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## **Meet Boris Johnson**

*(Due to the Labor Day holiday, our next report will be published on September 9.)*

The great forest fires that consumed swaths of the West in recent years have finally revealed the danger from a century of excessive fire suppression. Humanity's natural drive to control the environment has left forests overgrown with impenetrable underbrush and littered with brittle deadwood.

Often, it's only after the conflagration that the true contour of the land is visible again and the forest floor is bathed anew in the light needed for growth. Only then can green shoots poke up through the blackened soil on their way to becoming the mighty, majestic new redwoods and ponderosa pines and Douglas firs that will dominate the rejuvenated forest.

Just so, the Global Financial Crisis a decade ago consumed what was in many ways an overgrown, sclerotic, and brittle economic system within the developed countries of the world, revealing for all – both the elites and the non-elites who bore the brunt of the crisis – the true contours and contradictions of the modern economic landscape. The conflagration destroyed many traditional politicians identified with the previous highly globalized economy, and it encouraged disruptive, populist leaders to put down roots and begin reaching for their place in the sun. These new populist leaders, who took advantage of the

destruction, include such luminaries as U.S. President Donald Trump and Italian Deputy Prime Minister Matteo Salvini. On July 24, another disruptor, [Boris Johnson, was named prime minister](#) of the United Kingdom. In this report, we dissect who Johnson is and how he rose to power. More importantly, we discuss what he is likely to do and accomplish as the leader of his country, and the likely ramifications for investors.

### **Childhood and Education**

[Alexander Boris de Pfeffel Johnson](#) is the son of Stanley Johnson, a widely traveled public servant and Conservative Party politician, and Charlotte Fawcett, a portrait artist from a family of liberal intellectuals. He was born in New York City in 1964 while his father was studying at Columbia University (although he renounced his U.S. citizenship for tax reasons in 2016). After New York, the [family relocated often](#) as they followed Stanley from international post to international post. They ultimately ended up in Brussels, where Johnson excelled in French and other studies at the prestigious European School. Various biographers note that Stanley's frequent travels and long absences left Johnson and his siblings particularly close to their mother. Johnson was therefore deeply scarred when his mother suffered a mental breakdown in 1974 and spent several months away from the family for psychiatric treatment in London. To varying degrees, the biographers suggest the temporary loss of his mother created in Johnson a sense of vulnerability and a hunger for being liked, ultimately leading him to create his comic and entertaining persona.

After his mother's illness, Johnson was sent back to England to attend the upper-class boarding school of Ashdown House. From there, he progressed to Eton College, an exclusive boarding school that has spawned many of Britain's elite. Throughout his academic years, Johnson was recognized for his extremely high intelligence and bookish nature. He even won the most prestigious merit-based scholarship available at Eton. Over time, however, his personality evolved to become much more outgoing, jovial, and ambitious, with a strong penchant for being the court jester that everyone likes because he entertains so well.

**Figure 1.**



*Boris Johnson as a student at Eton.*  
(Source: *The Daily Telegraph*)

Johnson received his bachelor's degree at Oxford University, but it's important to note

the particular focus of his studies. In contrast with the technocratic, "MBA-like" trajectory followed by many modern British elites – including former prime minister David Cameron – the youthful Johnson pursued a traditional course of study in the Classics. The future prime minister's studies of Ancient Greece and Rome have apparently had a deep impact on his worldview and political philosophy. When asked in 2013 to name his biggest inspirations, he replied, "Pericles of Athens" and "Aristotle." In other venues, he has said that what he finds inspirational in Ancient Greek culture is its reverence for freedom, democracy, prudence, and pragmatism. Coupled with his enthusiasm for U.S.-style energy and activism, which he calls "gung-hoery," this embrace of democracy flowered during Johnson's years at Oxford, propelling him to a win in the election for president of the Oxford Union in 1986.

### **Career Progression**

After graduating in 1987, Johnson embarked on a career in journalism, though his work as a reporter was nearly stillborn by the first of many incidents that suggest he maintains a rather loose relationship with the truth. To embellish a story on the archeological discovery of King Edward II's palace, he invented a quote from his own godfather and was promptly fired from his position with the *Times* newspaper. He quickly landed a new job with the *Daily Telegraph*, and by 1989 was named the newspaper's chief reporter in Brussels. He soon became one of Prime Minister Margaret Thatcher's favorite journalists for his highly embellished articles purportedly showing European Union bureaucrats in bumbling incompetence or eagerly running roughshod over British interests and sovereignty.

Johnson's anti-EU reporting made him a favorite of British conservatives. After he

was brought back to the *Telegraph's* home office in 1994 and named chief political columnist, he also started writing a column for Britain's top conservative weekly, the *Spectator*. His penchant for lacing his columns with racial slurs often generated controversy, but they also endeared him to many in the conservative community who felt the media was becoming too politically correct. He was named editor of the *Spectator* in 1999 on the condition that he drop any electoral ambitions, but within two years he ran for parliament and won a seat in the constituency of Henley. Although Johnson promised in his campaign that, if elected, he would step down from his role at the *Spectator*, he stayed on with the newspaper for an additional four years after entering parliament.

The way that Johnson leveraged journalism to launch his political career may be reminiscent of Winston Churchill, but Johnson's path seems much less impressive. His time in parliament produced no notable achievements, and although he was placed in several high-level positions within the Conservative Party, he was eventually forced to resign for lying about an extramarital affair. When the party leadership went to David Cameron, who had been two years behind Johnson at Eton, Johnson was reportedly incensed that he wasn't offered a position in the shadow cabinet.

With no apparent path to a higher position in the party, Johnson seized on the opportunity to run for mayor of London. He first won the mayoralty in 2008 and was reelected in 2012. In the time-honored tactic of many politicians before him, Johnson's success in London came in part from his ability to change his spots. Specifically, he adopted several pro-European, pro-environmentalist, and pro-immigration policies that sat well

with London's liberal voters. The highlight of his time as mayor was the successful running of the London Olympic Games in 2012. Johnson has said his [approach to managing London](#) was to act like the chairman of a large corporation: set high-level goals and strategy but delegate the detailed execution of that strategy to highly competent department heads. Some observers note that such a highly delegated approach is a natural fit for Johnson's disinterest in detail. His management style is also a significant change from the wonkish, down-in-the-weeds approach to policy adopted by the more technocratic David Cameron and Theresa May. Johnson's time as mayor also showed how he continues to leverage his journalistic skills. He builds support for policy ideas by crafting attractive storylines around them. He knows how to leverage the energy of working against deadlines and, like any good reporter, he refuses to take "no" for an answer.

**Figure 2.**



*Johnson as Mayor of London during the 2012 Olympic Games. (Source: The Daily Telegraph)*

### **Brexit**

Johnson's itch for power and recognition led him to stand for parliament again in 2016. To topple his arch-rival Cameron as head of the party, the natural path for him was to back the "Leave" movement in that year's referendum on Britain exiting the EU. Johnson became one of the most influential

advocates for Brexit, utilizing the full range of his campaigning expertise and loose use of facts. Once the vote went in favor of leaving, however, fellow Brexit leader Michael Gove turned on Johnson and threw his support behind Theresa May, allowing her to be selected as prime minister.

May subsequently named Johnson as her foreign secretary, but after a number of gaffes Johnson resigned from the position in 2018 on the grounds that the Brexit deal May had negotiated with the EU was a “turd.” As May lost parliamentary vote after parliamentary vote on her deal, Johnson’s continued advocacy for a hard Brexit made him a favorite of the large anti-EU wing of the party, putting him in the pole position to replace May when she finally resigned as party leader. Per British law and Conservative Party rules, May’s resignation from the party leadership led to a number of winnowing votes by party leaders and then a final runoff vote by the party’s rank and file, which ended in late July. Johnson was elected as party head with 92,153 votes versus 46,656 votes for then-Foreign Secretary Jeremy Hunt. As the new leader of the party, Johnson was appointed prime minister by Queen Elizabeth II on July 24.

### What to Expect From Johnson

Based on the background described above, we believe Prime Minister Johnson will take an energetic, proactive approach to leading the United Kingdom. While his claim to fame stems mostly from his desire to quickly extricate the country from the EU by October 31 (“no ifs or buts”), how he does that will have important ramifications. We think Johnson will first try to force the EU into negotiations for a new withdrawal deal that excludes the “Irish backstop” in May’s plan (i.e., keeping Britain in a customs union with the EU, if necessary, to avoid border checks between Northern Ireland and

Ireland). To exert maximum pressure on the EU, we expect Johnson to threaten a no-deal Brexit right up to the end of October. In the meantime, we think Johnson will [direct his government to lay out detailed preparations](#) for a no-deal withdrawal to show that Britain really means business, while hammering on his message that a hard Brexit would be an economic catastrophe for the EU. Since Johnson has [stacked his cabinet with skilled political operatives who share his anti-EU viewpoint](#), we suspect his government will implement the threat effectively and consistently. [Johnson’s central expectation](#) may be that the EU will still refuse to negotiate. If the EU continues to refuse new negotiations, and if parliament can’t stop him, Johnson would lead the U.K. out of the EU with no deal on October 31, after which Johnson [could immediately propose](#) negotiations for a new U.K.-EU free-trade deal.

**Figure 3.**



*Johnson with rival David Cameron.*  
(Source: *The Daily Mail*)

The Brexit scenario described above is widely expected, but we think Johnson will also have to embark on two additional initiatives that are less recognized. First, since the coalition between the Conservative Party and the Democratic Unionist Party of Northern Ireland only provides Johnson with a one-seat majority in parliament, Johnson will need to focus hard on rebuilding party unity and maintaining party discipline. That will require offering [olive branches](#) to the



many conservatives who want Britain to stay in the EU, or at least to leave with a deal on amicable terms. If Johnson can't get the party to rally to his side (or if he can't keep the support of the Democratic Unionists), then parliament could veto any effort to leave the EU without a deal, or it could turn against him in a vote of no-confidence. In any case, Johnson's slim parliamentary majority will probably lead to new elections in the coming months. In near-term elections, Johnson would risk losing to the far-left leader of the Labour Party, Jeremy Corbyn.

Finally, while Johnson's government will initially focus on implementing Brexit and shoring up his political position, we think those imperatives will ultimately be supplemented by a broader program based on sovereignty, [independent free-trade deals](#), and libertarian domestic policies. In spite of Johnson's famous criticism of President Trump while he was mayor of London, we would expect Johnson and Trump to build a strong bond based on shared vision and methods. However, since trade negotiators from the U.S. and other countries aren't likely to offer any gifts to the U.K. just because it's out of the EU, we think the British could be disappointed in how they fare in trying to form their new, independent trade deals. Domestically, there is also some question as to whether Johnson's propensity for gaffes and controversy might end up as a liability and impede the prime minister's domestic agenda.

### **Ramifications**

There's a popular idea that the great forest fires mentioned at the beginning of this report are simply regenerative, allowing the old forest to come back again in healthier form. That idea suggests the conflagration merely clears the forest of its deadwood and creates the conditions necessary for rejuvenation. But what if the exposed,

eroding soil and the renewed openness to sunlight allow some unknown, invasive species to gain a foothold? Isn't it possible that whatever new forest grows up after the fire will be qualitatively different than what was there before? We believe that is indeed possible. Just as we think President Trump is a transitional figure ushering in a new, populist, nationalist future that will be much different from the previous period in U.S. history, we believe Boris Johnson's policy goals and methods will result in a new trajectory for Britain. We suspect the new trajectory will be more populist, more nationalist, and less technocratic than what the country experienced under the likes of Tony Blair, John Major, or David Cameron. If we are correct that Johnson is overestimating the United Kingdom's ability to negotiate lucrative trade deals after leaving the EU, then the country's new trajectory is also likely to be poorer and more isolated. As this new trajectory develops, we expect unique opportunities and risks for various asset classes.

Given the economic disruptions likely to arise from a no-deal Brexit, we suspect many companies in the U.K. and the EU will face lost markets, higher costs, or both. In the lead up to a no-deal Brexit, that prospect will likely discourage new investment and hiring, exacerbating the slowdown resulting from weaker Chinese demand and the continued U.S.-China trade war. The political and economic tensions could even begin to weigh on the European consumer sector, which to date has been among the most resilient sectors in the region. All told, we suspect these threats will be a continuing headwind for British and European equities and other risk assets.

The threats of trade disruptions, reduced investment, and weaker consumer demand point to a significant potential for further

slowdown in the British and European economies and even lower price pressures. The result of that would likely be higher demand for the region's bonds and still lower yields. The region's dimming prospects would probably also taint the attractiveness of currencies such as the pound and the euro.

Finally, within the global commodity markets, the risk of slower growth in Europe and the possibility that the slowdown will

spread to Asia and the Americas will likely be a noticeable downdraft for industrial commodities such as energy and industrial metals. In contrast, the tensions will likely play into the recent safe-haven buying of precious metals such as gold and silver.

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*This report was prepared by Patrick Fearon-Hernandez of Confluence Investment Management LLC and reflects the current opinion of the author. It is based upon sources and data believed to be accurate and reliable. Opinions and forward-looking statements expressed are subject to change without notice. This information does not constitute a solicitation or an offer to buy or sell any security.*

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