THE RIO CLUB

12 December 2019

UK ELECTION DAY

The Sterling and UK equity outlook, trading the December 12 election

Sterling the upside

Given that the once mighty Sterling has risen over the past few days, members should note that the risk/reward has reduced. (I have already taken profits for all members invested in the Currency Concept account reducing my exposure by 75%).

Those looking for a further immediate upside following election day, may be disappointed as many traders whom have been long on Sterling are very likely to take profits now, which could limit the upside in the short term. I see 1.330 and even 1.335 as possible, but the risk has increased, even with a Conservative win Sterling could move back to the 1.30 - 1.31 range.

Sterling the downside

It is far more straightforward to trade a negative Sterling outcome, either because the market decides it has excessively priced for a strong reaction to the expected outcome or we see an unexpected result from the voting polls. For those invested in the Currency Concept I repeat, I have reduced exposure (given that we had initially acquired Sterling at 1.28, taking profits at 1.32 was both sensible and profitable) so the downside is limited - it's almost certainly going to be a very profitable quarter for those invested in this product.

UK equities

Equity markets as always are difficult to predict and in the case of critical events such as the UK election, many traders simply stay away, but they often miss the massive opportunity presented by such an event.

RIO has benefited from precision trading many times over the past two decades, with the Regular Accounts, which are equity based, historically posting gains in such market conditions, leading to RIO becoming well renowned for events trading.

I would point to the obvious; with a substantial Conservative majority the initial reaction would likely be positive for UK equities broadly on the day! Simply put, a stronger Conservative government would increase fiscal spending which would in turn be positive for domestically oriented companies such as local banks, homebuilders, utilities and retailers so look to the mid-caps to perform (FTSE 250). Keep away from the exporters, these companies are heavily dominated by pharmaceuticals and these stocks will suffer should we see a stronger Sterling.

For RIO, I would point out that UK equities look attractive with a 5% dividend yield, although it comes with lower earnings growth rates. That said, today, the market has changed, I sense that as with the US market, the UK equity market currently is not suited to a straightforward country selection approach, but it is ideally positioned and offers potential gains when entered with a very hands on straight forward stock-picking approach, rather than a broad brush lazy approach of exposure to UK indices.

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