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Burnham becomes Prime Minister. Here's what investors should focus on next

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Andy Burnham officially took over as Prime Minister yesterday after securing the Labour leadership unopposed last week.

Gilt investors will have welcomed the swift transition of power instead of several months of limbo. Given Burnham's ascension has been widely anticipated for several weeks, markets have had ample opportunity to price the outcome. Instead, recent gilt price movements have largely been driven by global bond markets following the recent flareups in the Middle East.

What's next?

Investors now move on from leadership speculation to scrutiny of policies. In particular, we are focusing on the following:

Chancellor – At one point Ed Miliband looked to be in pole position to be appointed Chancellor, but it seems Burnham has opted against it, perhaps in an effort to gain confidence with investors and the business community. Miliband is seen as being on the left of the party and favouring a green investment programme that may require significant borrowing. Reports that Shabana Mahmood may become Chancellor instead were received well by the gilt market, given she is seen as more of an orthodox candidate. This isn't necessarily a judgment on competence from investors, merely greater confidence on what matters to them (borrowing, deficit and gilts supply).

Fiscal rules – once the Chancellor is appointed, investors will be watching keenly for signs of fiscal credibility and adherence to the existing rules. A Chancellor advocating for more flexibility or a widening of the rules may concern gilt investors.

Autumn Budget – With the leadership resolved and the cabinet being assembled, investors will be looking ahead to the Budget this Autumn. While a date has yet to be confirmed, the Autumn Budget is likely to become the next major focus for investors as the new government begins setting out its policy agenda. Burnham has discussed trying to end the 'briefing wars' in politics. If he can manage to contain the damaging speculation leading up to the previous Budget that would be welcome.

Portfolios Implications

It is important to remember that, outside of the gilt market and sterling the impact on investors portfolios is minor. Once again, this episode reiterates our preference of a globally diversified approach to achieving government bond exposure rather than concentrating solely on the gilt market, given the increasing volatility and political sensitivity that has characterised the UK bond market in recent years.

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