

## A very British affair

**Following the UK snap elections, we are entering another uncertain period in British politics. Market implications look limited, however.**

### **Conservatives are largest party but fail to secure majority - hung Parliament**

With 326 seats needed for a majority of the House of Commons, the lower chamber of the UK parliament, it is now certain that the Conservatives failed to achieve this goal. Theresa May, as the incumbent Prime Minister, now has to try to form a government. The Conservatives (Tories) may be able to rely on the 10 members of parliament (MPs) of the Democratic Unionists (DUP), the main pro-British protestant party in Northern Ireland, to support them in a 'confidence & supply' arrangement. In our view, an informal arrangement seems more likely than a formal coalition under which DUP MPs might actually take seats in the UK Cabinet.

### **Too early for a full assessment and plenty of risks ...**

- Like her predecessor David Cameron with the Brexit referendum, Theresa May seems to have bet her career on the snap elections – and lost. While she may try to carry on, surviving for very long might prove another matter entirely.
- The timing of the vote, just days before Brexit talks were supposed to start, makes the outlook pretty murky. Had this election taken place before Article 50 was triggered, an exit to the Brexit would have been a viable scenario – and a welcome one from a market perspective.
- As things stand, the UK's decision to leave the European Union (EU) looks technically irreversible under Article 50 (although the European Court of Justice (ECJ) may have to rule on this). Legally, extending the Article 50 process requires a unanimous vote of EU countries. Britain's European partners may not want the resource-intensive process to drag on for longer, though as always there may be scope for compromise.
- Certainly, the UK's bargaining position may have been weakened, both by the vote and the triggering of Article 50. The two-year negotiating period was always likely to prove very short for such a complex set of negotiations. Now, the UK finds itself in a very uncomfortable situation of the first talks with Michel Bernard Barnier, the European Chief Negotiator for Brexit, being scheduled in ten days, while its negotiating position is up in the air.
- It would be premature to conclude that a softer Brexit is the logical consequence of this vote, although it is the most likely scenario. With such a narrow majority in the House of Commons, every single MP counts, and every single vote has the potential to bring down the government (opening the door to yet another round of voting). This, along with

### **Expectations in a nutshell**

- Theresa May seems to have bet her career on the snap election – and lost. While she may try to carry on, surviving for very long might prove another matter entirely.
- The timing of the vote, just days before Brexit talks were supposed to start, makes the outlook pretty murky.
- Risks remain from a market perspective. However, the new Conservative government supported by the Northern Ireland unionists, might take a more pragmatic approach in the Brexit talks.

All opinions and claims are based upon data on 6/9/17 and may not come to pass. This information is subject to change at any time, based upon economic, market and other considerations and should not be construed as a recommendation. Past performance is not indicative of future returns. Forecasts are based on assumptions, estimates, opinions and hypothetical models that may prove to be incorrect. Deutsche Asset Management Investment GmbH

another contest for the Tory leadership, would create even more uncertainty.

### **... but also the possibility of a more pragmatic approach on Brexit**

- However, there is also the possibility of a more favorable outcome from a market perspective. The new Conservative government supported by the Northern Ireland Unionists, and potentially under a new prime minister, might take a more pragmatic approach in the Brexit talks.
- The Conservatives mitigated their electoral meltdown by winning 12 additional seats in Scotland. Those new Scottish Tory MPs are likely to press for a softer version of Brexit. Similarly, the DUP, while in favor of Brexit, is also keen to keep the border to the Irish Republic open. Together, the two groups alone would account for 22 votes – more than enough to block any "hard-Brexit" deal not to the liking of their voters.
- Meanwhile, Tory euro-sceptics might be loath to risk a fresh round of voting and accept significant concessions (perhaps even on immigration). From their perspective, any Brexit might be better than no Brexit.

### **Economic and market implications of a very British affair: increased and prolonged uncertainty to weigh on the British pound and potentially on Gilts, but limited fall-out beyond the UK**

As first market indications confirm: this is very much a national event. Global markets took little notice of what in British eyes was another dramatic night. We therefore concentrate on assessing the impact on UK assets. Although chances of a softer Brexit and less fiscal tightening are now higher, the main outcome of the vote is to increase uncertainty, potentially for a prolonged period of time.

- **Gilts:** It is hard to assess where Gilts will move from here on. In a bull case we would assume a flight to quality on the back of a weakening economy. The bear case would be that a weaker pound, political uncertainty and a leadership vacuum would push overseas investors to ask for a higher risk premium, pushing Gilt prices down. The Bank of England could be more inclined to follow a more accommodative stance.
- **UK equity markets:** The major short-term impact for equities stems again from the pound. Its weakness is lifting stock prices, especially for companies with foreign exposure. Other than that, we would see little short-term effects as the two forces might neutralize each other: on the negative side, increased and prolonged uncertainty doesn't bode well for corporate investment decisions. On the positive side, a softer Brexit could have less of a negative impact on UK businesses.
- **British pound:** The pound lost more than 2 cents against the U.S. dollar as a result of the elections. At current levels we see few factors that could support the pound in the mid-term and remain cautious on the currency.

All opinions and claims are based upon data on 6/9/17 and may not come to pass. This information is subject to change at any time, based upon economic, market and other considerations and should not be construed as a recommendation. Past performance is not indicative of future returns. Forecasts are based on assumptions, estimates, opinions and hypothetical models that may prove to be incorrect. Deutsche Asset Management Investment GmbH

## Concluding thoughts:

- In our view, the Labour Party is too far behind to form a credible minority government. Given the many unexpected twists and turns in British politics in recent years, however, we would not be surprised if new forms of cross-party cooperation were to emerge on particular issues.
- From a European perspective, it is certainly noteworthy that despite the majority vote in the Brexit referendum, the House of Commons emerging from this general election is likely to look more, rather than less, Europe-friendly than the previous one.
- Along-side the European question, an even older one is likely to return to the forefront of Westminster politics, namely the Irish one. Following the suspension of Northern Ireland's power-sharing government, coming to a new arrangement will be both an urgent and a tricky task for the new government in London. In particular, Sinn Féin, the main pro-Irish catholic party has nearly doubled its number of seats in the House of Commons, to a total of 7, while continuing to boycott the Westminster parliament. In coming years, Irish republicans might begin to ask themselves if this is still the best use of their electoral strength.
- This is a reminder to continue to expect the unexpected – the sort of things Westminster politicians, let alone financial markets, might fail to see coming. In our view, this partly reflects the United Kingdom's ever altering constitutional arrangements. And, as Walter Bageshot wisely noted in his 1867 study on the topic, the "constitution is like an old man who still wears with attached fondness clothes in the fashion of his youth: what you see of him is the same; what you do not see is wholly altered."

All opinions and claims are based upon data on 6/9/17 and may not come to pass. This information is subject to change at any time, based upon economic, market and other considerations and should not be construed as a recommendation. Past performance is not indicative of future returns. Forecasts are based on assumptions, estimates, opinions and hypothetical models that may prove to be incorrect. Deutsche Asset Management Investment GmbH

## Glossary

### Article 50 of the Lisbon Treaty

**Article 50** of the Lisbon Treaty governs the withdrawal of a member state from the European Union.

### Bank of England (BoE)

The **Bank of England (BoE)** is the central bank of the United Kingdom.

### Brexit

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

### Conservative Party

The **Conservative Party**, also referred to as "Tories", is a center-right political party in the United Kingdom.

### European Court of Justice (ECJ)

**European Court of Justice (ECJ)** the highest court in the European Union in matters of European Union law.

### European Union (EU)

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

### Gilts

**Gilts** are bonds that are issued by the British Government.

### Pound sterling (GBP)

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

All opinions and claims are based upon data on 6/9/17 and may not come to pass. This information is subject to change at any time, based upon economic, market and other considerations and should not be construed as a recommendation. Past performance is not indicative of future returns. Forecasts are based on assumptions, estimates, opinions and hypothetical models that may prove to be incorrect. Deutsche Asset Management Investment GmbH

## Hong Kong

The contents of this document have not been reviewed by any regulatory authority in Hong Kong. You are advised to exercise caution in relation to the investments contained herein. If you are in any doubt about any of the contents of this document, you should obtain independent professional advice. This document has not been approved by the Securities and Futures Commission in Hong Kong nor has a copy of this document been registered by the Registrar of Companies in Hong Kong and, accordingly, (a) the investments (except for investments which are a "structured product" as defined in the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (the "SFO")) may not be offered or sold in Hong Kong by means of this document or any other document other than to "professional investors" within the meaning of the SFO and any rules made thereunder, or in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32 of the Laws of Hong Kong) ("CO") or which do not constitute an offer to the public within the meaning of the CO and (b) no person shall issue or possess for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the investments which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the investments which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" within the meaning of the SFO and any rules made thereunder.

## Singapore

Singapore Interests in the funds mentioned herein are not allowed to be made to the public or any members of the public in Singapore other than (i) to an institutional investor under Section 274 or 304 of the Securities and Futures Act (Cap 289) ("SFA"), as the case may be, (ii) to a relevant person (which includes an Accredited Investor) pursuant to Section 275 or 305 and in accordance with other conditions specified in Section 275 or 305 respectively of the SFA, as the case may be, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

## Important Information

DWS is the brand name of DWS Group GmbH & Co. KGaA. The respective legal entities offering products or services under the DWS brand are specified in the respective contracts, sales materials and other product information documents. DWS Group GmbH & Co. KGaA, its affiliated companies and its officers and employees (collectively "DWS Group") are communicating this document in good faith and on the following basis.

This document has been prepared without consideration of the investment needs, objectives or financial circumstances of any

All opinions and claims are based upon data on 6/9/17 and may not come to pass. This information is subject to change at any time, based upon economic, market and other considerations and should not be construed as a recommendation. Past performance is not indicative of future returns. Forecasts are based on assumptions, estimates, opinions and hypothetical models that may prove to be incorrect. Deutsche Asset Management Investment GmbH

investor. Before making an investment decision, investors need to consider, with or without the assistance of an investment adviser, whether the investments and strategies described or provided by DWS Group, are appropriate, in light of their particular investment needs, objectives and financial circumstances. Furthermore, this document is for information/discussion purposes only and does not constitute an offer, recommendation or solicitation to conclude a transaction and should not be treated as giving investment advice.

DWS Group does not give tax or legal advice. Investors should seek advice from their own tax experts and lawyers, in considering investments and strategies suggested by DWS Group. Investments with DWS Group are not guaranteed, unless specified.

Investments are subject to various risks, including market fluctuations, regulatory change, possible delays in repayment and loss of income and principal invested. The value of investments can fall as well as rise and you might not get back the amount originally invested at any point in time. Furthermore, substantial fluctuations of the value of the investment are possible even over short periods of time. The terms of any investment will be exclusively subject to the detailed provisions, including risk considerations, contained in the offering documents. When making an investment decision, you should rely on the final documentation relating to the transaction and not the summary contained herein. Past performance is no guarantee of current or future performance. Nothing contained herein shall constitute any representation or warranty as to future performance.

Although the information herein has been obtained from sources believed to be reliable, DWS Group does not guarantee its accuracy, completeness or fairness. No liability for any error or omission is accepted by DWS Group. Opinions and estimates may be changed without notice and involve a number of assumptions which may not prove valid. All third party data (such as MSCI, S&P, Dow Jones, FTSE, Bank of America Merrill Lynch, Factset & Bloomberg) are copyrighted by and proprietary to the provider. DWS Group or persons associated with it ("Associated Persons") may (i) maintain a long or short position in securities referred to herein, or in related futures or options, and (ii) purchase or sell, make a market in, or engage in any other transaction involving such securities, and earn brokerage or other compensation.

The document was not produced, reviewed or edited by any research department within Deutsche Bank and is not investment research. Therefore, laws and regulations relating to investment research do not apply to it. Any opinions expressed herein may differ from the opinions expressed by other Deutsche Bank departments including research departments. This document may contain forward looking statements. Forward looking statements include, but are not limited to assumptions, estimates, projections, opinions, models and hypothetical performance analysis. The forward looking statements expressed constitute the author's judgment as of the date of this material. Forward looking statements involve significant elements of subjective judgments and analyses and changes thereto and/or consideration of different or additional factors could have a material impact on the results

All opinions and claims are based upon data on 6/9/17 and may not come to pass. This information is subject to change at any time, based upon economic, market and other considerations and should not be construed as a recommendation. Past performance is not indicative of future returns. Forecasts are based on assumptions, estimates, opinions and hypothetical models that may prove to be incorrect. Deutsche Asset Management Investment GmbH

indicated. Therefore, actual results may vary, perhaps materially, from the results contained herein. No representation or warranty is made by Deutsche Bank as to the reasonableness or completeness of such forward looking statements or to any other financial information contained herein.

This document may not be reproduced or circulated without DWS Group's written authority. The manner of circulation and distribution of this document may be restricted by law or regulation in certain countries, including the United States.

This document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, including the United States, where such distribution, publication, availability or use would be contrary to law or regulation or which would subject DWS Group to any registration or licensing requirement within such jurisdiction not currently met within such jurisdiction. Persons into whose possession this document may come are required to inform themselves of, and to observe, such restrictions.

Unless notified to the contrary in a particular case, investment instruments are not insured by the Federal Deposit Insurance Corporation ("FDIC") or any other governmental entity, and are not guaranteed by or obligations of DWS Group.

© 2019 Deutsche Asset Management (Asia) Limited

Publisher: DWS Investment GmbH, Mainzer Landstraße 11-17, 60329 Frankfurt am Main, Germany

All opinions and claims are based upon data on 6/9/17 and may not come to pass. This information is subject to change at any time, based upon economic, market and other considerations and should not be construed as a recommendation. Past performance is not indicative of future returns. Forecasts are based on assumptions, estimates, opinions and hypothetical models that may prove to be incorrect. Deutsche Asset Management Investment GmbH