

# Tortoise QuickTake

## Credit Podcast

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Jan. 29, 2019

**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 at Tortoise Credit. It seems in politics worldwide it is becoming increasingly difficult to distinguish between playground arguments and the occasional messiness of the democratic process. Brexit is a shining example.

To paraphrase the famous words of Roger Waters, the unfolding Brexit appears to be a pie in the sky that turned out to be more than mere mortals could handle. So has Brexit morphed into something that is pleasant to imagine but unattainable? At this late stage it's worth asking that question.

Perhaps it is the deliberate obfuscation of the facts on both sides of the argument, coupled with the genuinely complexity of the problem that no one foresaw, that makes its actual occurrence elusive. The reality is that as each deadline approaches, and there are more than one, all sides have hardly moved from their positions of several months ago. In other words, the inevitable realities of the situation has yet to hit home to most of the factions involved. Brexit itself is further complicated by the lack of consensus among U.K. politicians, which makes it difficult for Theresa May to negotiate with an already reluctant Brussels bureaucracy. Despite resolute commitment by Theresa May on the surface, her actions belie the fact that her intransigence risks the possibility of Brexit happening at all, which leads some to question her motives.

But the very latest signs do give reasons for a faint glimmer of hope. The real sticking point for the Conservative party appears to be the Northern Ireland backstop. The hardline Brexiteers do not want any solution that sees Northern Ireland permanently captured in a European customs arrangement. The difficulty is how to achieve that without a hard border between Ireland and Northern Ireland, which no one wants to see return. Until recently Theresa May had ruled out any kind of 'Freedom Clause' which now appears to be back on the table to the delight of Boris Johnson and his pro Brexit peers, who would support her in efforts to negotiate this with the EU. However, his optimism was premature, as not all Brexiteers are as supportive.

In the days and weeks ahead the House of Commons is set to debate a slew of amendments to Theresa May's neutral motion, among them a clause that effectively takes 'no deal' off the table. This particular amendment is popular across the House but would not be endorsed by the hard-liner Brexit MPs, who see a 'no deal' exit as a desirable outcome. The initial list of seven amendments offers no solutions, but rather a list of options as to what comes next. Some amendments seem to be worded in a manner that keeps alive the 'Remainers' hopes that Brexit does not occur at all, but the stark reality is, is that as the deadline approaches, the electorate on both sides of the argument has become more frustrated by the inactions of Parliament. This implies that Brexit ultimately will occur, as any attempts to derail it will be seen as an affront to the democratic process. The two most likely amendments that could pass are the Cooper and Brady amendments that seek to either extend the Article 50 deadline, or change the Northern Ireland backdrop.

So despite some positive developments, Brexit remains as fluid as ever.

However, the distraction of Brexit may be masking another wolf-in sheep's clothing. That is, a rapidly slowing European economy which will do nothing but increase populism across Europe. The timing could not be worse, given the upcoming European elections in May, which coincidentally also complicates any extension to Article 50, an option often discussed as a temporary solution to the BREXIT impasse. If the U.K. are not out of the EU by the election date, it would be legally obliged to send European representatives to the new European Parliament.

The economic slowdown among the three core countries is real, and the recent change of tune from ECB Chairman Draghi confirms this. In January 2019 comments, he acknowledged the slowdown and pushed back the possibility of a European

rate hike. Recent German data has been disappointing with both monthly imports and exports declining in December. Its IFO index, an indicator of business confidence fell below 100 for the first time since May 2016. Any reading below 100 would imply a contraction. France continues to be impacted by the 'yellow vest' protests as well as sporadic industrial action. This is certainly taking a toll on GDP.

Italy of course remains mired in a bitter disagreement with Brussels over its 2019 budget deficit. Any examination of that impasse quickly reveals all that is wrong with the fundamental philosophy of the Eurozone and any further economic weakness will simply crystalize those imperfections for all to see. At its core has been the persistent economic underperformance of Italy versus its partners in the Eurozone. To be sure some blame lies with Italy itself but the constraints of the Euro membership has only made matters worse.

Ostensibly, markets have yet to discount any significant negative economic effects from a disorderly Brexit but as we have mentioned before in these podcasts, Europe has far more to lose. A messy exit could easily send the fragile European economy into a deep recession. As the deadline approaches, it is possible that a more pragmatic element enters the discussion in the form of the main commercial beneficiaries of the €90 billion trade surplus between Europe and The U.K. This is already happening in the U.K. where business leaders are becoming more vocal as the deadline approaches. On the face of it, the European negotiators remain obdurate, so any pressure from pragmatic European business leaders would be welcome in the final stages.

For now, Brexit remains as elusive as ever; a proverbial pie in the sky that remains too high.

Thank you for listening.

**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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