Investment Event

Brexit delayed

11 April 2019
For Client Use

The UK and EU have agreed to extend the scheduled date of the UK's departure from the bloc to 31 October 2019

The extension is, however, flexible and can be cut short if the UK ratifies the withdrawal agreement

The latest extension keeps open a number of Brexit outcomes, including a "no-deal" departure, an orderly exit or even "no Brexit"

EU agrees to extend Brexit deadline

At an emergency European Council summit of EU leaders on 10 April, the UK and EU agreed to extend the scheduled date of the UK's departure from the bloc to **31 October 2019**.

This comes after the UK government has failed to find majority support in the UK Parliament for the withdrawal agreement (or "exit treaty") negotiated with the EU. Recent negotiations with the UK opposition Labour Party to find an agreement that could gain parliamentary support have not yet resulted in any breakthrough.

The length of the agreed extension is likely to be politically challenging for UK Prime Minister Theresa May. Under pressure from Eurosceptics in her party, she had requested a short extension to 30 June. However, the EU insisted on a later date as it was keen to avoid a series of "rolling cliff edge" extensions. That said, the extension was not as long as had been suggested ahead of the summit, but, as expected, it is flexible. **The extension can be cut short** if the UK ratifies the withdrawal agreement (which the EU confirmed it is unwilling to renegotiate).

A review will also take place in June at which the UK will update other member states on progress towards a resolution. One consequence of the extension is that the UK must now participate in European elections in May, unless it ratifies the withdrawal agreement by the third week of May.

Brexit: key dates	
	**23-26 May: European Parliament elections**. The outcome could have important implications for the future of the EU, and will be an important gauge of the level of support for populist and/or Eurosceptic parties across the continent **31 October**: **New scheduled date for the departure of the UK from the EU** under terms of Article 50 of the Lisbon treaty. However, the UK could leave sooner if it ratifies a withdrawal agreement

Source: HSBC Global Asset Management, as of 10 April 2019

What next?

UK cross party talks are likely to continue. If these fail, the government has signalled it could hold another round of so called "**indicative votes**" as a way to find a consensus in parliament on the type of Brexit it deems acceptable.

If the impasse continues, a **general election** could ensue. We would also not rule out UK lawmakers coalescing around the idea of a **second referendum**, which could have a version of the deal on the ballot paper.

Overall, a number of different Brexit options still remain possible:

- A "**no-deal**" scenario if the exit treaty still has not been passed
- An **orderly exit** based on ratification of the withdrawal agreement
- "**No Brexit**" e.g. if the UK votes to remain in another referendum, or the UK Parliament revokes Article 50 in order to avoid a "no deal" exit

Our views

We believe UK equities are very attractively valued and investors are being rewarded for bearing downside risks

Market considerations

	**UK economy**: Positively, this extension takes a potentially disruptive “no-deal” Brexit off the table for six months. However, lingering uncertainty about the future UK-EU relationship is likely to continue weighing on economic performance
	**Bank of England**: Despite a strong labour market, and signs of building wage pressures (which could push up inflation), the Bank of England has been reluctant to raise interest rates amid Brexit uncertainty. This cautiousness is likely to continue for the time being
	**Multi-asset portfolios**: We believe **UK equities** are very attractively valued and investors are being rewarded for bearing downside risks. We continue to hold a positive view. We are underweight **UK government bonds** (gilts), which remain overvalued in our opinion

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