

KEEP CALM AND CARRY ON

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In recent years, the Great British pound (GBP) has been heavily influenced by perceptions of political risk. Relief after Scotland's referendum on independence in 2014 proved short-lived. In 2016, the United Kingdom (UK) surprised the world by narrowly voting to leave the European Union (EU). Ever since, the pound has suffered, whenever investors felt there might be a disorderly Brexit.

When viewed in a longer-term perspective, however, the pound's decline against the euro in recent weeks has not been all that dramatic, as our Chart of the Week shows. The saber rattling by Boris Johnson, the new prime minister, and his team about the UK leaving the EU without a deal has taken a toll, but a relatively modest one. Partly, that is because plenty of risk has already been priced in, following the referendum. And of course, things could get quite a bit worse for the pound in the coming weeks. Parliament is only scheduled to return from summer recess on September 3. Until then, plenty of more or less plausible scenarios will no doubt be mooted by Mr. Johnson and his allies, on how a "No-Deal" Brexit might be delivered against parliamentary resistance.

In our own view, the risk of a disorderly, "No-Deal" Brexit probably peaked in spring. At the beginning of the year, we were very concerned at how sanguine most observers appeared that a deal of some sort would get passed by the House of Commons. "Beware of Brexit complacency," we wrote back in January (see [CIO Flash: Beware of Brexit complacency](#) as of 1/16/19). By the same token, however, we think that now might be a good time to "Keep calm and carry on," as the famous wartime slogan had it. According to Britain's largely unwritten constitution, sovereignty firmly rests with Parliament, and has done so for hundreds of years. As Vernon Bogdanor, a leading scholar, pointed out in his definitive recent work on the subject, "Until 1975 (...) the British constitution knew nothing of the people."¹ Stopping "No Deal" won't be easy, but it can certainly be done, if Parliament is determined.² And in sharp contrast to the situation in spring, there now is plenty of evidence Parliament will have both the means and the will to do so.

¹ Bogdanor, V. (2009), *The New British Constitution*, Hart Publishing, p. 172

² <https://www.theguardian.com/commentisfree/2019/aug/06/mps-thwart-boris-johnson-no-deal>



■ Euro per British Pound

Sources: Bloomberg Finance L.P., DWS Investment GmbH as of 8/8/19

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GLOSSARY

Brexit

Brexit is a combination of the words "Britain" and "Exit" and describes the exit of the United Kingdom of the European Union.

European Union (EU)

The **European Union (EU)** is a political and economic union of 28 member states located primarily in Europe.

House of Commons

The **House of Commons** is the lower chamber of the United Kingdom's parliament.

Pound sterling (GBP)

The **pound sterling (GBP)**, or simply the pound, is the official currency of the United Kingdom and its territories.

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