In spite of Prime Minister Theresa May's warnings that looking for the "perfect" deal might endanger reaching a "good deal", Parliament voted to reject her Withdrawal Agreement on Tuesday with an impressive majority of 432 against 202 votes. With Wednesday's no-confidence vote sparing the Prime Minister, the UK is at a starting point again, with extreme outcomes such as a no-deal or even no-Brexit having an increased likelihood of happening.

Context:

After 20 months of negotiations with the EU, Prime Minister May announced her Withdrawal Agreement on the 14 November 2018. Eleven days later, EU leaders accepted the plan which maintained a close partnership between the UK and EU while ending the freedom of movement and guaranteeing a return to constitutional integrity of the island.

Parliament vote was expected to be held on the 11 December, but considering the poor chances of seeing her deal passed, the Prime Minister decided to postpone the vote until she gets additional assurances from the EU. Given their lack of substance, such assurances were not particularly displayed by Theresa May. It was only believed that the EU agreed to minimise any regulatory differences between the UK and Northern Ireland in case of a backstop, which itself was affirmed to be a temporary solution.

Nonetheless, these assurances did nothing to turn Parliament in favour of May's deal. Indeed, as this deal sought to serve the interests of both Brexiteers and Remainers, it virtually did not make anyone happy. According to the agreement, the UK would have had a transition period until the 31 December 2020, during which the Kingdom would have followed EU rules, particularly on employment, tax, environment and the rulings of the European Court of Justice. More importantly, to avoid a hard border between Northern Ireland and the rest of the UK, May had agreed to indefinitely stay in the European Customs Union beyond the transition period, until a free trade agreement is reached with the EU. This part of the deal antagonised hard Brexiteers among Conservatives and the Democratic Unionist Party, originating from Northern Ireland.

These two unsatisfied forces are those who tanked the Prime Minister's deal but also those who saved her by a small margin from having to leave office after Wednesday's no-confidence vote demanded by opposition leader Jeremy Corbyn. Altogether, as a result of the deal's rejection and the no-confidence vote, uncertainty is at an all time high and will be dragging for the next months. Indeed,

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whilst a soft-Brexit becomes a more difficult option, a no-deal Brexit or even no-Brexit have seen their likelihood increase.

May’s alternatives:

This is where all bets are off. The Prime Minister has until the 21 January to announce her next steps. She has previously said that she was opposed to a hard Brexit, something that the majority of Parliamentarians seem to agree with considering the many letters and amendments proposed during Parliamentarian sessions to rule out such option. However, going back to Brussels to renegotiate a deal is certainly not the easy option for the Prime Minister, especially considering that Michel Barnier (the EU’s key Brexit negotiator) explained that the EU would reopen negotiations if the Prime Minister would drop her red lines, a rather unlikely option. In fact, those red lines are what keeps May on relative good terms with her party members supporting Brexit.

The EU therefore seems to be extremely annoyed at London’s political stalemate and is likely to be a difficult partner in the case of future renegotiations. Yet, EU leaders also know that they should do everything in their possibility to avoid a hard Brexit, which will also come to harm their economies. French President Emmanuel Macron has recently predicted that the Britons will ask for more time, delay Brexit scheduled 29 March 2019, and renegotiate their exit. This therefore remains the most likely outcome of Tuesday’s vote: a prolongation. If a soft Brexit is still an objective for the Prime Minister, delaying Brexit will indeed be a necessity due to the limited period before the planned exit. Prolonging the process will itself be met with challenges as the UK will need to participate in EU mechanisms such as the May parliamentary elections when it knows it will not be part of such bodies in the future.

Another alternative for May is to let the Parliament seize the process of forming a Brexit plan. This will at least enable MPs to craft a deal that is more likely to be passed. It has been reported that Labour leaders were not satisfied by the Prime Minister’s lack of cooperation in developing her plan. However, inside the House of Commons exists sharp differences in views: while some Conservatives want a hard Brexit, some within the opposition seek to edulcorate Brexit by adopting a permanent customs union with the EU. Indeed, these strong divisions decrease the chances of the UK to become a Norway or Canada-like trade partner of the EU by entering a free-trade agreement keeping some parts of the single market. Indeed, such feat could be seen as treacherous by Brexiteers who wish a

clean cut from EU rules.

A more speculative option would be for May to step down. Even if she won two no-confidence votes in the past two months and certainly has had time to think over a Plan B, the extent of her defeat might prove to harm her resolve to continue the Brexit process. This is the most likely way in which general elections could be held. Without her resignation, it is highly unlikely to see another party such as Labour form government. Also, if the process continues to stall over the next months, the likelihood of a second referendum cannot be discarded. Ultimately, this process could well stop Brexit, a possibility that the EU has time and again encouraged.

A hard Brexit:

Tuesday’s vote has brought the UK closer to a hard Brexit. A recent poll from the Conservatives’ base has shown that 57% of the party faithful agree with Boris Johnson, that a no-deal Brexit better reflects the 2016 Referendum results. This option will leave the UK in an uncertain legal and business environment that will dearly cost its economy. Indeed, leaving the EU with no deal would impose WTO trade rules between the UK and EU, a great leap backward from the frictionless trade both partners currently enjoy.

Over the few last weeks, the UK administration has intensified contingency plans for such a no-deal situation. Crashing out of the EU without a deal means that French authorities will check all livestock and food at special border inspection posts and require truck drivers to have additional documentation. This is certainly going to cause immense disruptions to crucial supply chains and lead to millions of pounds’ losses for businesses stuck in the stalemate. In addition to claims that such contingency plans are simply too unsubstantial to properly tackle a hard Brexit, the UK finance chief Stephen Jones has warned that such scenario would be a catastrophe for the banking industry.

The former CFO of Santander UK also explained that Brexit was likely to diminish London’s position in the world, especially as Europe’s financial centre. Indeed, UK-based firms have adopted contingency plans themselves. Logistics firms have bought helicopters to deal with blocked land-routes, 40% of asset managers have considered staffing out or moving out of London, and most consultants have decried missed opportunities caused by necessary but costly contingency plans. In fact, duplicating offices, license applications and compliance requirements is no easy task. For the next years, it is believed that 7000 financial jobs will move out from London whilst $800 billion is believed to leave for

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Frankfurt's financial centre for 2019.

Costs of Brexit:

Brexit means that both the UK and the EU will leave behind a frictionless economic relationship. This will prove to be costly, but by how much depends on what kind of Brexit will be unleashed. For the UK, such costs will be the highest. Latest research from LSE, KCL and the Institute for Fiscal Studies hold that if the UK stays in the customs union the country's economy will still be between 1.9% and 5.8% smaller in 2030 than in a no-Brexit situation. This becomes worse in the case of no-deal Brexit as the effect is between 3.5% and 8.7% smaller. Already £22 billion of investments have been held-up since 2016 and the British Chamber of Commerce predicts business investment growth to reach a meagre 0.1% in 2019.

Anyone investing in the EU should also be worried as there will be tremors in case of a hard Brexit. The UK was the Netherlands' 3rd export destination in 2017, Germany's 4th, Italy's 5th and France's 6th. Such tremors will also be felt beyond the EU and in the case of European Economic Area: the UK was Norway's 1st export destination in 2017, a tight trading relation enabled partly by the EU's single market. According to the IMF, a no-deal Brexit decrease EU-27 real output by 1.5% and employment by 0.7%. Of course not all countries will be hit uniformly. Ireland with a 3.3% decrease in output and the Netherlands, Denmark, Belgium and the Czech Republic with average losses of 1% will be the greatest losers. If a soft Brexit keeping tariffs low happens, such losses would reach 0.8% lower output and 0.3% lower employment respectively. The best for both the UK and the EU would be the case in which the UK opts for a Norway-like status, keeping some parts of the single market. This Brexit will have negligible effects on overall output and employment.

GCC Investors' Opportunities and Risks

In this period of asset value depreciation, Gulf investors are guaranteed to find good opportunities but should be wary of high uncertainty and volatility. Since the 1950s, London has been a prime destination for Arab investments and is seen as a long-term safe haven. Brexit is unlikely to change that, on the contrary it might reinforce this as in 2018 investments in the capital from the Middle East increased by 30% from the previous year, reaching $1.75 billion, at a time when other investors are becoming more conservative. Indeed, the UK, regardless of its membership in the EU, has and will continue to offer Gulf investors G7 regulatory standards and relatively strong economic growth over

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the long term. Soon to be outpaced by India, the country will remain a top-10 economy being the sixth largest economy and being ranked seventh for ease of doing business by the World Bank.

The currency market:

Being the world's fourth most liquid currency, the British Pound is increasingly becoming an attractive asset for Gulf investors. Enjoying pegs to the USD at home, the latter have won from the greenbacks' rise in value against the Pound. The latter lost 5.6% of its value last year and now stands at $1.29 per £1, against $1.50 per £1 in 2016. Therefore, Brexit has been a boon for Gulf investors who can now afford cheaper and depreciated British assets such as real estate or shares.

However, the latest Parliament vote has made short-term trading difficult due to the high level of uncertainty. Before the vote, financial institutions like Citibank dissuaded trading the Pound as volatility was too high. Instead of tanking after the results, the Pound actually slightly rose in value, due to the market's anticipations and the higher likelihood of a delayed Brexit, which postpones a no-deal situation. Indeed, the pound will continue to outperform as long as the risk of a no-deal is minimised. However, if hard Brexit happens, the pound is likely to decrease even further. Yet, it will still be difficult for investors to gauge when the market correction will end after such a scenario, and they are likely to wait until prices start to rise again. Uncertainty and long-standing volatility is likely to surpass the higher discount offered on UK assets, as GCC investors invest in the UK for its being a safe choice, not a risky bet.

The Stock Market:

In 2018, the FTSE lost 12.5% of its value, the worse record since the global financial crisis. Of course, this free-fall is not solely due to Brexit, global warnings of a recession are heard all across the planet. Yet, Brexit has meant that there are plenty of cheaply valued companies in which investments can draw high returns. Particularly, companies with revenues from outside the sluggish UK economy, focused on mining, pharmaceuticals, commodities and consumer staples are likely to bring benefits. On the contrary, companies tied to the UK market, such as property developers, retailers and commercial banks might not be good immediate investments.

The Housing Market:

A cheaper currency is likely to make the UK's housing market more attractive to GCC investors. The

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country is facing a slump in this sector and Brexit is not the only factor behind it. Indeed, growing prices seem to have hit affordability constraints: in London the average price for a home is 14 times the median full time salary in the city. There is therefore going to be a market correction, with prices dropping in the South of the country -where prices have skyrocketed in the last decade- and prices increasing in the North.

For 2019, the South and North East of the country are likely to see a 2% price drop. In London, where the average price decrease has been 5.8%, the same will occur but not for too long. Prices are already set to regain by 2020 up to 2023, when the overall increase will be 12.4% from now. Now seems therefore to be a good time to buy real estate assets in those regions. However, an even bigger opportunity might arise in the North and Northwest of the country where prices are expected to rise by 21.6% over the next few years. Cities like Manchester, Birmingham and Edinburgh are therefore likely to become more attractive to investors.

Hedging risks:

Taking the perspective of current proprietors, the picture is obviously less rosy. In London, house prices have dropped on average by £11.275. Foreign buyers have turned to be sellers. Those traditionally holding pounds have also suffered. As a result, investors have increased their exposure to gold and other precious metals to offset the risks of market volatility. Considering the likely continuation of such volatility, buying gold might turn out to be a good hedging strategy for Gulf investors long-installed in the UK.

A key point of concern for investors should be the Bank of England’s future monetary policy. In case of high inflation and further currency devaluation, the central bank could choose to rise interest rates, which would then cancel the opportunities present in the currency and other markets in the UK for GCC investors. The Royal Institution of Chartered Surveyors has said that rate hikes were improbable in the near future. Yet, the Confederation of British Industries has said that in a no-deal scenario, an 8% recession and 7.5% unemployment rate could be accompanied by interest rates of 4%, which would represent a boon for creditors, but a disaster for borrowers.

Harmful regulations:

Faced with an uncertain short-term economic future and pressing long-term reform requirements like the 10-year NHS overhaul, the UK Tax Authorities have changed their stance and have exposed all

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investors to new taxes. There are now higher land and stamp duty charges when buying property, higher tax on the second property and higher capital gains tax when selling one. Indeed, there is even a 40% “death tax” now, which means that any foreign owner of UK residential property is liable to 40% tax on the value of the property by the time of his death.

For those GCC companies looking to acquire UK depreciated assets, there is reason to believe that the government will apply higher scrutiny over foreign acquisitions in strategic national industries like artificial intelligence (AI), fintech and creative firms. This, especially in the unlikely but potential case in which Labour takes control of the government.

“Global Britain” in the GCC:

Strategically and economically, Brexit will bring the UK and the GCC closer together. The Gulf is a region that post-Brexit Britain cannot disregard. The country already exports £30 billion annually and plans to cumulate $100 billion of trade and investments by 2030 with Saudi Arabia. By 2025, it hopes to reach $25 billion of bilateral trade with the UAE, its most important partner in the region. The federation is likely to be the most vulnerable to the negative effects of Brexit, as the 1.2 million British visitors counted in 2015 are likely to have lower purchasing power due to lower exchange rates.

UK investors are without a doubt growing interest in the region. Dubai’s Multi-Commodities Centre has recorded a 29% increase in UK companies operating in the free zone from July 2016 to February 2018. UK Export Finance has opened a Dubai office in March 2018, with a £9 billion fund for the UAE. Fintech, AI, professional and financial services, clean growth and creative industries should all be sectors in which UK companies are likely to invest in the Emirates. Services are especially a key British export to the region as the value of such trade reached £5.6 billion in 2017 with the UAE and £1.5 billion for Kuwait, both representing an average increase of 83% over the last decade.

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