

# Brexit: Two Steps Forward, One Step Back

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The Brexit saga continues: this time it's two steps forward one step back.

Yesterday, UK Parliament lawmakers voted for the first time to preliminarily approve the Withdrawal Agreement struck with the EU last week - a major victory for PM Johnson. To Johnson's dismay, minutes later MPs voted against fast-tracking the bill's final passage, therefore almost guaranteeing that the UK would not be able to leave the EU by the 31st October deadline.

Johnson recently stated that he will now call for an election, however the question is whether the MP's will allow him to do so. If MP's do not allow an election to be called - perhaps because they want a referendum instead - they could try to attach a referendum amendment to Johnson's deal.

If an election is blocked, we would have the mother of all parliamentary blockages and it is hard to imagine the EU extending to a much longer deadline and a "no-deal" would then be a possibility again.

Indicators point to the Brexit deadline being delayed until 31st January 2020 and that an election looks more likely. However, an election fought on the topic of Brexit looks as though it would suit the Conservatives, with the Brexit Party perhaps winning some seats, judging by recent opinion polls.

Hence, I fear that an election would still leave us with the possibility of a no-deal exit - if Tories plus Brexit Party win enough seats. The "remain" votes will be too split between SNP, Lib-Dems, Green and Labour to allow a remain coalition to govern.

## Investment Implications

The preliminary parliament approval is a positive signal for an orderly Brexit. However the inability to push through the final passage and the likelihood for an election suggest that the Brexit uncertainty is far from over.

Investors should remain buckled up and prepare for continued market fluctuation.

I reiterate our UK investment recommendations and advise investors to remain defensive: I'm positive on gilts and UK investment grade debt and continue liking UK large-cap equities - large conglomerates with marginal revenue exposure to the UK as a Brexit deal is far from certain.

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