

July 18, 2016

## **Meet Theresa May**

On Monday, July 11, U.K. Energy Minister Andrea Leadsom withdrew from the race for prime minister. The Tories decided to end the leadership contest with Leadsom's exit, giving the PM job to Theresa May. She officially took over the role on Wednesday, July 13.

In this report, we will begin with a discussion of how she won. We will offer a short biography of May, focusing on her accomplishments, temperament and leadership style. We will also discuss her mandate and the odds of early elections. As always, we will conclude with the potential impact on markets.

### **The Winning Formula**

May's path to 10 Downing Street can best be summarized by a famous quote from Napoleon Bonaparte, who said that one should "never interrupt your enemy when he is making a mistake." She initially faced five competitors, although only three had a realistic chance of winning the PM job. The Conservatives have their Members of Parliament (MP) vote on successive days until two candidates remain.

After the first two competitors exited, Michael Gove was the next to go. Gove is a controversial figure. Initially, he was managing the campaign of the earlier front-runner Boris Johnson, the former Mayor of London. However, in a stunning act of disloyalty, just hours before Johnson was to formally announce his candidacy for PM, Gove gave a press conference indicating that he could no longer support Johnson. Later

that day, instead of announcing his candidacy, Johnson indicated he would not run. Gove's downfall was due, in part, to his betrayal of Johnson.

The remaining two candidates, Leadsom and May, were expected to face a full Conservative Party vote in September. However, Leadsom made a fatal unforced error when she gave an interview to the *Times* (London) suggesting that she would make a better PM because she is a "mum." May is married but childless. When the *Times* ran the story, Leadsom angrily argued she had been misquoted and so the paper released the transcripts, which, though difficult to believe, put Leadsom in an even worse light than the paper's story. This controversy doomed Leadsom's campaign and she withdrew last week, giving the PM job to May without a vote.

Thus, the key to May's success was to simply remain quiet while her opponents destroyed their chances for the lead post through betrayal and ill-advised comments. May only gave one speech before her victory, which we will discuss below. However, in a world of social media, the discipline she showed by not reacting is unusual. The strategy proved to be effective.

### **Who is Theresa May?**

May is 59 years old, married for 35 years to a banker. She has been involved in Tory politics since the mid-1980s and became an MP in 1997 after losing two earlier elections. She held several Shadow positions when the Conservatives were out of power during Tony Blair's governments. May became the first woman to hold the

position of Chair of the Conservative Party in 2002.

In 2010, after David Cameron built a ruling coalition with the Liberal/Democrat Party, May was given the position of Home Secretary; in U.S. terms, this role combines Homeland Security with much of the responsibilities of the Justice Department. It is something of a graveyard for political careers.<sup>1</sup> She managed the role unusually well, becoming the longest tenured Home Secretary in over 50 years.

The Home Secretary deals with the sort of problems that are prone to miscalculation and misfortune. This minister deals with immigration, domestic security and border security; essentially, the Home Secretary can be undermined by a terrorist attack or an immigration issue. The position faces a constant stream of difficult decisions. The fact that she lasted in the job without scandal and managed several controversial decisions without pressure to resign is impressive.

She is not out of the mold of the Tory public schools and the various clubs that spawned former PM Cameron or former London Mayor Johnson. She is not known for being close friends with most political figures in the Conservative Party. For example, Ken Clarke, a senior Tory MP who was a minister without portfolio in Cameron's first government, described her as a "bloody difficult woman."<sup>2</sup> She tends to conduct policy through a small group of loyal advisors and seems to analyze problems and dispatch them quickly. In a rather famous speech in 2002, when she was Chair of the Conservative Party, she referred to her organization as "the nasty party" for its

<sup>1</sup><http://www.thedailybeast.com/articles/2016/07/11/theresa-may-thatcher-s-tougher-successor.html>

<sup>2</sup> Ibid.

policy positions.<sup>3</sup> She suggested that the only way to shed the nasty party label would be "by avoiding behavior and attitudes that play into the hands of our opponents. No more glib moralizing, no more hypocritical finger-wagging."<sup>4</sup>

In terms of political philosophy, May comes out of the "one-nation Conservative" school, for which the best U.S. comparison is a "country club Republican." This school of political thought began with Benjamin Disraeli in the second half of the 19<sup>th</sup> century. It argues that Conservatives have an obligation to help the working class improve their lot. Disraeli pressed for social cohesion instead of individualism to avoid the creation of "two nations" within Britain, one nation for the rich and one for the poor. Unlike the left, who argue that the working classes have rights to national income, the one-nation Conservative model argues that there are divisions between people due to natural abilities and thus the wealthy have a moral right to their higher standing. Instead, Disraeli would suggest that to maintain social adhesion the Tories should support regulations that assist the working class.

May discussed similar themes in her only speech before becoming PM, including adding worker representatives to company boards of directors and implementing a "proper industrial policy." She also clearly indicated that she opposes fiscal austerity (and proved it by dumping George Osborne, Cameron's Chancellor of the Exchequer), called for policies to address the needs of

<sup>3</sup> Ibid.

<sup>4</sup>[http://foreignpolicy.com/2016/07/12/madame-prime-minister-by-default-theresa-may-brex-it-britain/?utm\\_source=Sailthru&utm\\_medium=email&utm\\_campaign=New%20Campaign&utm\\_term=%20ASituation%20Report](http://foreignpolicy.com/2016/07/12/madame-prime-minister-by-default-theresa-may-brex-it-britain/?utm_source=Sailthru&utm_medium=email&utm_campaign=New%20Campaign&utm_term=%20ASituation%20Report)

impoverished communities and announced she supports same sex marriage. Some labor officials suggested that May's speech expressed positions strikingly similar to those of former Labour Party leader, Ed Miliband.<sup>5</sup>

Although May will be the U.K.'s second female PM, she is much different than her predecessor, Margaret Thatcher. Thatcher was a classic liberal who argued for small government, opposed labor unions, supported deregulation, government divestment and globalization. From an economic policy perspective, May probably has more in common with Hillary Clinton (without the tendency toward scandal) and Angela Merkel. May is pragmatic, efficient and cautious. She tends to keep her circle of advisors small and loyal, and eschews the forced camaraderie common among most politicians.

### **The Way Forward**

In May's early cabinet appointments, she is leaning toward politicians who supported Brexit. For example, her Foreign Minister is the previous front-runner for PM, Boris Johnson. David Davis, another leading figure in the Leave campaign, is the so-called "Brexit Czar." Although May was in the Remain camp, she has indicated that "Brexit means Brexit" and appears to be supporting the U.K.'s departure from the EU. At the same time, the selection of Boris Johnson is a curious one. He is so gaffe-prone that it would not be a huge shock to see him make a mistake and be forced out of his mandate...which might be May's plan. If a major Brexit figure embarrasses Her Majesty's government, May could replace

<sup>5</sup>[http://www.nytimes.com/2016/07/13/world/europe/theresa-may-brexit.html?emc=edit\\_ee\\_20160713&nl=todaysheadlines-europe&nid=5677267&r=1](http://www.nytimes.com/2016/07/13/world/europe/theresa-may-brexit.html?emc=edit_ee_20160713&nl=todaysheadlines-europe&nid=5677267&r=1)

him with a more acceptable candidate. For now, it appears that she is trying to placate the Leave campaign.

May could more easily build a government with more Remain supporters by calling for new elections. May essentially won the PM position by elimination. Her opponents scored a series of "own goals" and she was wise enough to remain quiet and won the day. However, not only did she not win a Conservative Party election to gain the PM job, but she didn't win an intraparty election either. So far, May has indicated she has no intention to call early elections (she isn't required to hold elections until May 2020). However, she may need to do so to establish her administration. In addition, the Corbyn-led Labour Party is in complete disarray and would be vulnerable to a snap election. Thus, the temptation to call an early election to establish a clear mandate will be high.

Although May has indicated she will support Brexit, it should be noted that May isn't an ideologue. If conditions change, she might move to remain in the EU. She has indicated that her government would like to meet informally with EU officials and create a resolution path to exit before invoking Article 50, which will begin the formal process of leaving. Earlier, EU officials indicated that they opposed informal contacts. However, we suspect that to keep the process amicable, Chancellor Merkel will try to support the new government and allow informal discussions.

### **Ramifications**

Everything in May's background suggests she will be a competent PM. Of course, that doesn't mean she will be. Sometimes people rise to circumstances; in other cases, they don't. However, given her history, we do expect her to run a technocratic, stable government.

Perhaps the most potent signal being sent by the elevation of May is a rejection of Thatcherism. Although Cameron was considered to also hold “one-nation Conservative” sympathies, his appointment of George Osborne to the Exchequer position and his support of austerity generally undermined those tendencies. There appears to be little to suggest that May will “genuflect” to Thatcher’s legacy. If this is true, it does signal a leftward shift in economic policy. After all, Thatcher supported unfettered markets; May, as noted above, wants to implement a “proper industrial policy,” which is nothing more than government guidance of the economy. The fact that, as noted above, some in the Labour Party accused May of “stealing” policy ideas from their former leader, Ed Miliband, suggests a leftward shift in policymaking. Perhaps because of Jeremy Corbyn’s extreme positions, May can safely

take more liberal stances without undermining her position.

We view this shift as a global trend. As we have been noting in other reports, it appears that the Reagan/Thatcher Revolution may be approaching its end. Theresa May’s elevation to PM is further evidence of this development. In general, we believe this shift will be manageable but will require different investing procedures as we would expect interest rates to rise and P/E multiples to contract. For now, we are still early enough in this change that aggressive actions are not required. However, we do think this leftward shift is the direction in which the world is heading.

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