

Northern Trust | Brexit Watch: Not the End

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The UK and European Union have struck a Brexit deal. But is this truly the end of the road for Brexit? Let's take a closer look. The new Brexit deal will be put in front of the UK House of Commons and the European Council of Leaders. The letter is very likely to approve the deal, but within the UK, it is more difficult to predict.

Various opposition and even some conservative UK parties have already come out against the deal, so Prime Minister Boris Johnson will need support from the 21 conservative members of Parliament he expelled last month, as well as some rebel votes from the opposition led by the Labor Party. It bears reminding that even on the third attempt, only five Labour rebels voted in favor of a recent May's deal.

What makes the situation even more difficult is the announcement from Labour that it will table an amendment for a referendum to take the deal to voters. If that amendment passes, Parliament is more likely to approve the deal. But final approval becomes less likely, because the referendum will be closely fought. All in all, it's virtually impossible to predict whether the votes are there or not. It will be a very close call.

In the end, Brexit is likely to happen, because the fallout of no deal will be too severe, both politically and economically, whereas this deal is too early to tell. We give it a 50/50 shot. All eyes are now on whether the deal will be approved in the House of Commons. The pound is being whipsawed as the news trickles in. If the deal passes, we see the pound strengthening, the 10 year Gilt yield rising, and UK equities moving modestly higher.

However if it doesn't pass, we should be ready for all of that to reverse. Markets will then quickly start to focus on the general election that will surely come very soon. That means uncertainty stays high, and so does volatility.

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