Commentary

# Boris exits the stage: Markets unmoved.

July 2022

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- Prime Minister Boris Johnson has resigned, ending his scandal-plagued tenure.
- The departure of a prominent world leader is significant from a political perspective, but unlikely to move capital markets in a meaningful way.
- High inflation, slow growth and a weak currency are some of the headline issues facing the UK economy, and the Bank of England will have more effect on those issues than a new Prime Minister will.

The end has come for Prime Minister Boris Johnson's scandal-plagued tenure. While the departure of Prime Minister is newsworthy from a political perspective (not to mention the comedy/tragedy aspect that seems to plague much of politics these days), it is unlikely to have much of an effect on financial markets. Similarly, it will have little (if any) impact on the UK's economic trajectory over the shorter term. For some time now, UK politics has been, and will likely continue to be, in a state of flux—and this at a time when the UK's economic situation is looking increasingly precarious. This negative sentiment has weighed on the gilt market and sterling, the two main barometers of economic health.

**New leader, old challenges**

The UK faces the same economic challenges as the rest of the world, due to two exogenous shocks (pandemic and war) in a very short space of time. However, Brexit has likely exacerbated these economic headwinds because of increased trade frictions and a less flexible labour market. In short, it has made the UK economy more susceptible to stagflation pressures.

This makes the Bank of England's (BoE) task of taming inflation without tanking the economy all the more difficult. Their policy signals have been somewhat vague, flip-flopping between hawkish and dovish rhetoric. Unlike the U.S. Federal Reserve's dual mandate, the BoE's sole responsibility is to ensure price stability. On that measure, it is failing (it's clearly not alone here), however rather than looking to tackle inflation head-on, the Bank is hoping that high inflation will naturally cure itself through demand destruction. This calculated risk could backfire if inflation expectations become de-anchored. The UK economy also faces the challenges of a rapidly expanding current account deficit and anaemic productivity growth.

It is too early to know who will replace Johnson, whether the new Chancellor Nadhim Zahawi will stay in his position, and importantly, what the approach to fiscal policy will be—control the national debt or hope to grow the economy out of trouble through higher spending and/or tax cuts. Once the dust settles, the new government needs to set out a clear vision for achieving prosperity in a post-Brexit world without reneging on international treaties (which will result in more trade disputes and damage the UK's international standing).

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