architas

The UK Parliament vote is delayed! Is Brexit off?

WHAT HAPPENED?

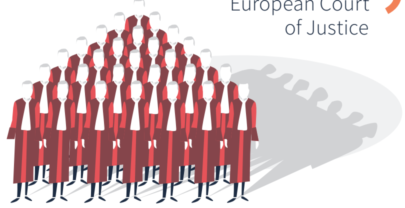
“IT IS THE RIGHT DEAL FOR BRITAIN”
Theresa May

On Monday 10th December 2018 UK Prime Minister Theresa May postponed the vote to seek formal approval of the UK's withdrawal from the European Union (EU) acknowledging that she was about to lose while still rejecting all other alternatives.

The delay thrusts Britain's exit from the European Union into confusion. Labour Leader Jeremy Corbyn addressed the UK Parliament expressing his party's disapproval of the Prime Minister's decision.

“THE GOVERNMENT HAS LOST CONTROL OF EVENTS AND IS IN COMPLETE DISARRAY”
Jeremy Corbyn

“THE UK IS FREE TO UNILATERALLY REVOKE THE NOTIFICATION OF ITS INTENTION TO WITHDRAW FROM THE EU”
European Court of Justice



The ruling from the European Court of Justice, the EU's top court, confirmed that the UK could still decide to revoke Article 50.

Jean-Claude Juncker, the president of the European Commission, described Brexit as the “surprise guest” at this week's EU summit.

“THERE IS NO ROOM FOR RENEGOTIATION, BUT FURTHER CLARIFICATIONS ARE POSSIBLE”
Jean-Claude Juncker

WHAT DOES THIS MEAN FOR INVESTMENTS?

Markets have been anxious for a conclusion. The vote postponement has now created more uncertainty! Investor confidence has been tested by the wider impacts of the ongoing ambiguity. We will continue to monitor risks.

CURRENCIES

The increased risk of Britain leaving with no deal has knocked sterling as investors moved into dollars and yen. If the bill is approved by Parliament – which we believe is unlikely - or a second referendum is announced, sterling should rally. A vote of no confidence would probably send sterling weaker. The euro is also likely to fall in a no deal scenario as macro prospects would weaken.

EQUITIES

Sterling volatility will affect the FTSE 100 as it will impact the value of crucial overseas earnings if the currency weakens. We saw this when the pound fell following the referendum in 2016. But the eventual Brexit outcome will also impact economic fundamentals, which in turn will have an effect on equities. For instance, a no-deal outcome is likely to be damaging for UK and European equities as it would impact the UK economy and, to a lesser extent, European earnings, but this could be offset by the boost to UK companies from a weaker sterling. If a second referendum is called, we could see the reverse effect for UK equities, with European equities unlikely to be affected.

BONDS

UK government bonds rallied as investors' appetite for risk weakened. The economic fallout and uncertainty from a potential ‘no deal' or ‘hard Brexit' could lead to weaker growth and lower inflation, which would be positive for UK bonds. However, this could be offset by the possibility that the UK might suffer debt downgrades from credit agencies.

WHAT IS NEXT?

For a withdrawal deal to happen:

13th December 2018
EU leaders will meet in Brussels for a summit where Brexit isn't formally on the agenda but is likely to be included given events at Westminster.

Date unknown
Theresa May has to gain support for the treaty before the vote in the UK Parliament, but hopes for a deal before Christmas are fading fast.

21st January 2019
The cut-off date for a Brexit deal to be presented to Parliament. If a withdrawal agreement is not reached, what is next?

Date unknown
If the UK parliament approves a Brexit deal, the deal will need to be ratified by the European parliament before ‘Brexit Day'.

29th March 2019
‘Brexit Day'. If Brexit is approved by all relevant parties the UK is expected to leave the European Union at 11pm.

BREXIT

KEY POINTS

- Markets have been anxious for a conclusion to the treaty talks. The delay has now created more uncertainty! We expect volatility as the process moves forward.
- The clock counting down to ‘Brexit Day' is now ticking very fast.
- Events highlight the importance of diversifying investments across a range of asset classes and taking advantage of buying opportunities when prices have fallen.

ARC5446_ENG