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Home country bias

"A group of Leave supporters standing in the shadow of Westminster Abbey insisted that God was opposed to the EU. A man on a stepladder preached that the Bible – specifically Deuteronomy Chapter 28 verses 1 to 14 – expressed the almighty's distaste for governance units larger than the nation state."

- Robert Wright, 'Parliamentary divisions spill over on to pavement', The Financial Times, 16 January 2019.

What the political sage Danny Dyer famously called a "mad riddle" continues to obsess the chatterati and distract Parliament from all other activity. Given that no man's life, liberty or property are safe while the Legislature is in session, that may be no bad thing. But put knee-jerk emotions and party rivalries to one side, and Columnist Brendan O'Neill gets to the heart of what Brexit is all about:

> The Brexit crisis all stems from one simple problem: the people want to leave the EU and the political class does not. This is where all the tension comes from – the fact that the political elite detests our democratic demand.

Perhaps a second and supposedly conclusive 'People's Vote' will settle the debate ? Unlikely, since we've already had five of them to date:

In May 2015, the UK voted in a Government whose stated aim was to hold a referendum on continued British membership of the EU.

In May 2016, MPs voted 10:1 in favour of that referendum.

In June 2016, 17.4 million Britons voted to leave the EU – more people than have ever voted for anything in British history.

In February 2017, MPs voted 6:1 to trigger Article 50 of the Treaty of Lisbon, which gives any EU member state the right to leave the Union and grants two years to negotiate an exit deal.

In May 2017, the UK voted in a Government which promised to deliver on the outcome of the referendum. (In fact, both major parties did. The LibDems don't count, given that they could easily hold their annual party conference in a bathtub.)

So if British MPs are unfamiliar with the meaning of any of the words 'mandate', 'electorate', 'constituents', 'promise' or 'democracy', they should first scuttle off and buy a dictionary before they resume their vapid grandstanding in front of the people for whom they ostensibly work.

But the rolling farce of Brexit isn't limited to what it says about the British political establishment. The 2016 referendum lifted up a gigantic rock covering British culture and nobody much likes what it has shown to be slithering about underneath. Intriguingly, 'Remain' has unified a motley conglomerate of private media, state media and Big Business interests, including the BBC, Sky News, Channel Four, the Financial Times, The Times, The Economist, the Bank of England, the CBI, the IoD, and no shortage of chief executives happy to strut about in the limelight of their peers but who should really chat to PR consultants about how their behaviour might offend the 17+ million people who don't actually share their anti-democratic political posturing.

From an investment perspective, the prospect of a "cliff-edge", "crash-out" Brexit – having lost the referendum, 'Remain' is undoubtedly winning the Battle of the Fatuous Soundbites – is frequently cited as overhanging UK asset markets and notably stocks. This seems to us like a classic example of narrative fallacy. Could it perhaps be the possibility of a Corbyn / McDonnell government that is ***really*** suppressing UK investors' animal spirits ? (Yes, it could.) Those few UK businesses who are major exporters to the EU having to operate on WTO terms is one thing. Having the entire country bankrupted, as happened under the previous two Labour administrations, is surely a graver threat. And the threat to Sterling from a Trotskyite administration, whereas it would offset damage to listed exporting businesses, would be the definitive last straw for an already over-extended Gilts market.

But the Corbyn government risk is hypothetical, whereas attempts to frustrate or nullify Brexit at every turn by the country's political class are an ongoing statement of reality. And the damage of this political activity is, if anything, probably understated by financial markets today. The true rebel Conservative MPs – that is, those seeking to delay or prevent Britain's departure from the EU, as sanctioned by 17.4 million voters – should consider whether they really welcome a financial market that trades on a banana republic multiple, as opposed to one reflecting centuries of unbroken democratic order.

US investors are often accused of home country bias in their equity investments, but given that the US accounts for roughly 62% of the entire MSCI World Index, the onus is really on their critics to justify why they should invest elsewhere. The real home country bias is likely to be demonstrated by Britons, when the UK accounts for a more modest 6% of the same index. Asset class and geographic diversification admittedly did little or nothing for global investors last year. But 12 months doesn't make an eternity. Investors in 2019 may yet benefit from thinking a little more holistically about their investment risks. They could also note that much of Asia is not just dramatically cheaper than either the UK or Europe, but offers far superior growth prospects, and is an oasis of political calm by comparison.

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