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Brexit Negotiations Face Delay After UK Election

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Despite losing her majority in the 8 June General Election, Theresa May remains Prime Minister and is building an alliance with Northern Ireland's Democratic Unionist Party (DUP) to pass a Queen's Speech.

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Market Performance

[Global equities as measured by MSCI World Index edged down 0.23% on the week.](#)

[In the US, the Dow Jones Industrial Average advanced 0.53%, the S&P 500 Index ticked 0.06% higher, and the Nasdaq Composite fell 0.90%.](#)

[European equities, as measured by the Stoxx Europe 600 Index, fell 0.46% while Japanese stocks were mixed on the week \(Nikkei 225: -0.35% and Topix: 0.28%\).](#)

[Emerging Markets underperformed with the MSCI EM index down 1.48%, led MSCI Emerging Europe \(-3.15%\), MSCI Asia ex Japan \(-1.50%\) and MSCI Latin America \(-0.07%\). Within Asia, the Australia's ASX 200 index was the best performer, rebounding 1.69% to 5,774.03.](#)

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Brexit Negotiations Face Delay After UK Election (Continued)

- However, Citi analysts think that Theresa May’s position is unsustainable over the medium to long term as she may struggle to maintain her authority on issues ranging from domestic policy to Brexit, and negotiations with the EU and its member states.
- Citi analysts expect a successful leadership challenge in the coming months. Theresa May could step down and stay as a caretaker or make way for someone else as caretaker. Even under a new leader, such a fragile coalition is unlikely to last long, not least because of difficulties in passing urgent Brexit legislation.
- New elections within the next 6-12 months are Citi’s base case, most likely still in 2017 to retain at least some time for Brexit negotiations.

UK – Key Post-Election Political Calendar

Date	Event
12-Jun	Theresa May held first cabinet meeting and met Conservative 1922 Committee
13-Jun	Parliament reconvened. Negotiations with the DUP and Scottish Conservatives.
19-Jun (probably delayed)	Queen's Speech and UK-EU Brexit negotiations to start
22-Jun	EU summit on migration, defence, security and external relations (not Brexit)
27-Jun (probably delayed)	Parliament to vote on Queen's Speech
Mid-August	Earliest date for full Conservative leadership contest to conclude
Mid-September	Earliest date for new elections
1-4 October	Conservative Party Conference in Manchester

Source: Citi Research as of 14 June 2017.

- **Brexit implications:** Any further delays to the negotiations due to leadership contests and/or new elections make it even less likely that the EU and the UK can conclude negotiations on the withdrawal agreement, the transition deal and the final trade deal by November 2018. That makes an off-the-shelf transition model like Norway-style membership of the European Economic Area (EEA) more likely in the meantime. However, this is unlikely to be a viable status for the UK indefinitely and Citi analysts still expect the UK to exit the EU’s Single Market (“Hard Brexit”) eventually.

Asset class implications

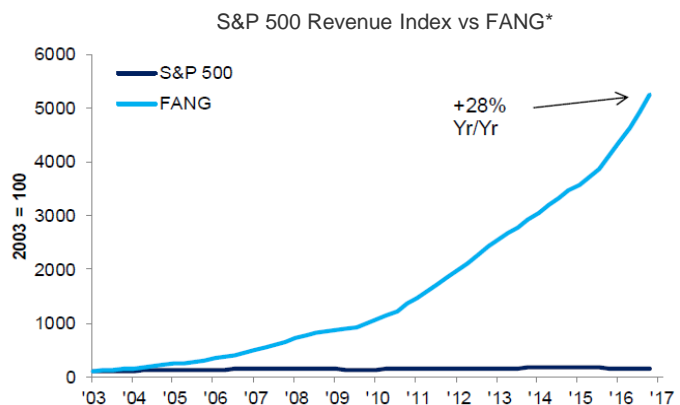
- **Sterling:** Citi analysts reiterate that in the near to medium term, the risks to GBP are skewed to the downside.
- **UK equities:** A weaker GBP is likely to provide support for UK equities, especially those with international exposure. Citi analysts are neutrally UK large-cap equities and underweight in mid and small cap equities.

Disruptive Technology and Investing

Technological progress continues to challenge many traditional industry models and creates opportunities for investors.

- Technological progress, including e-commerce and robotics, continues to challenge and disrupt many traditional business models and creates opportunities for businesses and investors alike. E-commerce is increasingly winning sales from conventional retail channels. The advance of robotics and artificial intelligence could transform many industries and accelerate productivity growth while posing a serious threat to established companies and sectors.
- The technology sector has generated a handsome return of 19% year-to-date as of 15 June. Despite relatively rich valuations with Technology stocks trading at 23x of their trailing earnings, Citi analysts believe investors are not overpaying as innovation is driving corporate profits again. [Citi analysts expect earnings of the Technology sector to grow 16% year-on-year in 2017.](#)
- The Tech sector's profits have concentrated in "industry transformers" and there have been persistent winners and losers. [Citi analysts, however, believe investors need to adopt a diversified approach when seeking exposure to disruptive trends.](#) By merely focusing on the FANGs in the US, an investor potentially fails to benefit from the growth opportunities from China's tech giants who are well positioned to meet the needs of nearly 4 billion consumers in Asia.

"Disruptive trends place greater emphasis on active investing."



Source: Citi Research as of 3 May 2017.

Notes: FANG refers to industry transformers including Facebook, Amazon Netflix and Google

- [Disruptive trends place greater emphasis on active investing. Successful disruptors may start off small and slow before accelerating over the medium term.](#) Hence passive investors may not get exposure to them in the earlier stages of their growth.

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