

BREXIT: A Deal Is Done, Finally

28 December 2020



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The threat of a Brexit “no-deal” has finally been averted, with an agreement struck between the UK and the European Union.

A Brexit Deal – at the 11th hour

On December 24, 2020, The UK finally reached a Brexit trade deal with the European Union. This deal covers the trade in goods, but is less extensive on the trade in services.

This deal now needs to be ratified both by the UK parliament (which should take place by December 31, 2020) and by the 27 countries that comprise the European Union. This second step will occur early in 2021.

The good news for the UK economy is the removal of the risk of a no-deal exit, removing much uncertainty over the near-term path of the UK economy.

UK 2021 trade with the EU will not be on the same terms as in 2020

We should remember that the UK economy will still not enjoy the same ease of access to the European Union market even with zero tariffs on goods, given the substantial non-trade barriers (e.g. extra paperwork for imports and exports) that will be in place from January 1, 2021.

Furthermore, given the heavy weighting that the UK economy has towards financial services in particular, there is still some uncertainty over the drag on the UK economy from the services sector. The question of equivalence for UK financial services companies to be able to sell financial products into the European Union remains a very important outstanding question for the UK, which the UK's Chancellor of the Exchequer (finance minister) hopes to see resolved over the next few months.

Conclusion

In terms of currency, the pound sterling has started to strengthen as a result of the greater certainty for the UK economy in the short-term. The pound has strengthened to USD1.356 per 1 pound against the US dollar (as of December 28, 2020) and to GBP0.90 per 1 euro against the euro.

UK equities are a second financial asset that should benefit finally from this greater economic certainty, given that many non-UK investors have avoided UK equities due to Brexit-related uncertainty. More domestically-oriented stocks (such as UK mid-caps) should benefit more from the greater economic certainty in 2021, while the FTSE 100 index may lag due to the stronger pound sterling.





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