

Northern Trust | UK Elections: A Clear Victory for the Conservative Party

[MUSIC PLAYING]

Prime Minister Boris Johnson has won a resounding election victory. But does that really mean Brexit will simply get done? Let's take a closer look. The withdrawal agreement negotiated between Prime Minister Johnson and the European Union is now almost certainly going to be passed by the House of Commons, which means the transition period before the UK will formally leave the EU will start on January 31. However, that doesn't mean Brexit is done.

The start of the transition period is also the start of the negotiations for a free trade agreement between the UK and EU. Those negotiations and the sheer complexity of the agreement that is required to maintain the current flow of goods and services, will keep Brexit uncertainty in place. Meeting a December deadline is a very ambitious goal. Not only does a withdrawal agreement currently on the table push contentious issues into the trade negotiations-- particularly on maintaining a level playing field-- there is also a new trade deal which will have to go beyond goods and include services, something that is unprecedented.

The only way we see the December deadline will be met is that if the UK and EU decide to close a bare-bones trade agreement, or if the negotiations break down and the UK leaves without a trade deal. The latter outcome has become less likely, however, now that Boris Johnson has increased his room for maneuver, and can no longer be held back by the hard Brexiteers.

The pound has staged an impressive rally, and is trading at the upper end of our expected trading range. More gains are possible, but the bulk of the move is likely behind us. 10-year Gilt yields have moved higher. However, we still expect the Bank of England to cut rates twice in 2020, capping how high interest rates will go. UK equities will continue to navigate the cross-currents of Brexit risk and changes in the pound exchange rate. At the moment, the positive impact of lower Brexit risk is winning out. That being said, Brexit uncertainty will come back into focus as soon as the trade negotiations kick off, which means volatility will stay high.

[MUSIC PLAYING]