



Government Brexit Defeat

16th January 2019

After a negotiation period of two and half years, the UK-EU Withdrawal Treaty has been defeated in a meaningful vote in the House of Commons. At 432 votes to 202, the scale of the defeat was much higher than most commentators had been expecting, but the fact that it was a defeat was no surprise, with even government ministers admitted the arithmetic was tough leading into the event.

Jeremy Corbyn has tabled a motion of no confidence in the government, which will be debated and voted on this evening and while this may lead to Theresa May's government collapsing, this is not expected to be the case, with few Tory MPs likely to risk losing their seats in a general election and with the DUP stating, that despite the state of Brexit, they still support the government.

Should May survive this evening, she will return to the Commons next week with a Plan B. What that plan will look like is far from certain – given the scale of defeat last night, is it unlikely that minor tweaks to the current agreement would be sufficient?

Part of the criticism of the Prime Minister's tactics has been that she has shown little flexibility in catering for the wants of opposition parties, instead focusing on trying to capture the middle ground in her fractured Conservative party. This is looking likely to change, with efforts to win friends across the political divide expected in an effort to achieve a consensus position that can be used as a basis for renegotiation with the EU.

Whether the EU will give further concessions, such as a time limit on the contentious backstop, is far from certain and so what are the possible outcomes? While a no-deal departure is the default position, this is looking less likely given that opposition to a no-deal is one of the few things that can gain a majority in the Commons. Other alternatives being discussed are typically softer versions of Brexit than envisaged in May's deal, such as maintaining a customs union and single market in order to overcome the Irish border issues. With this scenario the UK would likely have to accept free movement of people amongst other aspects, previously described as red lines by Mrs May.

If a new deal is to be negotiated, under the current timescale, it would have to be done incredibly quickly and therefore it is increasingly likely that an extension to the Article 50 departure process is sought, by the UK pushing the leave date further back from 29th March.



If no consensus can be found amongst parliament, or if negotiations with EU yield no further progress, then we may yet find ourselves with a second referendum on the issue, the 'People's Vote'.

Turning our attention to markets and the reaction has been quite muted. The FTSE 100 is mildly down this morning, while pound sterling is slightly up. Defeat last night was no surprise to investors and while the clock is ticking to departure and uncertainty remains, which is having an impact on business confidence, markets have taken the view that with no-deal seemingly unpopular with parliament, a hard exit is a decreasing possibility. Therefore, they expect that the future course of the UK's relationship with the EU is likely to be relatively close.

With markets having priced in negativity around Brexit to both the pound and the FTSE since the 2016 vote, a result of either Theresa May's deal, or softer, is likely to be viewed as positive by business, as trading relations with the EU will remain close. As such, while markets hate uncertainty, there is a feeling that last night's defeat was a necessary step on the path towards eventual resolution.

Last night does not change any investment conditions, in our view, and therefore no changes are being made to the Future Money portfolios as a result. The volatility that is present is however creating short opportunities of which we are participating in the form of buying dips and selling rallies, at the margin.



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