

UK Parliament votes on Brexit options

The UK Parliament has voted on alternative Brexit options

No option gained a majority, although a permanent customs union with the EU and a second referendum were the most popular

These votes are not legally binding and Theresa's May government is under no obligation to act on the results

Our views

Brexit uncertainty persists. However, given UK equities are very attractively-valued, our overweight stance in multi-asset portfolios remains intact

UK parliament votes on potential alternatives to May's deal

Amid an ongoing stalemate in the Brexit process, with UK Prime Minister (PM) Theresa May's Brexit deal with the European Union (EU) having been rejected twice by the UK Parliament, Members of Parliament (MPs) voted earlier this week to seize control of the Parliamentary agenda and hold a series of so-called "indicative votes" on alternative Brexit options.

The votes took place on 27 March, with the results presented in Table 1 (which also includes the results of the two meaningful votes – MV1 and MV2 – on May's deal).

Table 1: Results of the "indicative votes" compared to Theresa May's deal

	For	Against	Majority
PM May's deal: meaningful vote 1 (MV1)	202	432	-230
PM May's deal: meaningful vote 2 (MV2)	242	391	-149
(1) Leave with no deal and trade on WTO terms	160	400	-240
(2) UK in single market and customs union	188	283	-95
(3) Single market without customs union	65	377	-312
(4) Customs union	264	272	-8
(5) Customs union and "close alignment" with single market	237	307	-70
(6) Revoke Article 50 if other alternative is no deal	184	293	-109
(7) Second referendum on any deal	268	295	-27
(8) Leave with no deal and seek a new trade agreement	139	422	-283

Source: HSBC Global Asset Management

What do these votes tell us?

No option managed to gain a majority. However, option (4) for a permanent customs union with the EU was the closest. This likely reflects many UK lawmakers' wish to maintain close trade links with the EU. Option (4), along with (7) – a second referendum on any deal, received greater support than May's deal in MV2. Unsurprisingly, the options to leave with no deal were relatively unpopular, mirroring the outcome of other recent votes on a no deal Brexit.

These votes are **not legally binding** and Theresa's May government is under no obligation to act on the results. Option (4) is likely to face stiff opposition by her government on the grounds that it limits the ability to strike new trade deals.

For reference, the EU's **single market** is the formal arrangement that seeks to guarantee the free movement of goods, capital, services, and labour within the bloc. Meanwhile, a **customs union** is typically defined as tariff free access between members of the union and a common external tariff on all goods entering the union.

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Will another meaningful vote on May's deal happen?

At last week's EU summit, the UK was given a deadline of 29 March to get her withdrawal deal through parliament. Therefore, meaningful vote 3 (MV3) could still take place later this week.

There are signs that opposition to the deal from Conservative Eurosceptic MPs is softening, given the possibility of a "softer" Brexit outcome, or even no Brexit. Also, May has offered to stand down if the deal is accepted, which may encourage these MPs to vote for it in the hope that a more Eurosceptic Leader succeeds her in the next stage of negotiations (on the future relationship).

Nevertheless, the Democratic Unionist Party (DUP), who have backed the Conservative Party to provide them with a working majority in parliament, have signalled ongoing opposition to the deal (which they believe undermines Northern Ireland's position in the UK).

There is also uncertainty if the vote will be allowed to happen in the first place. Earlier this month, the Speaker of the House of Commons, John Bercow, ruled the deal could not be brought back to parliament for a third time without "substantive" changes.

In the event that no deal is agreed by 29 March, the UK will have to propose a way forward by 12 April for EU leaders to consider, otherwise it risks leaving with no deal. Today's results (and possible further votes on 1 April on fewer options) may provide a guide as to what this may be.

Investment implications

Ongoing Brexit uncertainty remains a headwind to the UK economy. However, sterling has performed well in recent weeks as the perceived risk of a no deal Brexit has diminished. Meanwhile, growth has been buoyed by a recovery in household spending power and a less restrictive fiscal stance. Given **UK equities are very attractively-valued**, our overweight stance in multi-asset portfolios remains intact.

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