CREDO WEALTH

Little England?

Following his election to Parliament, Edmund Burke, viewed by many as the founding father of Conservatism, famously argued that an MP is not the mere delegate of his electorate, rather: “your representative owes you not his industry, but his judgement; and he betrays, instead of serving you, if he sacrifices it to your opinion”. So much for election promises in the 18th Century. Today, however, there is one election promise that ought to weigh heavily in the minds of investors: a referendum on EU membership.

The election result exceeded even the most sanguine expectations for the Conservatives, and markets swelled with relief. Yet this euphoria could prove fleeting as challenges to unity, both with Europe and within the UK, loom large. Chief among these is the threat a break from Europe would pose to London’s long-standing status as a global financial centre. In our view, such worries are overblown. While David Cameron is unlikely to achieve more than a modicum of reform to Britain’s terms of membership, a successful campaign to leave the EU is even less likely: all four of the opinion polls conducted in the last month have shown an overwhelming majority for remaining in the EU.

In Scotland, the surge of the SNP has created the impression that the fires of separatism have been irrepressibly stoked. However, the SNP’s sweeping success obscures the fact that only 50% of Scotland voted for them. Moreover, the economic case for an independent Scotland has fallen victim to the plummeting oil price, not to mention the limited appetite for tired debates over currency union and tax revenues (in case of independence, Credo’s step-by-step guide can be found here). Whether or not the independence debate returns under this government, remaining in the EU may also serve to pre-empt any renewed calls for secession. It is all too easy to be lulled into the Little England argument, but for now we are most likely to remain a united Britain.

While the foregoing is of course uncertain, what is certain is that the ensuing market rally has proved a boon to our portfolios, as concerns over a Labour government have unwound. For instance, Ed Miliband had pledged a “sin tax” on tobacco companies; a tax scaled by market share. As one of the largest UK tobacco producers, Imperial Tobacco stood to suffer considerably. Likewise, fears were stoked by Labour’s suggestion that the number of Trident nuclear submarines could be reduced. By contrast, the Conservatives have committed to building four new submarines, and companies such as Rolls-Royce have already begun construction of the new engines.

Conservatism, as conceived by Burke, appeals to a gradual process of moderate reform. Our investment approach is much the same: we owe our clients our judgement and while we applaud the market’s recent rally, we recognise that this can only be short-lived, as substantial risks remain on the horizon. To paraphrase Lewis Carroll, “if you don’t know where you’re going, any road will get you there”; these outcomes cannot be predicted with certainty. Nevertheless, should two roads diverge in a future wood, capital preservation shall remain foremost in our approach, and that shall make all the difference.