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Brexit politics in the eleventh hour



On 23rd June 2016, the UK voted to leave the European Union after a historic referendum, taking a plunge into the political and economic unknown. To a large extent, Britain's vote was about

harking back to 'the good old days' of British prosperity when the Union Jack flew in isolated splendour. However, due to fundamental changes in global economic patterns, it is becoming increasingly apparent that these those days are long gone and from an outside perspective, it looks evermore like a case of the turkeys who voted for Christmas...

Before Brexit has even taken place, the economic impact has been severe – the Centre for European Reform, estimates that to June 2018, the UK economy was 2.5% smaller than it would have been if it had voted to remain in the EU. Honda is the latest in a string of businesses to announce plans to downsize UK operations – it will shut shop on its Swindon operation in a blow to the heart of UK manufacturing. It's the first time in its 71-year history that the group has closed a vehicle factory.

But Britain is deeply divided between those with more nationalist tendencies and a nostalgia for times long gone, and those who see the UK as being inextricably linked to the EU in an increasingly interconnected and globalised world. On January 15th, the U.K. Parliament overwhelmingly voted against May's Brexit blueprint. In essence, two and a half years of discussion and negotiations were rejected. The lack of consensus inside the UK about what kind of trading relationship it wants to have with the EU after the Brexit transition period has elapsed means that we are getting dangerously close to D-Day on March 29th with nothing finalised. This unceasing uncertainty has led Fitch to put the UK's AA credit rating on negative watch over the growing uncertainty...

On March 12th Theresa May will host a "meaningful vote" in Parliament on a new version of the Withdrawal Agreement which she is currently scrambling to agree with the EU. It is unsure whether that deal will even be accepted by the deeply divided UK Parliament leaving little to no time to come up with an alternative if Brexit is to go ahead on the 29th.

Adam Marshall, the Director General of the British Chamber of Commerce hit out at the last minute nature of the vote via Twitter: "*17 days' notice for businesses, employees, investors and communities on what may be the biggest economic and trading change they face in a generation. Unbelievable.*"

Three Conservative MPs have resigned whilst Labour, the main opposition party, accused May of "recklessly running down the clock" and did a full 360, saying that it is now prepared to back a second referendum to prevent a "damaging Tory Brexit". May countered by saying that she would offer MPs the opportunity to vote on a "short extension" of Article 50, should she failed to garner Parliamentary support for her new Brexit blueprint in the "meaningful vote".

European Council President Donald Tusk has said that delaying Brexit would be a "rational solution" to avert a "chaotic" exit from the EU. It is yet to be seen what an extension would mean with regards to the European elections which begin on May 23rd and the role Britain will

play when the newly elected Parliament takes seat on July 2nd.

As March 29th looms, sensational press headlines are painting a bleak picture of Brexit Britain, focusing on the short-term impacts such as border chaos and food shortages – Britain currently imports more than half of what it consumes. Speaking on Pesto, a political discussion show, John Allan, the Chairman of Tesco said: *"provided we are happy to live on spam and canned peaches all will be well."*

On a more, serious note, as investors we are more concerned about the longer-term structural impact. In the short-term, we can somewhat protect our portfolios against downside risks. For example, we are underweight European equities, focusing any exposure we do have on the eurozone rather than the wider European index, and have added core Government bonds for downside protection. However, Brexit runs part of a wider narrative of isolationism. The real danger is the long-term impact such movements can have, weakening many of the perceived underpinnings of economic prosperity, from global trade to innovation. The European elections will be a real litmus test of how strong this new rhetoric in Europe really is.

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