Brexit: Initial Comment

24th JUNE 2016

WISE INVESTMENT

We woke up this morning to the disappointing news that Leave has won the EU Referendum. One period of uncertainty (over the outcome of the vote) is now replaced by a much longer and much more uncertain period while the terms of the UK's exit are negotiated.

At the time of writing (9.30am on Friday), global markets have unsurprisingly reacted negatively to the news.

- Sterling – down by about 7.3% against the US Dollar, down by about 5.3% against the Euro, and down 10.0% against the Japanese Yen
- FTSE 100 down by around 5.0%, FTSE 250 (medium-sized companies) down by 8.0%. European markets are similar. Housebuilders and financials are taking the brunt of the negative reaction with many of the companies down by over 20%. Miners and more defensive stocks such as Glaxo are actually in positive territory.
- UK gilts are benefitting from investors desire for lower risk assets.

It is difficult to predict the longer term effects on the UK economy. However, it is very likely that there will be an immediate impact on business investment decisions which would suppress economic growth. A weaker pound will help exporting companies but increase the price of imports. We are a nation of largely importers, so this is likely to contribute to higher inflation. Despite this, our expectation is that the Bank of England will retain the current low level of interest rates and possibly even start an additional phase of quantitative easing to boost economic performance.

Our focus has always been and will continue to be investing for the longer term, looking for investments and funds that are intrinsically sound and reasonably valued. Broadly speaking, we have weighted our clients' investments towards funds holding high quality companies, with strong balance sheets and healthy cashflows. Although the environment for all companies will be challenging in the immediate future, these types of business should be able to successfully navigate the months and years ahead. Good companies don't turn into bad ones overnight.

The weaker Pound will also benefit investment portfolios with overseas exposure, when overseas returns are translated back into the Pound. More subtly, the UK's many global businesses will also benefit from the cheaper Pound in terms of both earnings and competitiveness.

In summary, the period of uncertainty will be prolonged, but the inevitable volatility will throw up numerous opportunities to buy good investments at very attractive prices.

Overall, our view is that it is best to avoid knee-jerk reactions to market movements, and keep an eye on the longer term.

Further commentary will be provided by Tony and Hugh later today.

James Payne

June 24th 2016

Please note – this contains the personal opinions of James Payne, and does not constitute financial advice.