JMFinn&Co

Market comment 12th May 2015 - After the election, what next?

While there is an old adage in the investment world that you should never believe anyone who says this time is different, it is fair to say that nothing is truly certain. The same is equally true for the world of politics. Despite all the opinion polls predicting a result too close to call and a hung parliament as the only realistic outcome, David Cameron's Conservatives cruised to a convincing victory, even if the margin was of a size likely to keep the whips on their toes.

The immediate reaction was to see both shares and the pound higher. While this might seem a natural reaction to the election of a more business friendly government than many considered likely, this initial surge was probably more to do with relief. The thought of protracted discussions between potential coalition partners, with a constrained cabinet being the probable consequence, would not have been high on any investor's wish list.

But the euphoria was short lived, despite investor sentiment being given a boost by better than expected economic data from the US and a further cut in interest rates by China's central bank. We have an interesting dichotomy developing in markets right now. There are vocal – and respected – advocates of a coming financial crash, while others support the apparent market stance of further, if limited, upward progress.

Recent developments have tended to support the bulls, but even their optimism could be undermined by geo-political upsets. Ukraine, Syria, Islamic State and now Yemen all remain unresolved issues, while the unwinding of quantitative easing may yet have a sting in the tail for financial markets as a ready supply of cheap money dries up. Indeed, loose monetary policy around the world is keeping interest rates low, adding to the attractions of equities – a situation that cannot go on indefinitely.

However, for the time being it seems reasonable to go with the flow, but that doesn't mean investors can afford to be complacent. The Bank of England may have left interest rates on hold at 0.5%, but rises in the US surely cannot be that far away. America, as ever, is leading the way as central banks eventually seek to rein in monetary policy. While political stability at home is an undoubted plus, we will soon have to venture into the waters of monetary tightening.

Brian Tora, who is a respected writer and broadcaster on investment issues, is a consultant to JM Finn & Co. Brian has enjoyed a long and distinguished career in the City. Any opinions expressed are his own and should not be construed as advice from JM Finn & Co. A version of this article may appear elsewhere in the press