

# Investment Event

## Brexit uncertainty lingers

The UK Parliament has backed PM May's 'Plan B' statement which seeks to renegotiate the Irish backstop plan contained in the current Brexit withdrawal agreement

Brexit uncertainty is still very high. The EU has signalled it is unwilling to renegotiate this part of the deal

There is still the possibility of a "no-deal" Brexit on 29 March, although UK MPs have also indicated they are unwilling to accept this outcome

### Our views

The recent rally in sterling (GBP) highlights the importance of the hedging strategies we implement in our GBP-denominated global multi-asset portfolios against such currency fluctuations

### The story so far

On 15 January, the UK Parliament overwhelmingly voted against UK Prime Minister (PM) Theresa May's Brexit deal outlining terms for the UK's departure from the European Union (EU).

On 21 January, the government delivered its 'Plan B' statement on the way forward. PM May stated her intention to take on board UK lawmakers' concerns regarding a major sticking point in the deal - the "backstop" arrangements against a hard border in Ireland.

These arrangements state that if a future trade deal is not agreed during the transition period (slated to end in December 2020 at the earliest), then the UK and EU would be tied in a customs arrangement indefinitely. Critics say this would hinder the UK's ability to strike new trade deals.

### MPs approve PM May's 'Plan B'. Uncertainty still very high

On 29 January, PM May's 'Plan B' statement was backed by Members of Parliament (MPs), in effect providing her with the authority to proceed with the plan. Two amendments to the plan were passed. One tabled by Conservative MP Sir Graham Brady that sought to replace the Irish backstop plan with "alternative arrangements"; and another tabled by fellow Conservative MP Caroline Spelman that rejects a "no-deal" Brexit outcome (without specifying anything else).

**Brexit uncertainty is still very high.** PM May has indicated her desire to renegotiate the Irish backstop with the EU before 13 February, prior to putting the deal back to parliament. The passage of the Brady amendment may provide her with additional leverage in any upcoming discussions, although it does not specify which type of arrangements should be sought.

Importantly, EU chief negotiator Michel Barnier has recently said the backstop as it stands "is the only possible option", echoed by French Prime Minister Emmanuel Macron. Overall, PM May's chances of extracting significant concessions from the EU appear limited at this point in time, and it is uncertain if any alterations to the existing arrangement will be substantial enough to satisfy its critics in the UK Parliament.

The backstop is not the only sticking point to the deal. Many other MPs remain opposed to the deal because it does not seek closer alignment with the EU (e.g. permanent membership of the customs union or single market).

Meanwhile, there is still the possibility of a "no-deal" outcome on 29 March, the UK's scheduled exit date from the EU (current "Article 50" deadline). In a significant development, an amendment tabled by Labour MP Yvette Cooper to extend this deadline via concrete legislation was voted down. However, PM May has said if a new deal is not ready by 13 February, then a statement would be put forward that would be voted on, with amendments possible, allowing MPs another opportunity to avert a "no-deal" Brexit.

### Investments, annuity and insurance products

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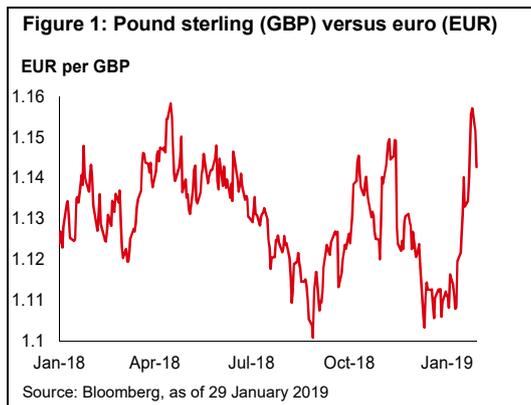


## Market considerations

Ultimately, there is still no clear indication as to what type of withdrawal agreement is acceptable to both the UK and EU. This lingering Brexit uncertainty means that, despite favourable valuations, we retain a cautious stance on UK risk assets in our multi-asset portfolios, including equities.

Nevertheless, the passing of the Spelman amendment signals there is little appetite in parliament for a potentially disruptive “no-deal” outcome in March. This is reflected in the pricing of sterling (GBP), which has rallied over the past month amid growing calls in parliament for an extension to the Article 50 deadline (Figure 1).

This underlines the importance of the hedging strategies we implement in our GBP-denominated global multi-asset portfolios against such currency fluctuations.



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