UBS House View Briefcase

Will UK lawmakers approve a Brexit deal?  18 January 2019
Chief Investment Office WM

Key message
The outcome of the Brexit negotiations remains highly uncertain. After suffering a crushing parliamentary defeat, but surviving an opposition no-confidence motion, UK Prime Minister Theresa May must present plan B, which will be put to a vote on 29 January. As a result, the UK’s future is wide open. While we believe May can win approval for her deal on a second vote, the chances are rising for a general election, a second referendum, or even no Brexit at all. With the outcome uncertain, we prefer stocks that could navigate any Brexit scenario well.

House view
01  The UK has reached a deal with the EU, but domestic opposition remains fierce.
• British lawmakers rejected the government’s proposed Brexit deal by the largest margin in the nation’s history.
• Having narrowly survived a vote of no-confidence, May has to present an alternative plan to Parliament, which will be voted on 29 January.
• The European Court of Justice has ruled the UK could unilaterally revoke its withdrawal procedure (Article 50).

02  A range of outcomes is possible, with differing impacts on UK assets.
• Companies with high exposure to the UK and sterling are more likely to do well under a successful deal scenario, as UK growth and sterling would likely rise.
• Companies highly exposed to international revenues and non-sterling currencies are likely to outperform with a “no deal” or hard exit, as UK growth and sterling would likely fall.
• The more domestically focused FTSE 250 should outperform under a deal scenario, while the more international FTSE 100 is likely to outperform with no deal.

03  Given the uncertainty, we favor strategies that could perform in a range of outcomes.
• We are neutral on UK equities but prefer investments that should navigate any Brexit scenario well.
• High volatility could make buying GBP on dips attractive should GBPUSD fall below 1.20 and EURGBP move above 0.95.

New this week
Theresa May suffered the worst defeat by a UK government in modern history. Parliament voted 432–202 to reject her Withdrawal Agreement. But the government survived a no-confidence vote by a 52% to 48% margin—incidentally, the same margin by which the country voted to leave the EU.

One liner
A Brexit deal is still possible but highly uncertain given the extent of political opposition to the proposed terms.

Did you know?
• The proportion of UK exports going to the EU has been declining. In 2016, it was about 43%, while 54% of UK imports came from the EU. Without a trade deal, UK exporters would face £5.2bn in tariffs on goods sold to the single market, while EU exporters would face £12.9bn in tariffs on the reverse trade, according to estimates by Civitas.
• In a UBS Industry Leader Network survey, the majority of business leaders felt that the EU-UK economic relationship will remain largely unchanged during the Brexit transition. But some have already noticed changes in business activity, with multinationals internally restructuring and shifting orders back to local markets.

Investment view
Within Europe, we are neutral on UK equities but prefer investments that should navigate any Brexit scenario well. For investors willing to withstand high volatility, we see medium-term value should GBPUSD fall below 1.20 and EURGBP move above 0.95.

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