

# Tortoise QuickTake

## Credit Podcast



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**Welcome to the Tortoise QuickTake podcast. Thank you for joining us. Today, senior members of Tortoise provide a timely update on trending topics in the market.**

Hi, I'm Graham Allen, Senior Portfolio Manager with Tortoise.

Watching Theresa May negotiate Brexit is like watching a condemned prisoner choosing their method of execution. Having voted to “remain”, it is a decision she just does not want to have to make and it is beginning to show. Given that, she also knows that the end-result is inevitable, unless by a remote set of circumstances a second referendum takes place, and that is that the UK will leave the EU on March 29<sup>th</sup> 2019. Some of her cabinet are already discussing a plan B scenario should the vote fail. As Parliamentary debate takes place next week and the actual vote draws nearer, it may be possible that an alternative plan is put forward by her government if it becomes clear the support is not there. This could be based on the “Canada plus” type of agreement proposed conceptually agreed to by Donald Tusk, Chairman of the European Council. This plan has a plausible chance of being approved by the Brexit hardliners.

As she begins a two-week campaign to sell her deal to the U.K. Parliament her task looks daunting as the varying postures of the parties involved all look to be increasingly negative. At this juncture, it is actually hard to find any significant group that offers meaningful support for the existing terms. This may of course simply be a negotiating stance by each constituency, but it does indicate the complexity of the process ahead, given there are so many interests involved.

On December 11<sup>th</sup> 2018, the vote on the latest plan approved by the European Commission, will go before a U.K. Parliamentary vote where the outcome remains extremely uncertain. Although there is a high probability that the motion will not pass, it is unlikely to be the last Parliamentary vote, but rather the beginning of a tortuous democratic process that will do nothing to comfort markets, or provide much clarity on the outcome.

The severity of task facing the Prime Minister is evidenced by the fact that her plan seems to have upset all the parties she needs to garner a favorable vote in Parliament. This is before even considering the protestations of other members of the EU, who have also proposed other conditions for their approval such as more liberal fishing rights in U.K. waters and the future of Gibraltar.

Theresa May's efforts to woo parties over to her plan are proving sterile. A Downing Street briefing with Labour MPs on the proposal was charitably described as pointless. Of course, any cooperation with the Prime Minister is not in Labour's interest as their objective now has to be to trigger a general election which they hope they could win, despite the fact that their official stance is to leave. That she met separately with Labour MPs further rankled her Conservative Brexiteers who accused her of pushing a Brexit deal in name only. As if that wasn't bad enough, there was scathing criticism from the Government's coalition partner the Democratic Unionist Party (DUP) when she visited Northern Ireland on the first leg of her campaign. The leader of the DUP stated that her party could not support the deal as the back-stop treats Northern Ireland differently than the rest of the UK. The backstop deals with the border issue between Northern Ireland, which is part of the UK and Ireland, which is part of the EU. The Prime Minister needs the support of the DUP in Parliament on December 11<sup>th</sup>, but has said that she will not reopen talks on the back-stop so as it currently stands the DUP will not support her proposal.

Against this backdrop, the Brexit hardliners within her own party continue to increase the pressure on Theresa May although it is unlikely they have enough support to trigger a challenge on her leadership. That is unless she loses the December 11<sup>th</sup> debate. In that event it is likely that several of her cabinet members, who are pro-Brexit, would resign. At that point it is possible that members of the Conservative party would then have enough votes to challenge her leadership. A statement by President Trump, who threatened to delay a trade deal between the U.S. and UK because the existing deal is too favorable to the EU, is getting support from Jacob Rees-Mogg, who is seen by many as being the most influential pro BREXIT MPs

along with Boris Johnson. Rees-Mogg stated that the U.K. will be 'tied in to the 'inefficient protectionist European system' which would hinder the U.K.'s ability to negotiate separate trade deals.

Needless to say, the next two weeks are unlikely to provide any clarity of the outcome, and even then a failed vote will probably only create more uncertainty. The likelihood of a hard Brexit seems to be increasing given the timetable and the number of difficult hurdles that need to be overcome to secure an amicable divorce.

If a hard Brexit occurs and the U.K. leaves with no deal in place, it is likely that the market effect will ultimately be more severe for the EU, which could quickly face an existential crisis. Economic growth is slowing within the EU causing already strained economic fault lines to become more pronounced. This is why the negotiations between the EU and the Italian coalition government are so crucial. However bad the initial shock may be for the U.K., it's worth remembering that it is a net contributor to the EU's annual budget and runs a trade deficit with the EU of approximately €60 billion a year. This means that initially, no trade agreement will hurt the EU more than the U.K. financially. That's not to say there may not be a negative market reaction, but to a significant extent some of this is already discounted in the level of Sterling. Sterling is approximately 20% above its all-time low against the U.S. dollar, and could have further to fall.

So to paraphrase William Shakespeare, the next 2 weeks in the U.K. is likely to see a lot of strutting and fretting; a tale full of sound and fury, signifying nothing.

**Thank you for joining us. And stay tuned for our next cast. Have topics you want covered or other feedback to share? Write us at [info@tortoiseadvisors.com](mailto:info@tortoiseadvisors.com).**

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