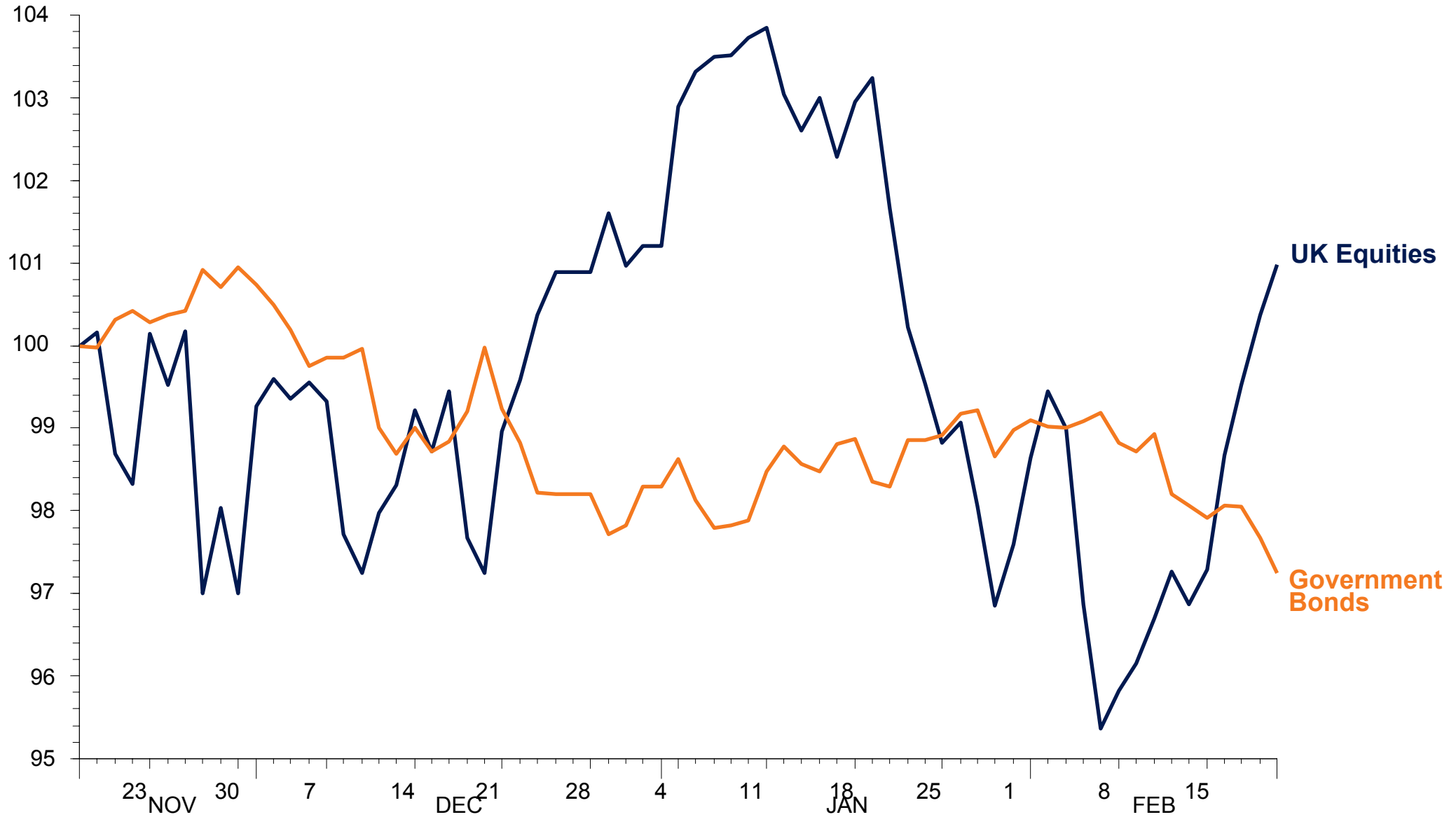




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Since we last met....



Source: Thomson Datastream, Total Return in GBP



IMPACT OF THE ELECTION
ON THE UK ECONOMY AND
STOCK MARKET

Evercore Pan-Asset

Keeping it Simple



Impact of the UK election on the UK economy and stock market

John Redwood

February 2010

Possible election outcomes

- ⌘ Majority Conservative government (10% plus opinion poll lead, 125 or so seats gained)
- ⌘ Minority Conservative government (6 – 10% poll lead)
- ⌘ Minority Conservative government in coalition with smaller parties (6 – 10% poll lead)
- ⌘ Minority Labour government (Cons 0 – 6% poll lead)
- ⌘ Minority Labour government in coalition with smaller parties (Cons 0 – 6% poll lead)
- ⌘ Majority Labour government (Labour poll lead)



Policy response of majority Conservative government

- ⌘ More cuts in public spending more quickly implemented
- ⌘ One year public sector pay freeze
- ⌘ 30% cut in back office costs
- ⌘ No overall cuts in overseas aid and NHS
- ⌘ Reduced headline rate of corporation tax – 25%
- ⌘ Strengthened Bank of England for regulation of banks



Policy response of majority Labour government

- ⌘ Halving deficit over lifetime of Parliament
- ⌘ Tax increases?
- ⌘ Aim for more tax from high income individuals and companies



Policy response of hung Parliament

- ⌘ Likely to mean slower or no progress in cutting the deficit
- ⌘ Continuation of pre-election atmosphere
- ⌘ More danger of market response to force the hands of the government

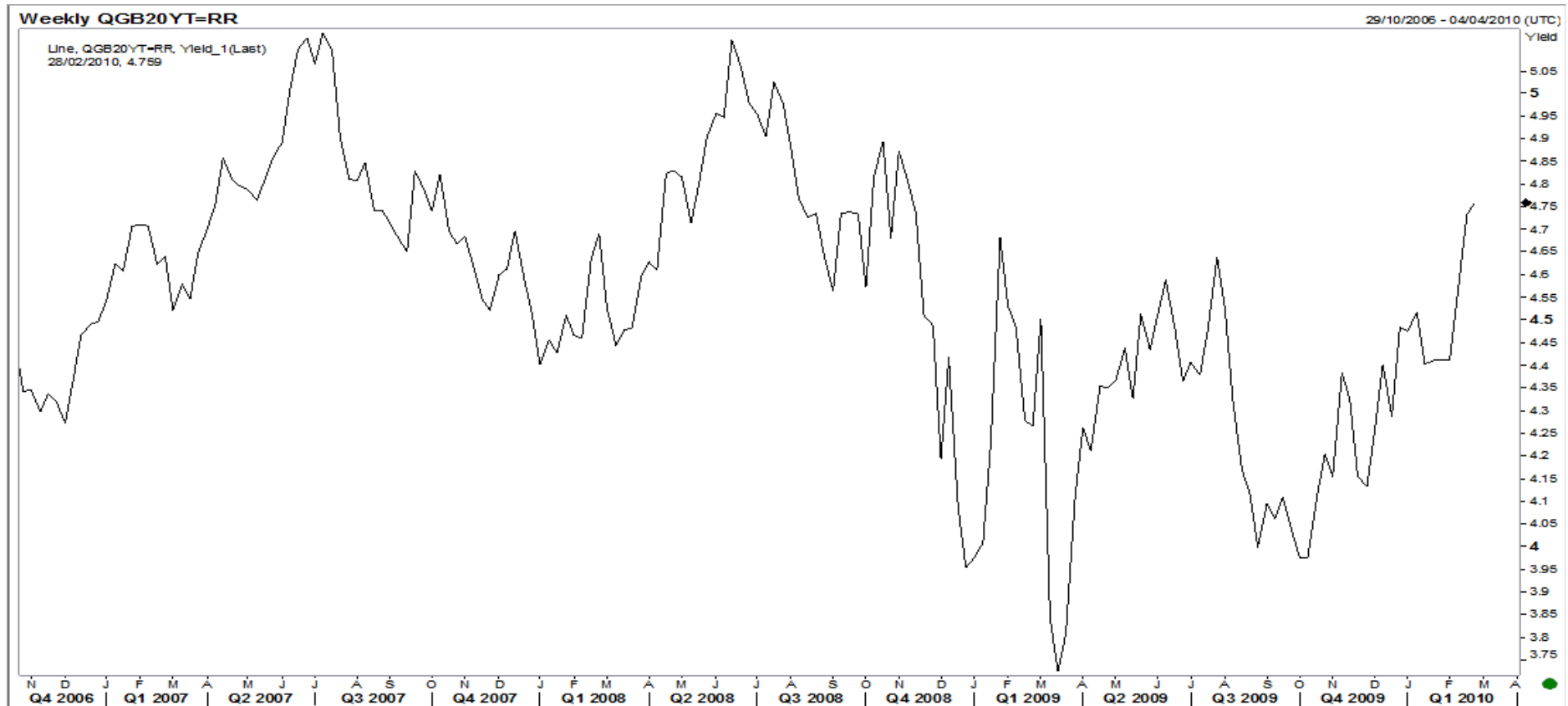


The reality confronting any new government

Current estimated position 2010	
Stated borrowings	£850 billion
Unfunded pensions obligations	£1100 billion
PFI/PPP	£300 billion
Gross banking liabilities	£2300 billion
Net banking liabilities	£500 billion
Other public companies	£150 billion
Total	£2900 billion to £4700 billion (UK national income £1400 billion p.a.)



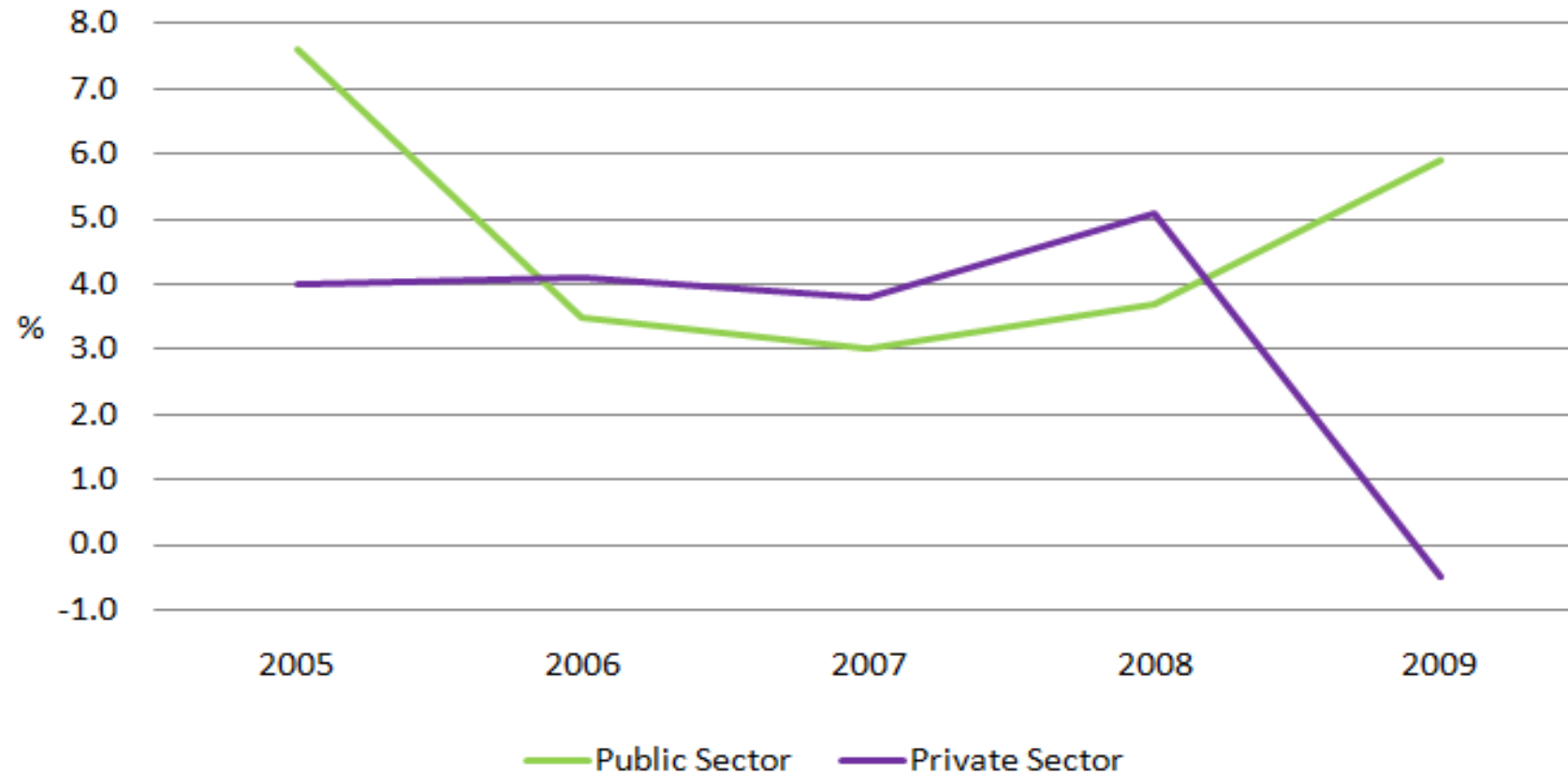
Rates of interest on 20 year government bonds over last 3 years



Data Source: Thompson Reuters



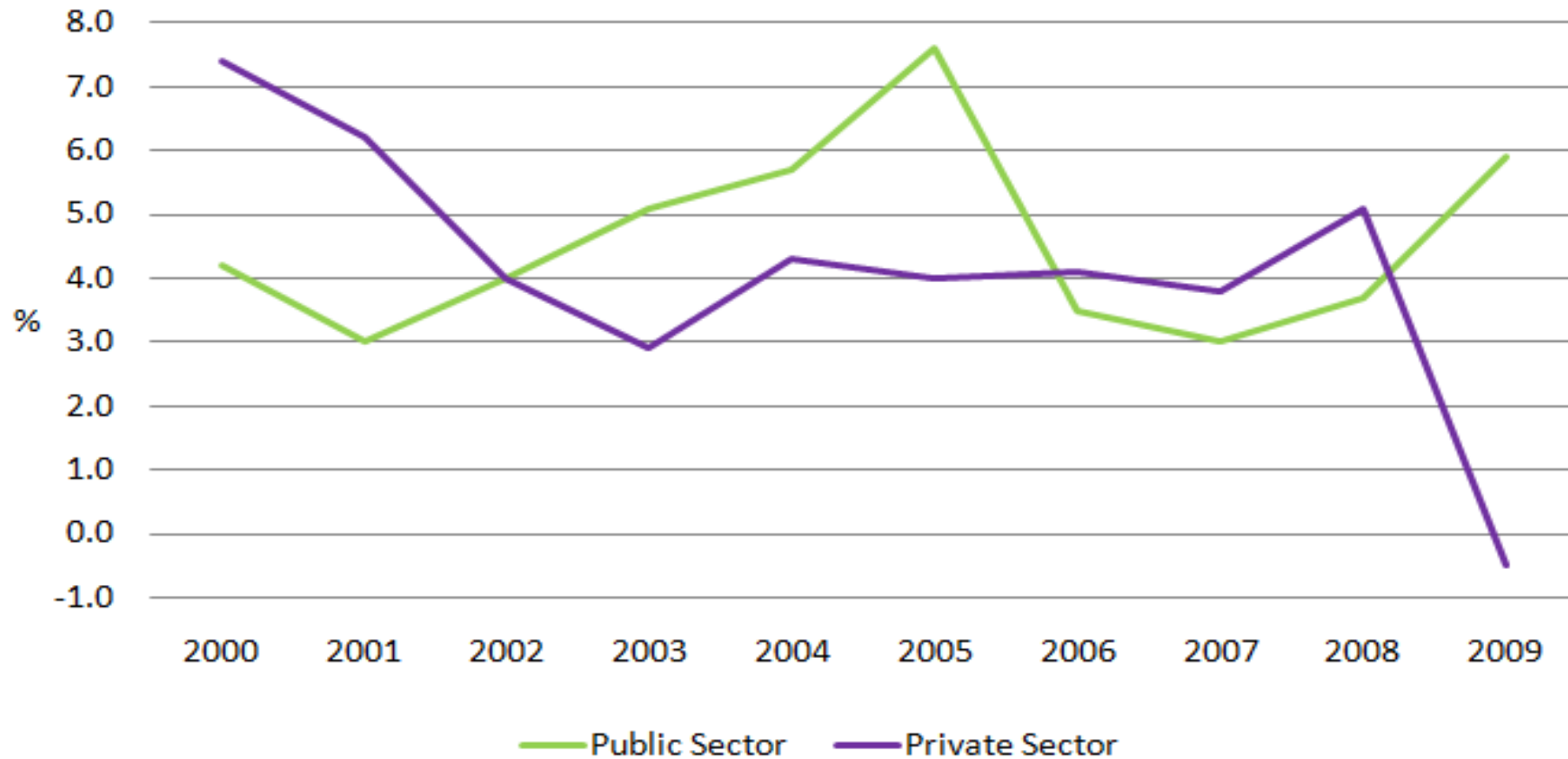
Public sector versus private sector pay trends 2005 – 09



Data Source: Office for National Statistics (ONS) - ASHE Median Gross Annual Pay



Public sector versus private sector pay trends 2000 – 09



Data Source: Office for National Statistics (ONS) - ASHE Median Gross Annual Pay



Sterling versus trade weighted basket of currencies



Data Source: Thompson Reuters



The inconvenient truth

- ⌘ An economy where the government is borrowing 12.5% of National Income has a deficit problem
- ⌘ The UK state is spending £4 for every £3 it raises in taxes
- ⌘ The UK state owns two large banks which are themselves having to cut their lending and contract their balance sheets



Market prospects

- ⌘ Higher long term and short term interest rates
- ⌘ Continuing squeeze on real wages
- ⌘ Companies and entrepreneurs leaving owing to tax regime



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Global investors across all major asset classes

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QUESTIONS?



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