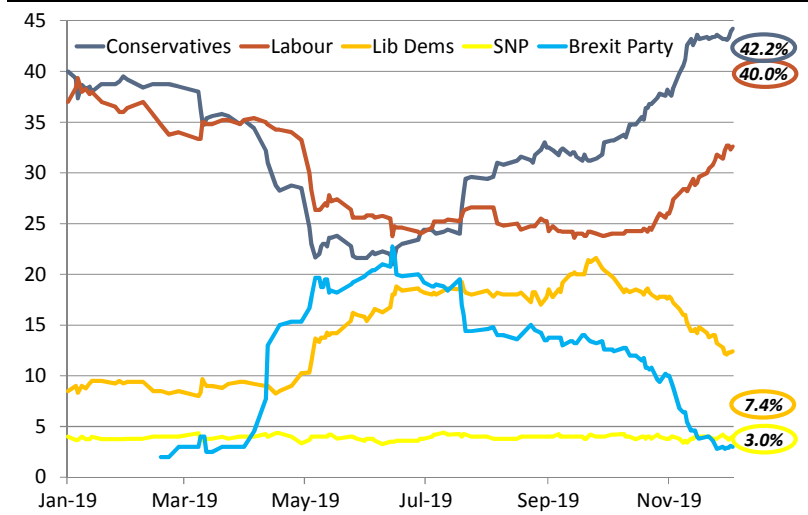


11 December 2019

## Final polls cast some doubt over a Conservative majority

UK polls for 2019 election (circled data on right show 2017 election result)



UK opinion polls. Support in %. Three-poll moving average. Source: National polls, Wikipedia.

- Risks increase on the eve of election day:** The final polls ahead of tomorrow’s UK general election suggest that the risks to our call that Boris Johnson and the Conservative Party will win a majority have risen modestly. An updated projection by YouGov-MRP published last night showed a 28-seat majority for the Conservatives, down from 68 two weeks ago. The pollster said that, because the estimate was now within the margin of error, it could not rule out a hung parliament. In addition, while most recent polls show the Conservatives edging a little higher with a lead over Labour ranging from 8-15ppt, two recent polls by ICM Research and SavantaComRes put the party just 6ppt and 7ppt ahead respectively. We have argued that an 8ppt lead would keep the Conservatives in the safe zone for a majority.
- Still on for a Conservative majority?** Probably, yes. Despite the latest developments in the polls we stick with our base case that Johnson will win a majority. However, it looks more likely than before that the election could yield only a small majority for Johnson. The 28 seat majority predicted by YouGov would be the biggest single-party majority for a UK government since Labour won the election in 2005. However, it would not be enough to dilute the influence of the eurosceptic wing of the Conservative Party. With only a small working majority of say 10-30 seats versus 30 seats or more, the Conservative hardliners will have a bigger influence over negotiations about the future UK-EU relationship.
- Watch the hard Brexit risk:** The risk that the UK could leave the single market without any follow-up agreement would not be fully off the table even if an orderly Brexit happens on 31 January 2020. In case the EU and the UK fail to strike a deal on their future economic relations, a hard Brexit could happen at the end of 2020. Subject to a vote in parliament, the UK would have the option to lengthen the transition period – and remain in the single market – in order to give more time for the negotiations on the future relationship. But that risk would rise if Johnson wins with only a slim majority. The eurosceptics in his party would likely refuse to back a longer transition.
- Hung parliament – what if?** In case no party wins a majority, we would need to ask which parties could potentially form a coalition. Despite probably still having the most seats in a hung parliament scenario, we see no feasible coalition partner for the Conservatives. All other major parties either reject Johnson’s renegotiated Brexit deal, want a second referendum or want to stop Brexit altogether. The key question is whether the Labour Party could find a partner. The most likely candidate is the Scottish National Party (SNP). But polling suggests that together they would still fall short of a majority. That leaves two options: 1) return to the polls for another general election in early 2020; or 2) if Labour and the SNP manage to bring the pro-Remain Liberal Democrats into a coalition, we could see a second EU referendum in 2020.
- Economic and market impact:** In case of the surprise outcome of a hung-parliament, we would likely downgrade our economic outlook in the near-term. Relative to our base case, in which real GDP growth accelerates to nearly 3% annualised in mid-2020, continued political uncertainty from a hung parliament would further damage confidence. Growth would remain at its current subdued annualised pace of less than 1%. In markets, we would expect UK-focused equities to pare back recent gains with sterling down by up to 5% on a trade-weighted basis in the near term. Further market moves would depend on how the politics unfolds thereafter.

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# Contacts



**BERENBERG**

PARTNERSHIP SINCE 1590

JOH. BERENBERG, GOSSLER & CO. KG

Internet [www.berenberg.com](http://www.berenberg.com)

E-mail: [firstname.lastname@berenberg.com](mailto:firstname.lastname@berenberg.com)

## EQUITY RESEARCH

### GENERAL MID CAP

#### MID CAP - DACH

Carl-Oscar Bredengen +44 20 3753 3160  
Marta Bruska +44 20 3753 3187  
Charlotte Friedrichs +44 20 3753 3077  
Gustav Froberg +44 20 3465 2655  
James Letten +44 20 3753 3176  
Alexander O'Donoghue +44 20 3207 7804  
Gerhard Orgonas +44 20 3465 2635  
Benjamin Pfannes-Varrow +44 20 3465 2620

#### MID CAP - EU core

Beatrice Allen +44 20 3465 2662  
Fraser Donlon +44 20 3465 2674  
Christoph Greulich +44 20 3753 3119  
Andreas Markou +44 20 3753 3022  
Anna Patrice +44 20 3207 7863  
Trion Reid +44 20 3753 3113  
Jan Richard +44 20 3753 3029

#### MID CAP - UK

Joseph Barron +44 20 3207 7828  
Calum Battersby +44 20 3753 3118  
Joseph Bloomfield +44 20 3753 3248  
Robert Chantry +44 20 3207 7861  
Sam Cullen +44 20 3753 3183  
Ned Hammond +44 20 3753 3017  
Edward James +44 20 3207 7811  
Kieran Lee +44 20 3465 2736  
Lush Mahendrarajah +44 20 3207 7896  
Benjamin May +44 20 3465 2667  
Iain Pearce +44 20 3465 2665  
Anthony Plom +44 20 3207 7908  
Eoghan Reid +44 20 3753 3055  
Owen Shirley +44 20 3465 2731  
Donald Tait +44 20 3753 3031  
Sean Thapar +44 20 3465 2657

### THEMATIC RESEARCH

Steven Bowen +44 20 3753 3057  
Julia Schrameier +44 20 3753 3172

## EQUITY SALES

### SPECIALIST SALES

**AEROSPACE & DEFENCE & CAPITAL GOODS**  
Cara Luciano +44 20 3753 3146

### AUTOS & TECHNOLOGY

Edward Wales +44 20 3207 7815

### BANKS & DIVERSIFIED FINANCIALS

Alex Medhurst +44 20 3753 3047  
**BUSINESS SERVICES, LEISURE & TRANSPORT**  
Rebecca Langley +44 20 3207 7930

### CONSUMER DISCRETIONARY

Victoria Mairgot +44 20 3753 3010

### CONSUMER STAPLES

Ramniko Sroa +44 20 3753 3064

### HEALTHCARE

David Hogg +44 20 3465 2628

### MEDIA & TELECOMS

Jonathan Smith +44 20 3207 7842

### METALS & MINING

Sanam Nourbakhsh +44 20 3207 7924

### OIL & GAS AND UTILITIES

Jason Turner +44 20 3753 3063

### THEMATICS

Chris Armstrong +44 20 3207 7809

### SALES

#### BENELUX

Miel Bakker +44 20 3207 7808  
Bram van Hijfte +44 20 3753 3000

## SALES TRADING

### LONDON

Charles Beddow +44 20 3465 2691  
Mike Berry +44 20 3465 2755  
Joseph Chappell +44 20 3207 7885  
Stewart Cook +44 20 3465 2752  
Mark Edwards +44 20 3753 3004  
Tom Floyd +44 20 3753 3136  
Tristan Hedley +44 20 3753 3006  
Luke Holmes +44 20 3465 2750  
Peter King +44 20 3753 3139  
Simon Messman +44 20 3465 2754

### BUSINESS SERVICES, LEISURE & TRANSPORT

#### BUSINESS SERVICES

Zaim Beekawa +44 20 3207 7855  
Tom Burlton +44 20 3207 7852

#### LEISURE

Roberta Claccia +44 20 3207 7805  
Jack Cummings +44 20 3753 3161  
Stuart Gordon +44 20 3207 7858  
Annabel Hay-Jahans +44 20 3465 2720

#### TRANSPORT & LOGISTICS

William Milosavljevic +44 20 3465 2640  
Joel Spungin +44 20 3207 7867  
Adrian Yanoshik +44 20 3753 3073

### CONSUMER

#### BEVERAGES

Javier Gonzalez Lastra +44 20 3465 2719  
Matt Reid +44 20 3753 3075

#### FOOD MANUFACTURING AND HPC

Ebba Bjorklid +44 20 3753 3247  
James Targett +44 20 3207 7873

#### FOOD RETAIL

Dusan Milosavljevic +44 20 3753 3123

#### GENERAL RETAIL

Michael Benedict +44 20 3753 3175  
Thomas Davies +44 20 3753 3104  
Oliver Anderson +44 20 3753 3173  
Graham Renwick +44 20 3207 7851  
Michelle Wilson +44 20 3465 2663

#### LUXURY GOODS

Lauren Molyneux +44 20 3207 7892

### ENERGY

#### OIL & GAS

Baha Bassatne +44 20 3753 3158  
John Gleeson +44 20 3465 2716  
Ilkin Karimli +44 20 3465 2684  
Edward Pizzey +44 20 3753 3185  
Henry Tarr +44 20 3207 7827

### FRANCE

Alexandre Chevasstus +33 1 5844 9512  
Dalila Farigoule +33 1 5844 9510  
Kevin Nor +33 1 5844 9505  
Guillaume Viret +33 1 5844 9507

### SCANDINAVIA

Donata Leonova +44 20 3753 3156  
Marco Weiss +49 40 3506 0719

### UK

Thomas Baker +44 20 3753 3062  
James Burt +44 20 3207 7807  
Fabian De Smet +44 20 3207 7810  
Marta De-Sousa Fialho +44 20 3753 3098  
Katie Ferry +44 20 3753 3041  
Robert Floyd +44 20 3753 3018  
David Franklin +44 20 3465 2747  
Sean Heath +44 20 3465 2742  
Stuart Holt +44 20 3465 2646  
James Hunt +44 20 3753 3007  
James McRee +44 20 3753 3036  
David Mortlock +44 20 3207 7850  
Eleni Papoula +44 20 3465 2741  
Bhavin Patel +44 20 3207 7926  
Kushal Patel +44 20 3753 3038  
Richard Payman +44 20 3207 7825

### LONDON (cont'd)

AJ Pulley +44 20 3465 2756  
Paul Somers +44 20 3465 2753  
Frans Van Wakeren +44 20 3753 3079

### PARIS

Vincent Klein +33 1 58 44 95 09

### ENERGY (cont'd)

#### UTILITIES

Oliver Brown +44 20 3207 7922  
Andrew Fisher +44 20 3207 7937  
Lawson Steele +44 20 3207 7887

### FINANCIALS

#### BANKS

Adam Barrass +44 20 3207 7923  
Frederick Brennan +44 20 3753 3171  
Michael Christodoulou +44 20 3207 7920  
Andrew Lowe +44 20 3465 2743  
Eoin Mullany +44 20 3207 7854  
Peter Richardson +44 20 3465 2681

#### DIVERSIFIED FINANCIALS

Panos Ellinas +44 20 3753 3149  
Chris Turner +44 20 3753 3019

#### REAL ESTATE

Kai Klose +44 20 3207 7888

### HEALTHCARE

Scott Bardo +44 20 3207 7869  
Klara Fernandes +44 20 3465 2718  
Michael Healy +44 20 3753 3201  
Tom Jones +44 20 3207 7877  
Michael Ruzic-Gauthier +44 20 3753 3128

### INDUSTRIALS

#### AEROSPACE & DEFENCE

Andrew Gollan +44 20 3207 7891  
Ross Law +44 20 3465 2692  
George McWhirter +44 20 3753 3163

#### AUTOMOTIVES

Cristian Dirpes +44 20 3465 2721  
Asad Farid +44 20 3207 7932  
Alexander Haisil +44 20 3465 2749  
Viktoria Oushatova +44 20 3207 7890

### UK (cont'd)

Christopher Pyle +44 20 3753 3076  
Adam Robertson +44 20 3753 3095  
Joanna Sanders +44 20 3207 7925  
Mark Sheridan +44 20 3207 7802  
George Simbert +44 20 3207 7911  
Sam Stannah +44 20 3753 3157  
Paul Walker +44 20 3465 2632

### GERMANY

Simone Arnheiter +49 69 91 30 90 740  
Nina Buechs +49 69 91 30 90 735  
André Grosskurth +49 69 91 30 90 734

### SWITZERLAND, AUSTRIA & ITALY

Duncan Downes +41 22 317 1062  
Andrea Ferrari +41 44 283 2020  
Gianni Lavigna +41 44 283 2038  
Jamie Nettleton +41 44 283 2026  
Yeannie Rath +41 44 283 2029

### COO Office

Fenella Neill +44 20 3207 7868  
Greg Swallow +44 20 3207 7833

## EQUITY TRADING

### HAMBURG

David Hohn +49 40 350 60 761  
Lukas Niehoff +49 40 350 60 798  
Lennart Pleus +49 40 350 60 596  
Marvin Schweden +49 40 350 60 576  
Philipp Wiechmann +49 40 350 60 346  
Christoffer Winter +49 40 350 60 559

### LONDON

Christopher Brown +44 20 3753 3085  
Edward Burlison-Rush +44 20 3753 3005

### INDUSTRIALS (cont'd)

#### CAPITAL GOODS

Jonathan Coubrough +44 20 3465 2699  
Philippe Lorrain +44 20 3207 7823  
Simon Toennesen +44 20 3207 7819  
Ethan Zhang +44 20 3465 2634

#### MATERIALS

Sebastian Bray +44 20 3753 3011  
Xian Deng +44 20 3753 3014  
Anthony Manning +44 20 3753 3092  
Rikin Patel +44 20 3753 3080

#### METALS & MINING

Richard Hatch +44 20 3753 3070  
Laurent Kimman +44 20 3465 2675  
Michael Stoner +44 20 3465 2643

#### TMT

#### TECHNOLOGY

Tammy Olu +44 20 3465 2673  
Tej Sthanqiya +44 20 3753 3099  
Lou Ann Yong +44 20 3753 3159

#### MEDIA

Robert Berg +44 20 3465 2680  
Keisi Hysa +44 20 3207 7817  
Laura Janssens +44 20 3465 2639  
Sarah Simon +44 20 3207 7830

#### TELECOMMUNICATIONS

David Burns +44 20 3753 3059  
Usman Ghazi +44 20 3207 7824  
Laura Janssens +44 20 3465 2639  
Abhilash Mohapatra +44 20 3465 2644  
Carl Murdock-Smith +44 20 3207 7918

### ECONOMICS

Florian Hense +44 20 3207 7859  
Kallum Pickering +44 20 3465 2672  
Holger Schmieding +44 20 3207 7889

### CRM

Megan Connelly +44 20 3753 3244  
Laura Cooper +44 20 3753 3065  
Beau Dibbs +44 20 3753 3048  
Jessica Jarmyn +44 20 3465 2696  
Madeleine Lockwood +44 20 3753 3110  
Vikram Nayar +44 20 3465 2737

### CORPORATE ACCESS

Lindsay Arnold +44 20 3207 7821  
Sally Fitzpatrick +44 20 3207 7826  
Maz Gentile +44 20 3465 2668  
Robyn Gowers +44 20 3753 3109  
Dipti Jethwani +44 20 3207 7936  
Ross Mackay +44 20 3207 7866  
Stella Siggins +44 20 3465 2630  
Lucy Stevens +44 20 3753 3068  
Abbie Stewart +44 20 3753 3054

### EVENTS

Miranda Bridges +44 20 3753 3008  
Charlotte David +44 20 3207 7832  
Suzy Khan +44 20 3207 7915  
Natalie Meech +44 20 3207 7831  
Eleanor Metcalfe +44 20 3207 7834  
Sarah Weyman +44 20 3207 7801

### LONDON (cont'd)

Danny Carr +44 20 3753 3360  
Jack Clayton +44 20 3753 3166  
Will Kain +44 20 3753 3167  
Chris McKeand +44 20 3207 7938  
Ross Tobias +44 20 3753 3137  
Robert Towers +44 20 3753 3262

### ELECTRONIC TRADING

Jonas Doehler +44 40 3506 0391  
Matthias Führer +49 40 3506 0597  
Sven Kramer +49 40 3506 0347



**BERENBERG CAPITAL MARKETS LLC**

Member FINRA & SIPC

Internet [www.berenberg-us.com](http://www.berenberg-us.com)

E-mail: [firstname.lastname@berenberg-us.com](mailto:firstname.lastname@berenberg-us.com)

**EQUITY RESEARCH**

**CONSTRUCTION**

Robert Muir +1 646 949 9028  
Daniel Wang +1 646 949 9025

**GENERAL MID CAP - US**

Samuel England +1 646 949 9035  
Alex Maroccia +1 646 949 9033  
Brett Knoblauch +1 646 949 9032

**HEALTHCARE**

**BIOTECH/THERAPEUTICS**

Shanshan Xu +1 646 949 9023

**MED. TECH/SERVICES**

Ravi Misra +1 646 949 9028

**SPECIALTY PHARMA/BIOTECH**

Patrick R. Trucchio +1 646 949 9027

**CAPITAL GOODS**

Andrew Buscaglia +1 646 949 9040

**LEISURE**

Brennan Matthews +1 646 949 9024

**INDUSTRIAL MATERIALS**

Paretosh Misra +1 646 949 9031

**MULTI-CHANNEL RETAILING**

Sumit Sharma +1 646 949 9034

**REAL ESTATE**

Nate Crossett +1 646 949 9030  
Connor Siversky +1 646 949 9037

**SHIPPING & TRANSPORTATION**

Donald McLee +1 646 949 9026

**SOFTWARE & IT SERVICES**

Gal Munda +1 646 949 9021  
Joshua Tilton +1 646 949 9036

**TECHNOLOGY HARDWARE**

Andrew DeGasperi +1 646 949 9044

**ECONOMICS**

Mickey Levy +1 646 949 9099  
Roiana Reid +1 646 949 9098

**EQUITY SALES SALES**

Albert Aguiar +1 646 949 9218  
Daniel Claeys +1 646 949 31 44  
Nate Emerton +1 617 292 82 11  
Kelleigh Faldi +1 617 292 8288  
Ted Franchetti +1 646 949 9231  
Rich Harb +1 617 292 8228  
Zubin Hubner +1 646 949 9202  
Jessica London +1 646 949 9203  
Anthony Masucci +1 646 949 9217  
Ryan McDonnell +1 646 949 9214  
Emily Mouret +1 415 802 2525  
Peter Nichols +1 646 949 9201  
Kieran O'Sullivan +1 617 292 8292  
Rodrigo Ortigao +1 646 949 9205

**CRM**

Alexandra Angove +1 646 949 9211  
Sammy Chea +1 646 949 9241

**CORPORATE ACCESS**

Adriane Klein +1 617 292 8202  
Olivia Lee +1 646 949 9207

**EVENTS**

Meridian Della Penna +1 646 949 9208  
Laura Hawes +1 646 949 9209

**SALES TRADING**

Isaac Carp +1 646 949 9107  
Ronald Cestra +1 646 949 9104  
Mark Corcoran +1 646 949 9105  
Michael Haughey +1 646 949 9106  
Christopher Kanian +1 646 949 9103  
Lars Schwartz +1 646 949 9101

**BERENBERG CAPITAL MARKETS LLC**

Member FINRA & SIPC

Internet [www.berenberg-us.com](http://www.berenberg-us.com)

E-mail: [firstname.lastname@berenberg-us.com](mailto:firstname.lastname@berenberg-us.com)

**EQUITY RESEARCH**

**GENERAL MID CAP - US**

Samuel England +1 646 949 9035  
Alex Maroccia +1 646 949 9033  
Brett Knoblauch +1 646 949 9032

**HEALTHCARE**

**MED. TECH/SERVICES**

Ravi Misra +1 646 949 9028

**SPECIALTY PHARMACEUTICALS**

Patrick R. Trucchio +1 646 949 9027

**CAPITAL GOODS**

Andrew Buscaglia +1 646 949 9040

**LEISURE**

Brennan Matthews +1 646 949 9024

**INDUSTRIAL MATERIALS**

Paretosh Misra +1 646 949 9031

**REAL ESTATE**

Nate Crossett +1 646 949 9030  
Connor Siversky +1 646 949 9037

**SHIPPING & TRANSPORTATION**

Donald McLee +1 646 949 9026

**SOFTWARE & IT SERVICES**

Gal Munda +1 646 949 9021  
Joshua Tilton +1 646 949 9036

**TECHNOLOGY HARDWARE**

Andrew DeGasperi +1 646 949 9044

**EQUITY SALES SALES**

Albert Aguiar +1 646 949 9218  
Nate Emerton +1 617 292 82 11  
Kelleigh Faldi +1 617 292 8288  
Ted Franchetti +1 646 949 9231  
Rich Harb +1 617 292 8228  
Zubin Hubner +1 646 949 9202  
Jessica London +1 646 949 9203  
Anthony Masucci +1 646 949 9217  
Ryan McDonnell +1 646 949 9214  
Emily Mouret +1 415 802 2525  
Peter Nichols +1 646 949 9201  
Kieran O'Sullivan +1 617 292 8292  
Rodrigo Ortigao +1 646 949 9205

**CORPORATE ACCESS**

Adriane Klein +1 617 292 8202  
Olivia Lee +1 646 949 9207  
Robert Meyers +1 646 949 9215

**EVENTS**

Laura Hawes +1 646 949 9209

**SALES TRADING**

Ronald Cestra +1 646 949 9104  
Mark Corcoran +1 646 949 9105  
Michael Haughey +1 646 949 9106  
Christopher Kanian +1 646 949 9103  
Lars Schwartz +1 646 949 9101  
Bob Spillane +1 646 949 9102

**ECONOMICS**

Mickey Levy +1 646 949 9099  
Roiana Reid +1 646 949 9098