The Corbyn effect

Money is already draining from Britain, but not because of Brexit

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What's wrong with UK financial markets? The global economy is recovering, but British stocks and shares are not keeping pace. The pound has failed to recover from the slide it experienced in the wake of the EU referendum. This is frequently blamed on investors being spooked by Brexit, even more so by the possibility of a no deal. But has anyone actually asked the markets what is spooking them? Look closer and it becomes clear that while Brexit is a problem for some investors, most are much more worried about a far bigger risk, even if they rarely speak about it in public. It is the possibility of a Corbyn government.

Since last year's election, when the Labour leader came within a stone's throw of No. 10, it has been impossible to write off the idea of a Corbyn victory. And we're about to enter a time when anything can happen. Theresa May looks doomed to lose the Commons vote on her Brexit deal on 11 December; the DUP has said it may well withdraw its support from the Tories, leaving the Prime Minister without a majority. Whatever the Commons result, turmoil is more or less guaranteed — and one possible outcome is a general election as early as January.

A no-deal Brexit would unquestionably cause short-term ructions in the UK economy, as well as affect the pound and the FTSE — for what economic forecasts are worth (which is not very much, to judge by recent history). Oxford Economics recently claimed that GDP would be 2 per cent smaller than expected, pushing the UK into a mild recession. But even if that were to happen (and it has to be remembered just how far Treasury forecasts were out when they claimed the economy would shrink by 3.6 and 6 per cent in the event of a Brexit vote), growth would then rekindle, trade would continue, companies would re-route imports and exports, and an inflationary spike would die down. But if Corbyn were to be elected on a 'radical socialist' platform, investors can only guess as to what might happen.

Last month, wealth manager Saunderson House conducted a survey of high-net-worth clients asking them about the biggest fear for their wealth. The most common concern was a change of government, with 42 per cent reporting themselves worried. Brexit hardly featured. Among 50- to 64-year-olds, for example, only 25 per cent were worried about 'global instability' — which included the risk of a no deal. Among 36- to 49-year-olds, global instability hardly featured at all: they were worried firstly about losing their jobs, with a change in government running a close second.

'There is a clear understanding of the upsides and downsides of Brexit,' says Gareth Parsons, who conducted the survey.

'But a Corbyn government is a much greater unknown, and so is a much bigger fear than Brexit. We have clients who are laying down a footing for a potential move abroad. They are setting up bank accounts in overseas locations, where they already have second homes. Many are keeping a defensive ballast to their portfolios, with very liquid short-dated government bonds.'

It is a theme which has been confirmed by others. Michael Maslinski, who runs his own wealth management outfit, recently reported that Corbyn is worrying his clients more than Brexit by a factor of ten. 'Concerns about Corbyn have doubled over the past couple of weeks,' says Iain Tait, of wealth managers London & Capital. 'It is now, without a doubt, the first thing that clients ask us: "What can we do to protect our wealth against Corbyn?" ' Clients, he says, are taking money out of pension schemes, and moving it abroad. 'There is no tax advantage to that while they remain resident in Britain, but it does protect them against a possible run on the pound.'

The figures bear this out. A recent study by an investment research firm suggested that $1.01 trillion has been taken out of UK shares over the past two years. Wealthy individuals are also protecting themselves against a possible future wealth tax by passing money down to their children at an earlier age. In that sense, Corbyn — who has made a thing about intergenerational unfairness — has already achieved his ambition of enriching one group of young people: the teenage children of the super-rich.

Some wealthy individuals are not waiting for an election. Two of Tait's clients have already upped and gone, one to Switzerland, one to Sweden. 'Early in my career it would have been unthinkable for anyone to move to Sweden for tax reasons,' he says. What Sweden does offer, on the other hand, is the political and fiscal stability that was once Britain's strongest selling point.

Trevor Abrahmsohn, whose estate agency Glentree Estates has been selling property in and around Highgate in north London since the 1970s, has seen several families sell up in recent months — all people, he says, who had seemed deeply committed to Britain. 'I know an Argentinian family who had bought a home in Maida Vale, as well as office space, to set up a restaurant and property businesses,' he says. 'They have sold everything and moved back to Argentina. There was an American family who had been in Kensington for 20 years who have done the same, plus a couple of American families in Maida Vale.'

Corbyn wasn't the only factor in their decision to leave, he says. They were also motivated by changes to the tax rules, which require non-doms to pay a flat-rate fee of