.6th Floor
Candlewick House
120 Cannon Street
London
EC4N 6AS

Telephone: 020 7426 5960

Brexit Vote a week on

One week on from a political earthquake that has reverberated around the world the dust from the first shock is settling and two things are immediately clear from here. The first is the *realisation that we are still here and the world goes on and this is followed by the second* certainty, that there are more aftershocks to come.

What we know for facts are:

1. The current UK prime minister will not invoke article 50, and that we can expect new leadership elections, with a new prime minister in September. The decision will be made by this new prime minister. Until then nothing has changed.

2. As expected, the biggest impact has been on the pound with the currency falling sharply. This will have implications ranging from inflation to overseas earnings.

3. This vote has bitterly divided the nation and created uncertainty about the future of the United Kingdom.

After that all we really have are numerous theories and arguments about how things will progress, ranging from one extreme where we will not leave at all to the other which is a complete breakup of the EU. All we know right now is that we do not know anything and that until the UK invokes article 50 everything remains conjecture.

This means we expect political uncertainty to remain. What we are now seeking to understand is the impact this is going to have on the economy and the portfolios we manage.

It is clear that uncertainty is never good for economic progress and to some extent the UK has lived with this for some time, with investment decisions parked and cash stockpiled, we expect this to continue. The reason the pound has suffered is that the UK capital account has been propped up by foreign direct investment as global companies use the UK as a European base. With Brexit this investment will go elsewhere regardless of any deal the UK makes, the large investments that come with this investment are too important to be subject to political risk. This means the capital account and therefore the pound are no longer propped up by this foreign direct investment and we therefore expect sustained Sterling weakness.

In terms of portfolios values we have seen portfolios rebound much of the way back from last week's shock result. Those investments closer to the UK economy (house builders such as Berkeley and Gleeson, retailers like Whitbread and Sainsbury's were hard hit and remain lower as were domestic insurers like Aviva). We were not heavily invested (if at all in many cases) in

UK banks and have avoided much of the damage there. Whilst we were not invested in mining or oil other global investments have gained on Sterling's weakness such as Vodafone, International Public Partnerships, Alstom, SAP, Tesla, Pacific Asset Trust GlaxoSmithKline, Siemens and Unilever (if held). Also longer dated index linked bonds such as Network Rail and Yorkshire Water as well as defensive utilities such as Pennon, SSE and National Grid have all benefited from the turmoil.

Our view is that economic fear was overdone prior to the vote, and that life will go on, but growth will slow as a result of uncertainty. House price statistics are dominated by central London and in turn by foreign buying; we are less fearful for the real economy. For us the biggest irony is that we expect those areas that voted to leave (in particular the Midlands, Wales and North, to be hardest hit as investment in the Auto sector is delayed or cancelled). Talk of job losses in the City are ill informed and overdone in our view, we have no intentions of moving to our Paris office. We expect the economy to slow and thoughts of a bounce back in the second half have faded, interest rates in the UK may even fall to zero or 0.25%, but we do not expect a disaster.

The election of a new conservative party leader will now dominate the political landscape and as we approach September we feel the next major flashpoint will be if or when we invoke article 50 after that. At that point questions about Scotland and Northern Ireland (possibly even London) may arise.

Until then we expect an uneasy summer, markets moving up from time to time as we realise the world does go on and all is not as bad as predicted, followed by the odd political shock as various factions showboat their cases. If anything we see an increase in optimism of a good exit or even no exit as possible.

This leaves our investment stance as one of opportunistic caution.

Wayne Bishop and Craig Hart. London 30th June 2016

We remind all our investors they can see their portfolio online via their platform. Please contact your advisor if you need access.