May wins no-confidence vote, so what happens next?

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British lawmakers voted by a margin of 325–306 to keep UK Prime Minister Theresa May in power. CIO believes that ongoing negotiations will continue between May and EU officials to move towards a mutually agreeable deal, but it is increasingly likely that the UK’s departure from the EU will be delayed until after the 29 March deadline.

After Tuesday’s defeat of her European Union (EU) Withdrawal Agreement, the Prime Minister managed to survive a no-confidence with the help of the support of the Democratic Unionist Party, which supports the Conservative Party in Parliament. Following the vote, May declared that she would start to engage in talks with all sides of the House. However, Jeremy Corbyn, the leader of the Labour Party ruled out to engage in such talks before May takes the option of a hard Brexit, i.e. the UK leaving the EU without a deal on 29 March, off the table.

According to CIO, the outcome of yesterday’s vote will do little to clarify the next step in the Brexit process, and a delay in the UK’s exit from the union looks increasingly likely. While various EU leaders yesterday ruled out that the Withdrawal Agreement will be reopened, time will tell if this proves to be case, but it is likely that May will return to Brussels this week to pursue this option.

If May does not manage to secure support for her preferred option of leaving the EU with a Withdrawal Agreement, then all other options are back on the table. In CIO’s view, while still possible, the risk of the UK leaving the EU on March 29 without a deal is fading as Parliament has shown its desire to prevent such an outcome (see Brexit Brief: Taking back control). All the other options, including a renegotiation of the deal toward a softer, Norway-type arrangement, a general election or a second referendum will unquestionably require a delay to the March 29 leaving date.

Amid the uncertainty, we believe investors in the UK should consider a sector-diverse selection of high-dividend-paying stocks since this should be resilient in most scenarios.

Also, see UK’s exit deal from EU suffers crushing defeat, 16 Jan., 2019.