

By **Daniel Theriault**, CFA, MBA,  
Chief Investment Strategist

# Market Commentary

## Brexit - Now What?

The most pressing question on everyone's mind in the wake of the U.K. decision to leave the European Union is "now what?" and that's going to be tough to answer both fully and definitively in the near term. The UK and the EU are in uncharted territory here. The weekend gave both politicians and global markets an opportunity to assess the consequence of the referendum's outcome. Equity and currency markets remain choppy, relatively speaking, though they are calmer than they were on Friday. The Japanese Nikkei Index led most Asian markets higher Monday while European Bourses continue to retreat. Investors continue to seek comfort in the typical safe havens of US dollars and US Treasuries. Equity markets are widely expected to remain volatile.

The political situation in the UK is in turmoil. PM Cameron's resignation makes it unclear who will lead the disengagement from the EU and both Scottish and Irish politicians are suggesting alternative approaches to allow them to remain within the EU. A petition for a second referendum is being widely embraced though unlikely to prompt a second vote. While some Brits celebrate, others fear for their jobs, pensions and savings.

The European Council, which sets the political direction and priorities of the European Union, was already scheduled to meet on June 28-29. Their agenda, not surprisingly, has been reset to devote most of the meeting time to "the political consequences of the UK referendum". Prime Minister David Cameron is slated to update the Council on the situation in the UK post referendum which will be followed by an exchange of views from members. On the second day of this session, the remaining 27 heads of state will meet informally to discuss both the political and practical implications of the UK decision. Debate will then begin on the future for the European Union with 27 member states. Other pressing issues at this gathering include the migratory crisis, EU security and how to deepen the single market to boost growth and jobs – all issues that carried significant weight for UK referendum voters. It's important to note – only the UK can invoke the EU's Article 50 which then triggers the negotiations on the UK exit. Until a formal separation agreement is in place, uncertainty will likely hang over markets for many months to come. The complexity of those negotiations will almost ensure that a quick solution is unlikely. Meanwhile, most economists are revising their estimates for UK and EU GDP downward.

Our strategy for managing client portfolios is based on being prepared for moments of market duress like the one we currently face. We diversify portfolios broadly across asset classes and geographies. We consciously choose sub-advisors who have a proven track record of protecting capital in down markets. We instruct them to emphasize quality securities with strong fundamental characteristics. Our exposure to US assets and currency as well as our fixed income exposure across most accounts will dampen asset price declines in other areas. Our direct exposure to the UK is modest. Despite this, portfolios will experience losses given the depth and breadth of market declines. We strongly counsel remaining invested. Markets have consistently proven that volatile periods such as this one are followed by periods of strong recovery. Leveraged investors and those with a shorter perspective will undoubtedly transact in this period of market weakness though they are likely to face the unfortunate consequence that impatience all so frequently brings.

The world is not likely in imminent danger of another global financial crisis. The magnitude of equity declines on Friday obscures the fact that markets had rallied strongly in the anticipation of a “remain” vote and that rally was unwound. The biggest market reaction so far has been the decline in the value of sterling and given the political uncertainty and the likelihood of monetary easing from the Bank of England, that decline is likely to worsen. We anticipate challenging markets over the coming weeks. We remain vigilant both for further risks and the opportunities that invariably arise during times like this. Our single focus is the financial well-being of our clients.

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