



Countdown to Brexit: Conservative Win Paves Way for UK Exit

UK likely to leave EU on January 31—then the real work begins.

December 2019

The 75+ seat majority won by Boris Johnson's Conservative Party in yesterday's UK general election makes it very likely that the country will leave the EU on January 31, 2020. Prime Minister Johnson still needs Parliament to approve the timetable for his Withdrawal Agreement Bill (the bill itself was approved in October), but that is very likely to occur given the size of his new majority. However, this is just the end of the beginning. The real work of negotiating the UK's future trading relationship with the EU lies ahead—and that has the potential to become very complicated.

In the eighth of a series of updates, Quentin Fitzsimmons, fixed income portfolio manager and T. Rowe Price's resident Brexit specialist, argues that while Brexit may finally be about to happen, the details of the UK's post-EU existence remain unclear.

What Are the Potential Scenarios?

Regarding the January 31 Brexit deadline, there are three main potential outcomes—the first of which is by far the most likely.

1. Johnson gains Parliamentary approval for the timetable for his Withdrawal Agreement Bill and the UK leaves the EU on January 31.
2. Parliament does not approve the Withdrawal Agreement Bill and the



Quentin Fitzsimmons
Fixed Income Portfolio Manager

EU grants the UK a further Brexit extension beyond January 31.

3. The Withdrawal Agreement Bill is not approved, and the UK either does not seek an extension to Article 50 or requests one and is refused, and leaves the bloc without a deal on January 31.

What Has Changed Since Our Last Update?

On October 29, MPs finally backed Johnson's request for a general election on December 12 in order to break the Brexit deadlock. Parliament was dissolved on November 6 to enable the parties to begin their campaigns.

Johnson made Brexit a central plank of the Conservative Party's election campaign, promising to "get Brexit done" if the party gained a majority. He insisted that the transition period would not extend beyond December 31, 2020, despite widespread doubt that a trade deal could be concluded by

This is just the end of
the beginning...the
real work lies ahead.

then (the transition period can be extended by up to two years if the EU and UK both agree). Johnson claimed that the UK will diverge from the EU on state aid rules, making it easier for the government to prop up ailing industries, and enjoy considerable autonomy on trade and regulation while continuing to have a high degree of access to the EU market. This was met with scepticism from many experts, including Ivan Rogers, the UK's former ambassador to the EU, who claimed that "the biggest crisis of Brexit to date" was "virtually inevitable" in late 2020.

The opposition Labour Party pledged to negotiate a better Brexit deal with the EU and put it to a referendum with a "remain" option. Party leader Jeremy Corbyn said he would take a "neutral stance" in any referendum and would not campaign for either side, acting as an "honest broker" instead. Corbyn's refusal to adopt a clear position on Brexit was criticized for potentially confusing the public, potentially alienating both leave and remain voters.

The Liberal Democrats, the UK's third-largest party, began the election campaign by ditching its support for a second EU referendum in favor of a promise to simply scrap Brexit altogether by revoking the Article 50 exit process. However, this tactic appeared to backfire during the campaign when opinion polls suggested that support for the party was falling rapidly, which prompted leader Jo Swinson to switch back to advocating a "people's vote" rather than revoking outright. The Scottish National Party campaigned for a second referendum with "remain" as one of the options on the ballot paper.

On December 12, the Conservative Party won the election with a 75+ seat majority.

Based on Events Over the Past Few Weeks, What Are Your Views on the Likelihood of the Various Outcomes?

Given the size of Johnson's new majority, it is almost certain that the timetable for the Withdrawal Agreement Bill will be approved by Parliament, possibly before Christmas, and that the UK will leave the EU on January 31. It would take something extraordinary for the bill not to be passed by Parliament now.

However, while the approval of the Withdrawal Agreement Bill will facilitate the UK's departure from the EU, it does not prescribe its future trading relationship with the bloc. That must be determined by December 31, 2020, which leaves a very short transition period in which to negotiate the kind of deal that would usually be expected to take many years to agree upon. The negotiations are likely to be tough—the EU is highly committed to its four key principles: the free movement of goods, services, capital, and labor. The UK would like to opt out of the free movement of labor but maintain a high degree of freedom in the other three areas, but the EU is likely to strongly resist any attempt by the UK to have its cake and eat it too.

Johnson has a very difficult path to tread: If he is seen to give too much ground to the EU, the more hardline "clean break" MPs in his party could prevent a trade deal from being approved; if he demands too much in negotiations, it may be impossible for a deal to be agreed upon before the deadline. In the event that either of these two scenarios occurs, the UK will face the choice of leaving the EU without a deal at the end of 2020 or asking for an extension to the transition period—both of which carry considerable risks.

“
...asset prices will
be determined
by the weighing
up of contrasting
sentiments...”

What Are the Implications for Financial Markets of the Conservative Party's Election Victory?

It will be difficult for markets to price in the future trading relationship between the UK and the EU because there are very divergent views on what the negotiations will achieve—and even on what the UK *wants* to achieve from them. Until that becomes clearer, asset prices will be determined by the weighing up of contrasting sentiments—relief that a no-deal Brexit has been avoided in the short term and that Labour Party leader Jeremy Corbyn's fiscal policies will not be implemented versus concern that the trade negotiations may not go well and a no-deal Brexit could still occur at the end of 2020.

The fact that a no-deal Brexit is off the table in the near term reduces the likelihood of the Bank of England cutting interest rates anytime soon. As such, UK government bond yields are likely to remain range-bound for the time being, although they may fall

if there are increased concerns over a global recession. Sterling is likely to remain capped, then pushed around throughout 2020 depending on how the negotiations are perceived to be progressing. Relief that Corbyn's plans to nationalize key industries are off the table may cause stocks to rally in the short term, but after that, equities are likely to follow a similar path to the pound as the markets scrutinize the trading negotiations for clues about the likely state of the UK economy in 12 to 18 months' time.

What We're Watching Next

We fully expect Parliament to approve the timetable for the Withdrawal Agreement Bill, but we will be watching closely for any signs—however unlikely—that this may not occur. Assuming the UK leaves the EU on January 31, our focus will be on the trade negotiations, which are likely to be complicated and fractious. The year 2020 is likely to be another in which asset prices are buffeted by shifting perceptions of how well talks are progressing between the UK and the EU.

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 only 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 by T. Rowe Price Hong Kong Limited, 6/F, Chater House, 8 Connaught Road 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.

South Africa—T. Rowe Price International Ltd ("TRPIL") is an authorised financial services provider under the Financial Advisory and Intermediary Services Act, 2002 (FSP Licence Number 31935), authorised to provide "intermediary services" to South African investors.

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.

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