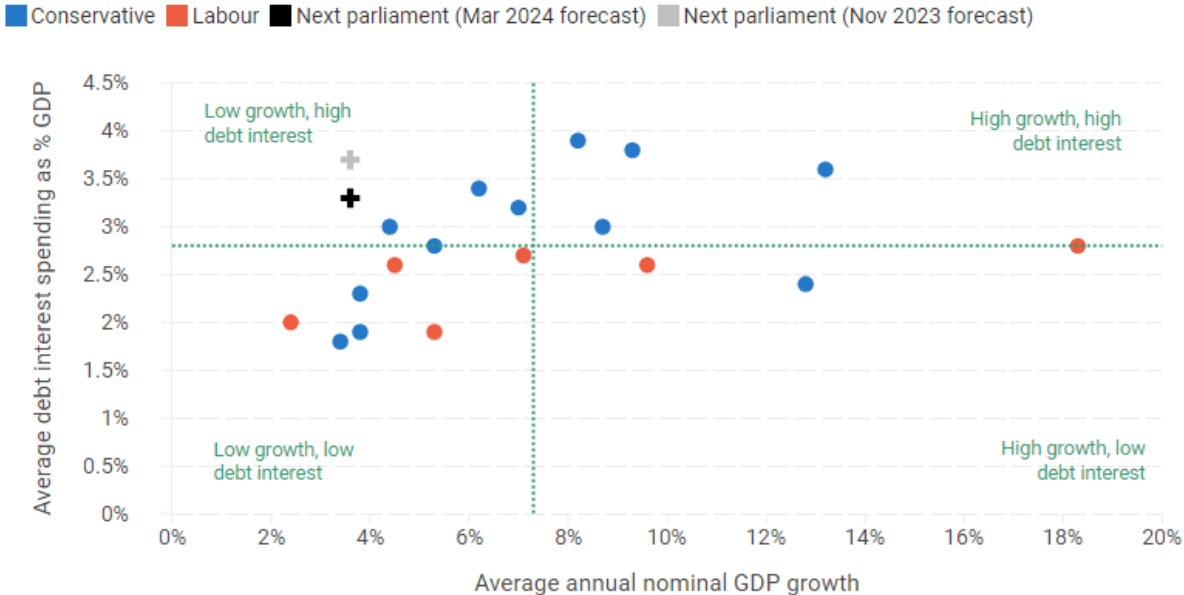
Past performance is not a reliable indicator of future results and may not be repeated.

Challenge: reducing debt amid low growth & high interest costs



UK nominal GDP growth and debt interest costs

Figure 1. Nominal GDP growth and debt interest spending as a percentage of GDP, by parliament, 1951 to present



Source: [Authors' calculations using OBR Public Finances Databank](#). Start and end financial years have been selected to best reflect the period covered by each parliament. Dashed green lines indicate the whole-period average. The colour of each data point denotes the party affiliation of the prime minister of each government. The February–October 1974 parliament has been combined with the subsequent parliament running to 1979. 'Next parliament' refers to the period between 2024–25 and 2028–29. Debt interest refers to central government debt interest, net of the Asset Purchase Facility.

[Download the data](#)



Source: IFS – UK Public Finances & 2024 Election, May 2024

UK equities look cheap if market leadership changes

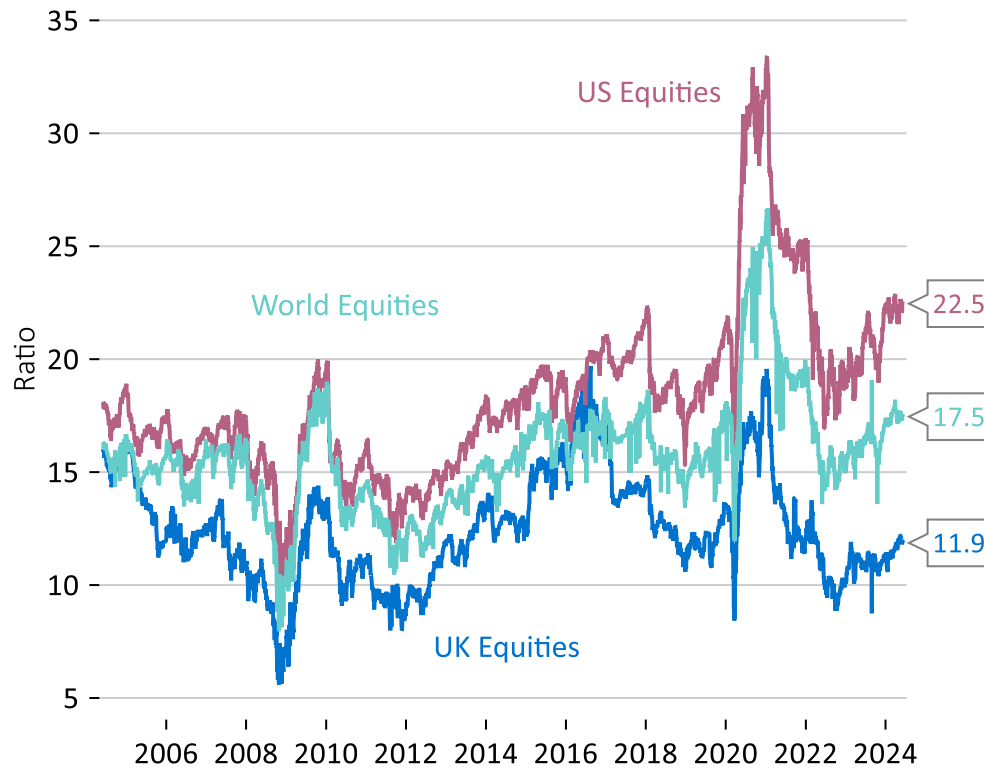


20 years of widening UK valuations gap will trigger M&A



If growth leadership was to stall the UK would be a winner

P/E Ratio 1 Year Forward (FactSet)



Source: Macrobond, 06.06.24

Shein potential UK IPO at £50bn would be largest since Glencore in 2011

Relative Factor & Style Performance Compared to MSCI World Equity



Source: Macrobond, 06.06.24

Past performance is not a reliable indicator of future results and may not be repeated.

All change for no change

Near identical Labour & Conservative economic policies mean UK electoral risk is limited

Policy	Labour	Conservatives
Tax rates (income, NI, VAT, corporate)	No increase	No increase
Defence spending	Raise to 2.5% of GDP <i>as soon as resources allow</i>	Raise to 2.5% of GDP
Fiscal debt to GDP target	Falling in 5 th year of projections	Falling in 5 th year of projections
Decarbonisation of UK power	By 2030	By 2035
Relationship with Europe	Closer ties but no return to free movement of people or customs union	Closer ties but no return to free movement of people or customs union

Implications: Positive for Sterling, alongside a long term re-rating of the UK equity market and further rises in M&A. UK corporate bonds attractive with strong demand from newly overfunded pension schemes.

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