



# Countdown to Brexit: Will the UK Leave on Halloween?

New Prime Minister Boris Johnson faces tough battle with Parliament.

July 2019

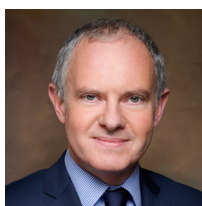
New UK Prime Minister Boris Johnson has vowed to deliver Brexit by the October 31 deadline, “do or die.” This will not be easy given that Johnson faces the exact same impasse that led to the downfall of Theresa May: The UK Parliament has rejected the withdrawal agreement that May struck with the European Union (EU), the EU has stated firmly that it will not renegotiate that agreement, and the majority of members of Parliament (MPs) remain opposed to the UK leaving the EU without a deal being agreed upon.

In the fifth of a series of updates, Quentin Fitzsimmons, fixed income portfolio manager and T. Rowe Price’s resident Brexit specialist, provides an overview of the current state of play.

## What Are The Potential Scenarios?

Theoretically, there remain four possible scenarios, though (as we will explain later) only two of them are realistic.

1. The UK government fails to get a deal approved by Parliament, and the UK exits the EU on October 31 without arrangements in place and with no transition period to enable business and people to prepare. UK trade with the EU is immediately governed by World Trade Organization rules.



**Quentin Fitzsimmons**  
Fixed Income Portfolio Manager

2. A further extension to Article 50 is granted, most likely pushing the deadline into 2020. This is only likely to occur if there is a specific reason to delay—for example, to allow time for a general election and/or a new referendum.
3. Against the odds, Prime Minister Johnson wins some concessions from the EU, and Parliament passes an amended form of the withdrawal agreement.
4. Circumstances arise that persuade the UK government to revoke Article 50, suspending Brexit indefinitely.

## What Has Changed Since Our Last Update?

Having failed three times to get the withdrawal agreement she brokered with the EU through Parliament, Theresa May resigned as leader of the ruling Conservative Party on May 24.

“Prime Minister Boris Johnson has vowed to deliver Brexit by the October 31 deadline, “do or die.”

This triggered an election for the new leader of the party, and the winner of the election would also automatically become the new prime minister of the UK. After several rounds of voting, Conservative MPs eventually chose Boris Johnson and Jeremy Hunt as the two candidates to go forward to the final vote of around 160,000 Conservative Party members. Boris Johnson was announced as the winner of this election on July 23.

During his campaign, Boris Johnson insisted that he could use the threat of a no deal to win an improved Brexit deal for the UK from the EU. This seems unlikely to occur given the EU's repeated insistence that it will not renegotiate the withdrawal agreement—a position reaffirmed by new European Commission President Ursula von der Leyen.

If a new deal cannot be agreed upon, Prime Minister Johnson has vowed to take the UK out of the EU without a deal on October 31. However, he is likely to face considerable opposition on this from Parliament, where most MPs—including a significant number of Conservative MPs—oppose a no-deal exit. There are a number of ways in which MPs could try to prevent a no-deal Brexit, including amending existing legislation, holding a vote of no confidence in the government, or putting pressure on the government by expressing “the will of Parliament” against a no deal.

Media reports have suggested that Prime Minister Johnson may seek to prevent MPs from blocking a no deal by taking the controversial step of suspending Parliament in the runup to October 31. In response, Parliament immediately approved legislation that would appear to prevent the prime minister from doing this. Further battles within Parliament between the various factions can be expected right up to October 31.

Although four potential outcomes remain, I believe only two remain a realistic possibility: leaving without a deal on

October 31 or a further extension to Article 50. I do not believe there is any chance of the EU agreeing to a new Brexit deal that is subsequently voted through Parliament. It is possible that events elsewhere in the world become so pressing that Parliament votes to revoke Article 50, suspending Brexit indefinitely—but this is very unlikely. Given Prime Minister Johnson's previous comments, I believe the most likely outcome is now a no-deal Brexit, with the second most likely outcome an extension to Article 50 to allow time for a general election and/or new referendum.

### What Are Your Current expectations of the Various Possible Outcomes?

<b>Leave without a deal on October 31</b>	65%
<b>A further extension to Article 50</b>	30%
<b>Parliament approves amended withdrawal agreement</b>	0%
<b>A revocation of Article 50</b>	5%

### What Are The Current Prospects For Financial Assets?

#### Fixed income

Boris Johnson's comments during the leadership campaign have raised expectations of the UK leaving the EU without a deal on October 31, leading to widespread jitters in the markets. At the same time, there is a growing sense that UK economic fundamentals—along with those of most of the rest of the world—are deteriorating, increasing expectations of a Bank of England rate cut by the end of 2019. Combined, these developments have sent investors piling into safe haven assets, causing UK sovereign bonds to rally sharply in recent weeks.

The period of uncertainty is likely to continue over the next few months as the Brexit deadline looms, extending the rally in UK gilts. If the UK leaves without a deal on October 31 and there is clear

“  
This parliamentary  
guerilla war  
will intensify  
as October 31  
approaches, raising  
the possibility of a  
general election  
before the deadline  
is reached.

immediate disruption to the supply of goods, the resulting panic could push yields sharply lower. However, if there is less disruption than anticipated, yields may rise sharply.

#### **Equities**

UK stock markets have delivered healthy returns so far this year, although they have lagged other major markets in relative terms. Growing expectations of central bank rate cuts and hopes of a positive outcome from U.S.-China trade talks have supported stocks in recent months, although this has been offset by deepening fears over the health of the global economy. As uncertainty persists ahead of the October 31 deadline, UK stocks are likely to remain muted relative to other markets. Last week, the UK's Office for Budget Responsibility predicted that a no-deal Brexit would cause a recession and a 5% stock market decline.

#### **Currencies**

Sterling plunged to a multiyear low last week after both Boris Johnson and Jeremy Hunt appeared to harden their stances on Brexit in the final days of their leadership campaigns. Johnson's claim that the Irish backstop must be ditched, a move that has already been emphatically rejected by Brussels, exacerbated fears of a disorderly exit

and sent sterling tumbling. The currency is likely to remain under severe pressure over the next few months as Brexit approaches. However, if Parliament appears to be gaining ground in its attempt to block a no-deal exit, possibly leading to an extension to Article 50, a rally in sterling may occur.

#### **What We're Watching Next**

All eyes will be on Prime Minister Boris Johnson in his first few weeks in office to see whether he sticks to his hitherto hardline stance on Brexit or adopts a softer approach. It is not easy to predict which way this will go: While Johnson communicates very well, it is invariably difficult to know what he really means. In either case, I believe it is almost certain that Johnson will not be able to secure an improved Brexit deal from the EU, so any significant developments over the next few months are likely to occur in the UK Parliament. MPs opposed to a no-deal Brexit have already begun trying to block Prime Minister Johnson from taking the UK out of the EU on October 31, which is likely to result in ever-more ingenious counter-tactics from Johnson's government. This parliamentary guerilla war will intensify as October 31 approaches, raising the possibility of a general election before the deadline is reached.

T. Rowe Price focuses on delivering investment management excellence that investors can rely on—now and over the long term.

## T.RowePrice®

### Important Information

This material is being furnished for general informational purposes only. The material does not constitute or undertake to give advice of any nature, including fiduciary investment advice, and prospective investors are recommended to seek independent legal, financial and tax advice before making any investment decision. T. Rowe Price group of companies including T. Rowe Price Associates, Inc. and/or its affiliates receive revenue from T. Rowe Price investment products and services. **Past performance is not a reliable indicator of future performance.** The value of an investment and any income from it can go down as well as up. Investors may get back less than the amount invested.

The material does not constitute a distribution, an offer, an invitation, a personal or general recommendation or solicitation to sell or buy any securities in any jurisdiction or to conduct any particular investment activity. The material has not been reviewed by any regulatory authority in any jurisdiction.

Information and opinions presented have been obtained or derived from sources believed to be reliable and current; however, we cannot guarantee the sources' accuracy or completeness. There is no guarantee that any forecasts made will come to pass. The views contained herein are as of the date written and are subject to change without notice; these views may differ from those of other T. Rowe Price group companies and/or associates. Under no circumstances should the material, in whole or in part, be copied or redistributed without consent from T. Rowe Price.

The material is not intended for use by persons in jurisdictions which prohibit or restrict the distribution of the material and in certain countries the material is provided upon specific request. It is not intended for distribution to retail investors in any jurisdiction.

**Australia**—Issued in Australia by T. Rowe Price Australia Limited (ABN: 13 620 668 895 and AFSL: 503741), Level 50, Governor Phillip Tower, 1 Farrer Place, Suite 50B, Sydney, NSW 2000, Australia. For Wholesale Clients only.

**Brunei**—This material can only be delivered to certain specific institutional investors for informational purpose upon request only. The strategy and/or any products associated with the strategy has not been authorised for distribution in Brunei. No distribution of this material to any member of the public in Brunei is permitted.

**Canada**—Issued in Canada by T. Rowe Price (Canada), Inc. T. Rowe Price (Canada), Inc.'s investment management services are only available to Accredited Investors as defined under National Instrument 45-106. T. Rowe Price (Canada), Inc. enters into written delegation agreements with affiliates to provide investment management services.

**China**—This material is provided to specific qualified domestic institutional investor or sovereign wealth fund on a one-on-one basis. No invitation to offer, or offer for, or sale of, the shares will be made in the People's Republic of China ("PRC") (which, for such purpose, does not include the Hong Kong or Macau Special Administrative Regions or Taiwan) or by any means that would be deemed public under the laws of the PRC. The information relating to the strategy contained in this material has not been submitted to or approved by the China Securities Regulatory Commission or any other relevant governmental authority in the PRC. The strategy and/or any product associated with the strategy may only be offered or sold to investors in the PRC that are expressly authorized under the laws and regulations of the PRC to buy and sell securities denominated in a currency other than the Renminbi (or RMB), which is the official currency of the PRC. Potential investors who are resident in the PRC are responsible for obtaining the required approvals from all relevant government authorities in the PRC, including, but not limited to, the State Administration of Foreign Exchange, before purchasing the shares. This document further does not constitute any securities or investment advice to citizens of the PRC, or nationals with permanent residence in the PRC, or to any corporation, partnership, or other entity incorporated or established in the PRC.

**DIFC**—Issued in the Dubai International Financial Centre by T. Rowe Price International Ltd. This material is communicated on behalf of T. Rowe Price International Ltd. by its representative office which is regulated by the Dubai Financial Services Authority. For Professional Clients only.

**EEA ex-UK**—Unless indicated otherwise this material is issued and approved by T. Rowe Price (Luxembourg) Management S.à r.l. 35 Boulevard du Prince Henri L-1724 Luxembourg which is authorised and regulated by the Luxembourg Commission de Surveillance du Secteur Financier. For Professional Clients only.

**Hong Kong**—Issued in Hong Kong by T. Rowe Price Hong Kong Limited, 21/F, Jardine House, 1 Connaught Place, Central, Hong Kong. T. Rowe Price Hong Kong Limited is licensed and regulated by the Securities & Futures Commission. For Professional Investors only.

**Indonesia**—This material is intended to be used only by the designated recipient to whom T. Rowe Price delivered; it is for institutional use only. Under no circumstances should the material, in whole or in part, be copied, redistributed or shared, in any medium, without prior written consent from T. Rowe Price. No distribution of this material to members of the public in any jurisdiction is permitted.

**Korea**—This material is intended only to Qualified Professional Investors upon specific and unsolicited request and may not be reproduced in whole or in part nor can they be transmitted to any other person in the Republic of Korea.

**Malaysia**—This material can only be delivered to specific institutional investor upon specific and unsolicited request. The strategy and/or any products associated with the strategy has not been authorised for distribution in Malaysia. This material is solely for institutional use and for informational purposes only. This material does not provide investment advice or an offering to make, or an inducement or attempted inducement of any person to enter into or to offer to enter into, an agreement for or with a view to acquiring, disposing of, subscribing for or underwriting securities. Nothing in this material shall be considered a making available of, solicitation to buy, an offering for subscription or purchase or an invitation to subscribe for or purchase any securities, or any other product or service, to any person in any jurisdiction where such offer, solicitation, purchase or sale would be unlawful under the laws of Malaysia.

**New Zealand**—Issued in New Zealand by T. Rowe Price Australia Limited (ABN: 13 620 668 895 and AFSL: 503741), Level 50, Governor Phillip Tower, 1 Farrer Place, Suite 50B, Sydney, NSW 2000, Australia. No Interests are offered to the public. Accordingly, the Interests may not, directly or indirectly, be offered, sold or delivered in New Zealand, nor may any offering document or advertisement in relation to any offer of the Interests be distributed in New Zealand, other than in circumstances where there is no contravention of the Financial Markets Conduct Act 2013.

**Philippines**—THE STRATEGY AND/ OR ANY SECURITIES ASSOCIATED WITH THE STRATEGY BEING OFFERED OR SOLD HEREIN HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES REGULATION CODE. ANY FUTURE OFFER OR SALE OF THE STRATEGY AND/ OR ANY SECURITIES IS SUBJECT TO REGISTRATION REQUIREMENTS UNDER THE CODE, UNLESS SUCH OFFER OR SALE QUALIFIES AS AN EXEMPT TRANSACTION.

**Singapore**—Issued in Singapore by T. Rowe Price Singapore Private Ltd., No. 501 Orchard Rd, #10-02 Wheelock Place, Singapore 238880. T. Rowe Price Singapore Private Ltd. is licensed and regulated by the Monetary Authority of Singapore. For Institutional and Accredited Investors only.

**Switzerland**—Issued in Switzerland by T. Rowe Price (Switzerland) GmbH, Talstrasse 65, 6th Floor, 8001 Zurich, Switzerland. For Qualified Investors only.

**Taiwan**—This does not provide investment advice or recommendations. Nothing in this material shall be considered a solicitation to buy, or an offer to sell, a security, or any other product or service, to any person in the Republic of China.

**Thailand**—This material has not been and will not be filed with or approved by the Securities Exchange Commission of Thailand or any other regulatory authority in Thailand. The material is provided solely to "institutional investors" as defined under relevant Thai laws and regulations. No distribution of this material to any member of the public in Thailand is permitted. Nothing in this material shall be considered a provision of service, or a solicitation to buy, or an offer to sell, a security, or any other product or service, to any person where such provision, offer, solicitation, purchase or sale would be unlawful under relevant Thai laws and regulations.

**UK**—This material is issued and approved by T. Rowe Price International Ltd, 60 Queen Victoria Street, London, EC4N 4TZ which is authorised and regulated by the UK Financial Conduct Authority. For Professional Clients only.

**USA**—Issued in the USA by T. Rowe Price Associates, Inc., 100 East Pratt Street, Baltimore, MD, 21202, which is regulated by the U.S. Securities and Exchange Commission. For Institutional Investors only.

© 2019 T. Rowe Price. All rights reserved. T. ROWE PRICE, INVEST WITH CONFIDENCE, and the Bighorn Sheep design are, collectively and/or apart, trademarks of T. Rowe Price Group, Inc.