



IS THERE ANY CORRELATION BETWEEN THE POLITICAL PARTY IN POWER AND CAPITAL MARKET RETURNS?

6 April, 2010 - As the UK prepares to head to the polls, analysis of UK capital market returns by Fidelity International shows equity investors have enjoyed their best and worst annual returns under a Conservative Prime Minister.

Winston Churchill's third term in the 1950s returned 19.66% for equity investors, compared to -11.47% during Neville Chamberlain's time in office at the end of the 1930s*.

Bond investors saw a similar pattern, enjoying the best and worst returns under Labour Prime Ministers (15.84% during the second and third terms of Ramsay MacDonald in the wake of the Wall Street Crash and -13.13% while Harold Wilson was in power).

However, overall, the analysis showed there is little correlation between markets returns and the political complexion of the party in power.

Since the start of the 20th Century, the UK has had 20 different Prime Ministers, serving 25 separate terms in 10 Downing Street. The Conservatives have had the upper hand, accounting for 14 of those terms in office. This party has enjoyed approximately 54 years in power, while Labour has occupied office for 36 years and Liberals for 17.

The Conservatives have been marginally better for investors. Equity investors received positive cumulative returns after inflation in ten Tory administrations. This equates to 77% of their administrations (the analysis excludes the term served by Andrew Bonar Law because it lasted less than a year). Bond investors saw positive real returns in eight Conservative terms (61% of their administrations).

However, a Labour Government has been almost as equally favourable for equity investors. They received positive returns after inflation in five of the seven, or 71% of Labour terms since 1902. Bond investors saw positive returns in four terms (57%).

On the face of it, Liberal governments aren't great news for investors although this may reflect the short tenure of Liberals in power during the early decades of the 20th



century. Of their three terms in office, only one saw positive returns on equities and bonds – that of David Lloyd George's administration.

Explanation of methodology

Since data for the exact periods of political terms are unavailable, the analysis is based on full-year numbers provided by the ABN Amro in its Global Investment Returns Yearbook. Andrew Bonar Law's term has been excluded because they have lasted less than a year. Data relating to Gordon Brown's tenure based on Barclays equity gilt study 2010.

The returns are the annual average rate of return between year ends for UK equities and gilts. It is assumed that gross dividend income or interest has been reinvested. All the numbers have been adjusted for inflation to arrive at a real rate of return.

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Notes to Editors

* To nearest year end. Source: Fidelity as at 06.04.10

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