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How Might A No-deal Be Positive?

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G K Chesterton once noted that to defeat an argument you needed to be able to state your opposition's case, "better than they could." With the likelihood of the UK falling out of the EU without a deal rising, we need to consider whether such an outturn could be beneficial to investors in the UK as many proponents of a "managed no-deal" now suggest.

Of the many opt-outs to the various branches of EU legislation that Britain secured, the most important was the retention of the Pound. Unlike members of the Euro, Britain has the freedom to "devalue" and the pound has been a crucial economic safety valve in recent times.

As the holiday season draws to a close, many holidaymakers will be returning from the Costas to credit card bills that are significantly inflated. The pound currently buys 1.08 euros; it was buying more than 1.40 as recently as 2016 and 1.17 as recently as May this year.

If we do fall out of the EU, it is the pound that is likely to take the strain. It is the mechanism by which the UK would retain competitiveness and attract foreign capital and investment.

Britain would become a terrible place to grow food but a great place to visit. Farming would suffer, inward bound tourism would expect to do well. A lower pound would compensate manufacturers with a domestic cost base helping maintain export volumes, if not, export values.

Add this likely outturn to a no-deal to the fiscal stimulus offered by Premier Johnson, who appears to have found the "magic money tree" that his predecessor lost, and you have the conditions falling into place for a mini-boom.

Essentially, no-deal sets up Britain to be a low-cost, probably low-wage producer, as UK costs of production will need to be lower than the EU to offset trade frictions and attract inward investment.

Investors in UK equity would continue to benefit from a sizeable uplift in dividends and asset values as a sterling devaluation is an effective revaluation of assets held or earned overseas.

Of course, there is no free-lunch and the scenario outlined above would presage a return to the boom-bust periods of the 1960s and 1970s as the Bank of England would have to relearn how to manage imported inflation.

To conclude, economic uncertainty is a feature, not a bug of modern economies. Can anyone recall a time where there was pure, unadulterated economic certainty? A quick scroll through archived copies of the Financial Times, going all the way back to 1888 (when the first issue was printed) shows the ever-present nature of economic uncertainty.

Our job at Tacit remains the same – to manage this uncertainty by having a margin of safety in our equity holdings through low valuations coupled with our stabiliser assets.