

**Brexit Update: 13<sup>th</sup> March 2019**

**A no-deal Brexit draws closer as May's deal is voted down for a second time**

As the 29<sup>th</sup> March Brexit deadline looms closer, the possibility of a no-deal Brexit increased again last night, as MP's voted against Theresa May's withdrawal deal with a majority of 230 votes to 149, representing a comprehensive rejection of the Brexit withdrawal agreement in its current form.

In recent weeks, the Prime Minister had been seeking to win over support for the withdrawal deal by seeking legally binding changes to the backstop agreement, however was unsuccessful in agreeing sufficient changes which would win over the support of the European Research Group (the conservative group of Eurosceptics) and the DUP. As a result, Mrs May's government had limited success in winning over dissenters from its own side, with 75 conservative MPs and all DUP MPs voting against the deal. With just over two weeks remaining until the Article 50 negotiation period deadline, the UK is at risk of crashing out of the EU with no deal.

Failure to approve the withdrawal agreement means that tonight, parliament will vote on whether the UK should leave the EU without a deal. The 'Cooper amendment' vote in February indicated that only 20 Conservative MPs preferred a no-deal Brexit outcome, therefore the expectation is that the motion will be voted down comprehensively. This would result in a vote on Thursday evening on the extension of the Article 50 negotiation period.

While Brexit-related political chaos continued today, Chancellor of the Exchequer issued a warning that leaving without a deal would significantly disrupt the UK economy. In his spring statement, Mr Hammond cut the UK growth forecasts from 1.6% to 1.2%, representing the weakest growth since the financial crisis. There was an improvement in the outlook for public finances, however this is purely dependent on the UK leaving the EU with a deal. A chaotic exit would throw the forecasts into disarray. The OBR forecasts follow recent growth downgrades from the BoE and the OECD, with Brexit posing a key risk to the forecasts.

It is expected that the motion to extend the Article 50 negotiation period will pass through parliament and agreed to by the EU, however as the European Parliament's Brexit spokesman Guy Verhofstadt highlighted earlier today, a request for a delay without a clear purpose would likely be opposed. With little chance of further concessions from the EU on the backstop agreement and significant opposition remaining against the deal, it appears that a new strategy is required to move forward. Additionally, the EU has stipulated that negotiations must be concluded prior to European Parliament elections on 23<sup>rd</sup>-26<sup>th</sup> May, leaving only eight weeks to reach an agreement. With parliament in recess for three weeks during this period, there is very limited time remaining even with the extension to break the parliamentary impasse.

New possible strategies would be a cross-party approach and a Norway Plus model, however with limited time remaining to agree a whole new deal, the options appear to be limited. A cross-party option would break the parliamentary impasse, however this risks further splitting the Conservative party. It is most likely therefore, that this deal could still be approved, with MPs likely backing this deal

over a no-deal possibility as the 'least-bad' option. It is unclear what the PM's next moves will be, with a second referendum still yet to be ruled out.

All eyes are on parliamentary voting over the next few days, however it is our view that the possibility of a no-deal Brexit remains low, with a two month extension highly likely. Our OBI portfolios are well positioned, with low UK exposure and low currency risk, therefore while the indices and benchmarks remain highly volatile with significant downside risk as the UK economy weakens, our portfolios remain relatively flat as we watch events unfold.

The FTSE 100 ended the day relatively flat, with sterling strengthening on speculation that a no-deal Brexit will be rejected later today. Parliament votes on a no-deal Brexit at 7pm tonight, beginning with votes on a number of amendments proposed by MPs.