



Key Takeaways

The news of Brexit has captured multiple headlines recently, and it is a topic that is still likely a source of widespread confusion. Many investors may find themselves wondering why and how it matters. This week's Thought for the Week will explore the basics of what Brexit means, the latest events related to the situation, and, most importantly, what it could mean for investors.

What is Brexit?

Brexit – shorthand for Britain's split from the European Union (EU) – is essentially a complex divorce impacting trade, immigration and security. The EU is a political and economic partnership of 28 member states established after World War II to create trade synergies and better cooperation among its members. The entity has enabled the member countries to trade freely as though they were one country. Britain's rationale for exiting the EU was primarily driven by regaining political sovereignty and regulatory independence.

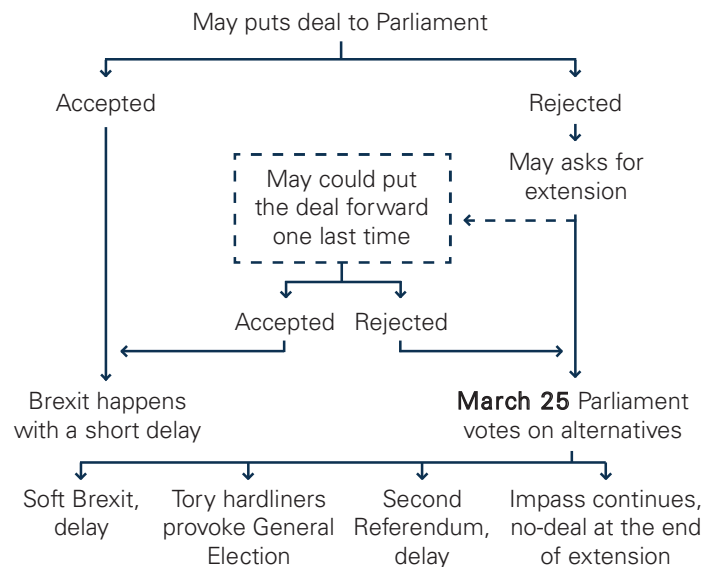
What's happened with Brexit so far?

For perspective, the deadline for Brexit is March 29, 2019. To date, the UK Parliament has twice rejected Theresa May's Brexit deal. They have also voted against leaving with no deal and voted in favor of a delay to extend the deadline to June 30th. While the delay was approved by the UK Parliament, it will also require approval by the EU to take effect.

What happens next with Brexit?

There are several possible next steps. Options include accepting Prime Minister May's Brexit deal, renegotiating another Brexit deal, holding another referendum to prevent Brexit from happening, calling a general election to exit the deadlock in Parliament or, at the extreme end of possible outcomes, leaving the EU with no deal. Furthermore, depending on the extent to which the UK would maintain its alignment with the EU going forward, we could see either a "soft" or "hard" Brexit. "Soft" would mean that the UK would remain aligned with the EU without being an actual member state. This option would be least disruptive to the UK's trade but would require the UK to be bound to some of the EU's rules. In contrast, under a "hard" Brexit, the UK would leave the EU completely and have complete autonomy to negotiate its own trade and border policies.

What's Next for Brexit



Source: Bloomberg



How does Brexit impact investors?

Brexit is a politically charged issue and not one borne solely from a shift in economic fundamentals. The impact of a no-deal Brexit could lead to an economic slowdown or recession in the UK. The impact of a recession in the UK is, however, unlikely to lead to a global systemic collapse for a few reasons:

- Companies and businesses have had two years to prepare for Brexit
- The UK makes up less than 4% of sales for companies in the MSCI World Index (global equity index) and less than 5% for companies in the MSCI Europe ex-UK index, according to Charles Schwab.
- The UK composes only about 2% of global gross domestic product (GDP) and 4% of global trade, according to LPL Research.

In short, investors should be wary of making shifts in their portfolios based on changes in the political landscape alone and remain committed to their long-term goals.

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