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“It’s Not the Principle, It’s the Money”

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At this time of the year, members of the Tacit Investment Strategy Group are asked for a ‘non-consensus’ idea that could provide some positive economic stimulus which is not currently embedded in our core outlook.

Very shortly it will be a decade since a small majority of the British people opted to take the United Kingdom into self-imposed exile from its biggest, richest and most important trading partner.

The recent budget underscored the sad reality that the UK is not growing fast enough to support the growing claims made upon it and the “smorgasbord” of small, fiddly, expensive and economically inefficient tweaks to an already overcomplex tax code doesn’t address the fundamental problem: a revenue line that is too small.

The respected National Bureau of Economic Research (NBER), an organisation based in the US that is forbidden by its founding charter to make policy recommendations (research only), recently published an analysis of the ten years of data since that fateful referendum. Their conclusions are startling and worth reflecting on.

They estimate that UK GDP is some 6%–8% smaller than it should be, investment has dropped by 12%–18% and productivity by 3%–4%.

UK GDP is currently approximately £3 trillion; thus, the NBER research implies that the UK is producing up to £240 billion of gross added value less than it should be. Tax that £240 billion at 38% and the annual loss of revenue to the Treasury is slightly short of £100 billion. No amount of skulduggery with the tax code can alter that basic fact. There is your “black hole” in the public finances.

But therein lies an economic opportunity. For the first time in a decade, some of the UK’s economic ills are being laid at the referendum door. For an administration focused on “growth, growth, growth,” a partial solution to the UK’s lacklustre economic performance is staring them in the face.

Many of our entrepreneurial clients will tell you that their first rule is “to make doing business with them as easy as possible.”

Rejoining the EU is a problem for subsequent generations not ours, but the “Single Market” and “Customs Union” are both, at bottom, technical measures to help make doing business “easy.” There is a gathering momentum behind the idea that rejoining these aspects of the European financial system would provide a boost to the UK economy of the magnitude suggested by the research findings of the NBER.

In the febrile, anti-intellectualist atmosphere of the original referendum, subsequent “negotiations and red lines,” little attention was given to intricacies of either the Single Market or Customs Union and moreover few understood that they are not the same thing. Furthermore, it was unremarked that membership of either was also not the same as full political union with the EU.

Now that, as the academic Chris Grey puts it, “the fever has broken,” it is possible to take a calmer, less ideological view of where British economic interests lie. Membership of the Single Market or Customs Union or both is likely to accelerate UK GDP, accelerate investment and raise productivity, helping close the black holes that are becoming such a feature of annual budget statements.

In other words, heading into 2026, the United Kingdom has the capacity to spring a “growth surprise” on the world by effecting an important but technical change to its relationship with its own continent.

From an investment perspective, UK assets already trade with a “political risk discount” after a decade of weaker growth, lower investment and reduced productivity than plausible counterfactuals. If the UK signals a durable shift back towards frictionless trade with Europe, that discount could narrow as expectations for trend growth and capital formation improve.

In that environment, sectors most exposed to cross-border trade and capital spending – mid-cap industrials, logistics, business services and select financials – could see both earnings upgrades and a re-rating as the perceived cost of doing business in the UK falls. A more predictable trading framework may also support sterling and lower the equity risk premium for UK assets, particularly for companies with predominantly domestic cost bases but international revenues. That combination supports Tacit’s focus on real, after-cost returns rather than short-term currency or index bets.

In our discretionary strategies we would look to tilt towards high-quality UK companies with strong balance sheets and pricing power that stand to benefit from any improvement in the UK’s trading arrangements, rather than attempting to time binary political events.

After ten years in “self-imposed exile” from its largest trading partner, the UK economy is smaller, less investment-rich and less productive than it could reasonably have been, and UK assets reflect that reality. The prize from a technical, rather than ideological, reset of the UK’s relationship with the Customs Union and Single Market is the potential for a positive growth surprise, and with it a re-rating of UK businesses most geared to trade, investment and productivity.

At Tacit, where we are focused on long-term, real, after-cost returns, we are sensitive to any changes in the policy backdrop as an opportunity to tilt towards assets where the balance of probabilities and valuation are in investors’ favour.

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