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Dear Tatton portfolio investor

The unpredictability of the UK electorate remains alive and kicking, with most pollsters and political analysts once again predicting a completely different outcome by relying on what held true in the past. Congratulation to YouGov, the only major one who got it right by tearing up the models of the past.

And that is perhaps first and foremost the lesson from yet another very surprising result from the UK's electorate – do not rely on perceived wisdom. Comment before the election suggested that anything but a broad endorsement of Theresa May's "Strong and stable - Brexit means Brexit" would fundamentally weaken the UK's negotiating position with the EU. I am not so sure and here is why.

However, as far as I read the election result this morning, the Brexit majority last year was far more an expression of general discontent with the political establishment than a rejection of EU membership. Otherwise May should indeed have been unable to lose the way she did. It would appear to me that the cosmopolitan townies this time got their act together and actually turned up to vote, whereas the discontent masses outside the cities have endorsed their message that they are fed up with the status quo – but that they understand that Brexit may actually worsen not improve their positions.

This is important, because it means that May's "no deal is better than a bad deal" and even perhaps "Brexit means Brexit" are no longer a winning formula for the government. This all points to a much softer Brexit than expected over the past 9 months. Yes, it can be argued that May's negotiating position with the EU has weakened, but the lack of hard Brexit support by the British people should also mellow the EU establishment who can no longer argue wholeheartedly that the British public can only blame itself for hardships from a hard Brexit outcome.

So while at first sight one might think that a weakened Conservative government increases uncertainty and uncertainty is bad for business, markets and investors that may have been true in the past, but is not necessarily true under the perspective of Brexit. We will argue in today's Tatton Weekly that the economic future of the UK will be far more decisively shaped by the UK's future trade relations with the EU than even a Jeremy Corbyn led ultra-left UK government would ever have.

We must not forget that capital markets' reaction to the UK deciding to leave the EU was very negative. The 15%+ devaluation of £-Sterling equated to a 15% write down of the value of the UK's combined asset base compared to remaining in the EU. Therefore, this morning's initial 2% further fall in £-Sterling may well dissipate fairly quickly once market participants overcome their initial surprise and begin to think through how the election outcome has changed the likely direction and emphasis of the Brexit negotiations.

I believe it is too early to say whether Theresa May will remain the head of a Conservative UK government over the medium term, but I do believe that with the surprise outcome of the 2017 general election, the UK

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electorate has distinctly qualified last year's Brexit referendum. By failing to endorse Theresa May's stance towards the EU negotiations and to a surprising extent siding with Jeremy Corbyn's promises of a radical change of domestic policy direction, they have in my opinion made clear that the Brexit vote was more an expression of discontentment with the political establishment than a decisive rejection of the UK's ties with the EU.

This morning's perception of increased political uncertainty should therefore soon make way for a recognition of somewhat increased certainty of continuity in the UK's relationship towards the EU. This should be positive for the UK economic outlook and thus positive for the UK's stock markets. As for the prospects of a significant recovery of £-Sterling back to its pre-Brexit referendum levels – well, I am not holding my breath, as I believe that this will be a far more drawn out affair and only happen very gradually as Brexit negotiations towards a now most probably softer end-outcome take shape.

On this note, I suggest that just as was the case after all the other recent political surprises, the best advice for investors is to 'keep calm and carry on'. And not to be overly surprised if markets head into a slightly different direction than perceived wisdom first suggests.

With my very best regards

Lothar Mentel

CEO & CIO

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