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## Weekly Market Flash

### Brexit Shrouded by (London) Fog

June 9, 2017

Ah, to be alive at a time when “hey, did that really just happen?” can be the go-to phrase of any given day. To be perfectly honest, we did not give much more than a perfunctory review to the news some time back that UK prime minister Theresa May was calling a snap election in a bid to strengthen her Tory Party’s majority in Parliament. May’s insistent mantra of “steady and calm” seemed much more in keeping with the mood of the moment than the unpredictable antics of Labor leader Jeremy Corbyn, unloved even by much of his own party’s senior figures.

But while the good citizens of Washington, DC were filling up the local bars at 10 am for the much-hyped James Comey testimony, our British friends across the pond went to the polls and delivered yet another insouciant slap in the face of conventional wisdom. May’s Conservatives failed to gain a parliamentary majority, while Corbyn’s Labor Party bagged a sizable number of new seats and all sorts of other counterintuitive things happened... suffice it to say that “Democratic Union Party of Northern Ireland” was probably NOT on the tip of your tongue before now.

#### Does Someone Need a Time Out?

As of this moment the only hard data point we can affirm is that Britain has a “hung parliament,” meaning that no single party has a majority of seats from which to form a government. The most likely outcome, from the initial flurry of horse trading, will be a coalition between the Tories and Northern Ireland’s DUP, which also picked up a couple seats on Thursday night. But that is not definite; observers expect at least an attempt by Labor to form its own coalition. May’s own future as head of her party is anything but certain, and there is a better than average chance we will see another election called before the end of the year.

What this means for Brexit is also spectacularly unclear. What seems apparent, though, is that the “hard Brexit” approach favored by May, expressed by the sentiment that no deal (i.e. a nasty divorce) is better than a bad deal, is headed for the dustbin of history. Brexit is not off the table – Article 50 has been invoked and the game is afoot – but in the fog of confusion produced by the election outcome, some kind of a time-out may be in the cards.

#### L’Europe, En Marche!

Britain’s position vis à vis Article 50 negotiations is made more difficult still by the marked contrast of fortunes across the Channel. In his brief tour of duty as France’s president Emmanuel Macron has established himself as a strong leader whose En Marche (forward!) party – which did not even exist 14 months ago – is positioned to capture an historic majority of parliamentary seats in this weekend’s upcoming regional legislative elections (so many elections, so little time to cover and process them!). The Old Continent, plagued for so long by political sclerosis and the travails of the single currency region, suddenly looks ascendant under the M&M (Merkel & Macron) leadership star.

A stronger economy, though still not equally dispersed among all regions, may help the pro-EU center solidify its recent gains at the expense of far right populism. A more vibrant Europe will likely have the effect of making a decisive Brexit even less appealing to the nearly half of Britons who would still prefer to remain. Now, it is very difficult to tease out any kind of a clear Brexit message from the confusion of Westminster seats gained and lost on Thursday night. But with ten days to go before formal Article 50 negotiations are set to begin, a British negotiating team that has given short shrift to the many complex details to be worked out in the split would be well advised to take a deep breath and – perhaps – buy some additional time before engaging the battle.

It is said that the Battle of Waterloo was won on the playing fields of Eton. Today’s Old Etonians, and their negotiating team peers, would do well to consult instead Sun Tzu -- on when to engage, and when to pull back and reassess.

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