

Northern Trust | Wayne Bowers: Remember, Corporations Outlive Governments

Balancing political and economic factors can be challenging for business and investors as their effects can influence the time horizon for both corporate strategy creation and implementation. However, in periods of political change and volatility, it's important to remember that corporations will generally outlive governments.

Firstly, the strength of the economy and its management by governments are clearly important inputs into corporate equity valuations. Grasping the political nuances of domestic markets is vital. This means any significant shift in policy, perhaps caused by general election, may affect corporate valuations and investor sentiment.

A prime example of recent political change was the UK general election. As the predicted result was too close to call, the last 9 to 12 months have seen increased hesitancy by corporates and investors to commit to capital projects.

Since the result, sterling has appreciated against the major currencies, with gilt and stock markets higher. It wouldn't surprise us that we see an increase in M&A activity and capital flow as the gates of corporate investment open, both domestically and internationally, into UK-based companies.

With electioneering happening across several developed markets in the next 18 months, investors should try and assess potential impacts on growth and direct investment trends. Will we see the health of each economy having a profound effect on the results of each election? We wait to see the results of both economic performance and the elections in Spain, Denmark, and Italy in 2015, as well as the US through 2016.

The fragmentation of political power has meant for many countries, coalition governments have become the norm. However, with the health of developed markets seemingly on the right path to pre-recession levels, will this mean a shift to one party majority rule?

It's important to remember that corporations generally outlive governments. Corporate strategy evolves over a longer period of time, and so changes in political direction should be incorporated, but not govern, the path of company policy.

Expect to see growth, albeit at a slower pace in most developed markets. And we note continued momentum in Europe with risk assets clearly remaining in play.

Lastly we see a continuation of the importance for investors to one, understand the currency effect on underlying assets, and two, strategies employed that can hedge and minimize downside currency risk.