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SHOULD INVESTORS FEAR BREXIT?

Brexit or Bremain: No Need To Panic. Undoubtedly, a UK vote to leave the European Union would have a negative impact on business and investor confidence. Not only would it increase fears of a the bloc's disintegration — emboldening anti-EU parties like Spain's Podemos and Italy's Five Star Movement — but, more importantly, it would create an upsurge in populist groups promoting nationalism and protectionism. That's a clear negative for risk markets. However, the actual outcome will not be as binary as markets are predicting. Regardless of the outcome (as we write, results are not yet out), Brexit will very likely prove yet another post-crisis macro fear with limited fall-out. Why? First, markets have already been pricing in damage to investor sentiment. Safe havens such as the Japanese Yen and gold are soaring and tracking referendum odds very closely. Once results are in, a more certain path will be visible and markets will re-price. Second, even if the Brexit vote passes, the UK will likely be a member of the EU for a few more years at least (even "Leave" leaders have cited 2020 as a likely exit). Referendums are merely a recommendation to politicians (who often drag out the

process to determine particulars of the actionable result). Thirdly, a Brexit would surely force central bankers into action (and further underwrite higher asset prices). The ECB would be out with new tricks. But also countries from Norway (with strong trade linkages to the UK) to Switzerland (still a relative safe haven) would be forced to increase stimulus and intervene in domestic currency markets.

INVESTMENT IMPLICATIONS

In general, fear is very high and Brexit is dominating headlines. But post-referendum certainty alone will likely buoy global risk markets. The British Pound has already been beat up and UK equities are dominated by banks and commodities which are only impacted modestly by a changed relationship with the EU (HSBC, for example, earns two-thirds of its profit from Asia). In short, Brexit will cause dislocation but also opportunity for intrepid investors.