

Got Brexit Done?

Boris Johnson's gamble to call a general election as a means to unlock the deadlock in the House of Commons was a success. December's election delivered a strong majority for the Conservatives, ensuring sufficient support for the Prime Minister's Brexit departure deal to be approved by parliament and, therefore, the UK is set to leave the EU on January 31st 2020.

Breaking with Tradition

With voting intentions largely influenced by Brexit policy rather than by traditional party alliances, the outcome of the election had been highly uncertain, although a small Conservative majority or a Labour led minority government had seemed like the most likely options.

Certainty and Prudence

While investment markets were historically anti-Brexit, a mood of acceptance developed in the months leading up to the election and the relative certainty that the Conservative victory gave was welcomed by investors overall. Despite misgivings over Brexit, markets held a greater fear over Labour's policies of nationalisation and high government spending and the large level of borrowing this would have required. As such, with these possibilities ruled out, UK assets jumped in popularity immediately following the result.

Far from Done

Yet, while Mr Johnson will surely claim to have 'got' Brexit done, the truth remains that the future relationship between the UK and EU is yet to be decided. Both a 'no-deal' departure at the end of 2020 and a comprehensive free trade deal remain possible. Consequently, UK financial markets are likely to remain volatile.

A Symptom and a Cause

Pound sterling has generally risen when momentum has moved towards an orderly departure from the EU, while it has fallen when the prospects of a harder-Brexit have risen, given concerns that this would be damaging to the British economy. With this, British stocks often face contrasting factors: a soft-Brexit is expected to boost corporate confidence, yet the likely simultaneous jump in the pound would reduce the value of international earnings, therefore creating a headwind for share prices. This trend is most apparent in the internationally focused FTSE 100. Smaller companies, on the other hand, tend to be less affected by the currency moves, given their more domestic focus and hence have been boosted when certainty towards an orderly Brexit has developed.

Nothing is Agreed until Everything is Agreed

Mr Johnson is a politician who is keen to be seen as decisive and seeks to move the national conversation on from Brexit. While he may have missed his October 2019 departure deadline, he appears determined to meet the December 2020 deadline for exiting the transition period. In which way we will exit this mechanism is yet to be seen. The British government is brashly confident a deal can be struck by the year end, while European negotiators are sceptical. A negotiated exit remains the most likely course in our view, but expect there to be plenty of brinkmanship and volatility along the way.

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