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Truss resigns after 45 days in power

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Liz Truss's resignation as UK prime minister brings an end to the shortest premiership in UK history, following a tumultuous few days. Guy Foster, our Chief Strategist, looks at the market's perspective on the news.

The press has been rife with speculation that the government has been on the brink of collapse for weeks. However, the developments on Wednesday with the resignation of the home secretary and chaotic scenes in parliament at the evening vote on fracking, mean today's news did not come as a great surprise.

Markets focused on policies not personalities

From an investor's perspective, political drama can be unnerving. After all, political chaos is often associated with financial market chaos. However, the two do not always go together.

The concerns that we saw from the markets in recent weeks stemmed from the forceful ideological position of the Truss government and its working majority – ie an unorthodox approach to economic policy with the political means to implement it.

In that sense, the markets cared less about the identity of the prime minister than about her economic agenda – and Trussonomics left Downing Street a week ago with the dramatic sacking of Kwasi Kwarteng, his replacement by Jeremy Hunt and the new chancellor's rapid response in abandoning the majority of the tax changes from the mini-budget.

The return of a more orthodox approach to economic policy seems already fairly established, and has been

welcomed by investors. Markets have adapted to that new reality and priced it in. Indeed, following the announcement of Truss's resignation, markets were benign.

What will the succession hold?

Investors will be looking ahead to the succession, but after this bruising experience it is unlikely that any candidate will succeed without taking a very orthodox position on economic policy.

In a YouGov poll of Conservative Party members this week, Boris Johnson came out on top – that would be an extraordinary comeback.

Rishi Sunak, Penny Mordaunt and Ben Wallace continue to be talked about as the leading contenders, after Jeremy Hunt moved quickly to remove himself from leadership speculation shortly after Liz Truss's announcement. A brief seven-day process demonstrates recognition of the need for stability at this time, and it is likely to be a key watchword as the contest unfolds.

The importance of strong institutions

The short-lived reign of Liz Truss has underlined how robust institutional protections are in the UK. This has been a brief, painful but ultimately reparable loss of credibility with the financial markets.

Some social media commentators may have flippantly taken to comparing the UK to an emerging market, but that is a long way from the reality. Taking a look at Turkey, where unorthodox economic policy has been failing for several years and where further stimulus seems set to be poured upon inflation that has already risen to 70% in a year, and the difference is significant. The markets recognise this and it does not seem to be taking long to regain investors' confidence.

The next week will, of course, carry much political speculation. In terms of market reaction, however, Truss's resignation is the moment the curtain comes down quietly after a period of high-octane drama.



Guy Foster, Chief Strategist

Guy leads RBC Brewin Dolphin's Investment Solutions team working to align our investment capabilities with the needs of clients. He also provides recommendations on tactical investment strategy to our investment managers and strategic recommendations to the group's Asset Allocation Committee. Guy has a Masters in Finance from London Business School. He is also a CFA charterholder, holds the CISI Diploma, and is a member of the Society of Business Economists. He frequently discusses financial issues with the written and televised media as well as presenting to the staff and clients of RBC Brewin Dolphin.

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