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# Post Brexit economic and investment outlook








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For Professional investors only



# The morning after

	Remain	Leave
	62%	38%
	47%	53%
	47%	53%
	56%	44%
	48%	52%



## Article 50 of the EU Treaty

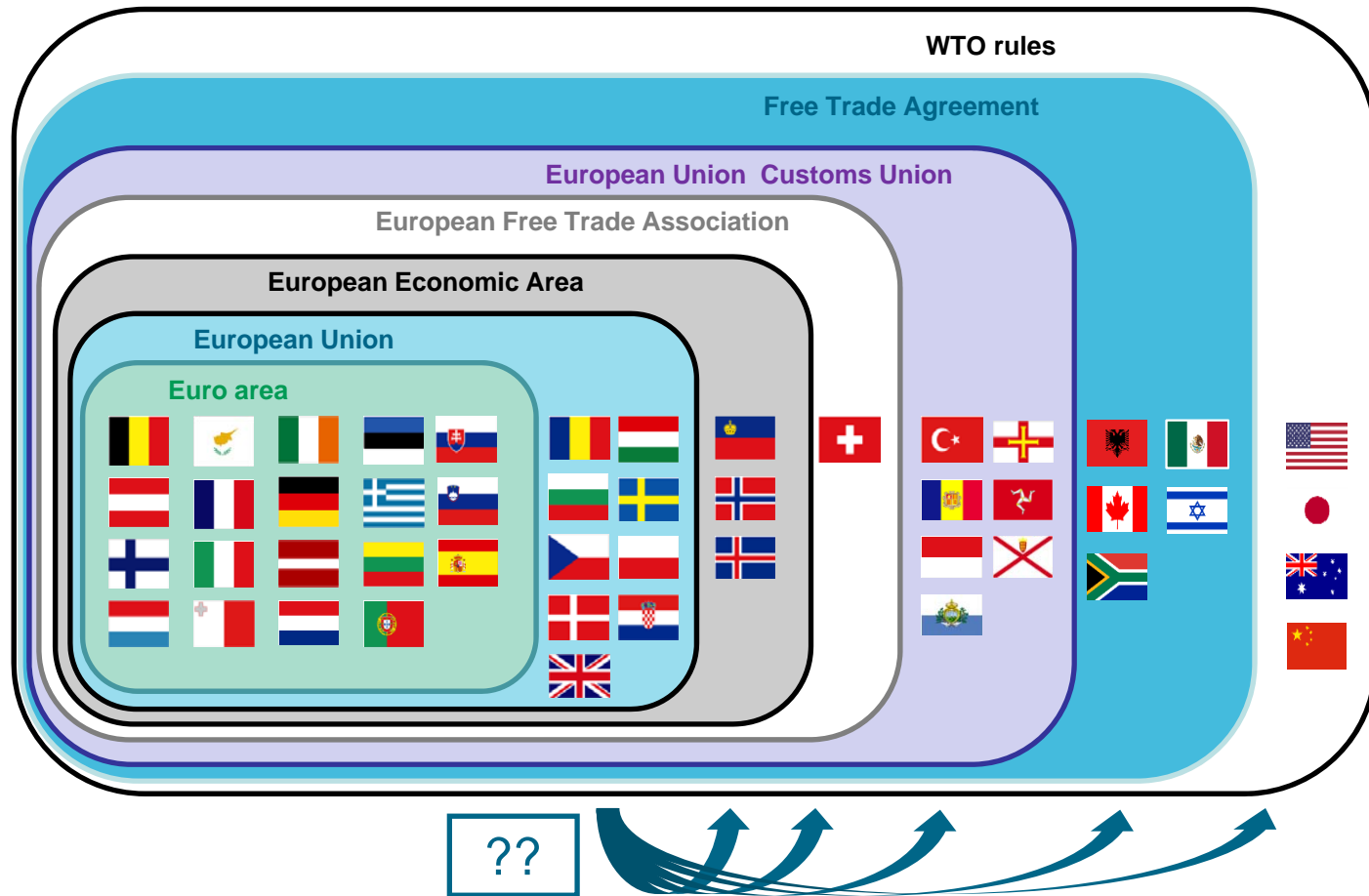
- 1) Any member state may decide to withdraw from the Union in accordance with its own constitutional requirements.
- 2) A Member State which decides to withdraw shall notify the European Council of its intention....
- 3) The Treaties shall cease to apply to the State in question from the date of entry into force of the withdrawal agreement or, failing that, two years after the notification referred to in paragraph 2, unless the European Council, in agreement with the Member State concerned, unanimously decides to extend this period.
- 4) For the purposes of paragraphs 2 and 3, the member of the European Council or of the Council representing the withdrawing Member State shall not participate in the discussions of the European Council or Council or in decisions concerning it.

*“I think it’s right that this new prime minister takes the decision about when to trigger Article 50 and start the formal and legal process of leaving the EU”*

David Cameron, 24/06/16

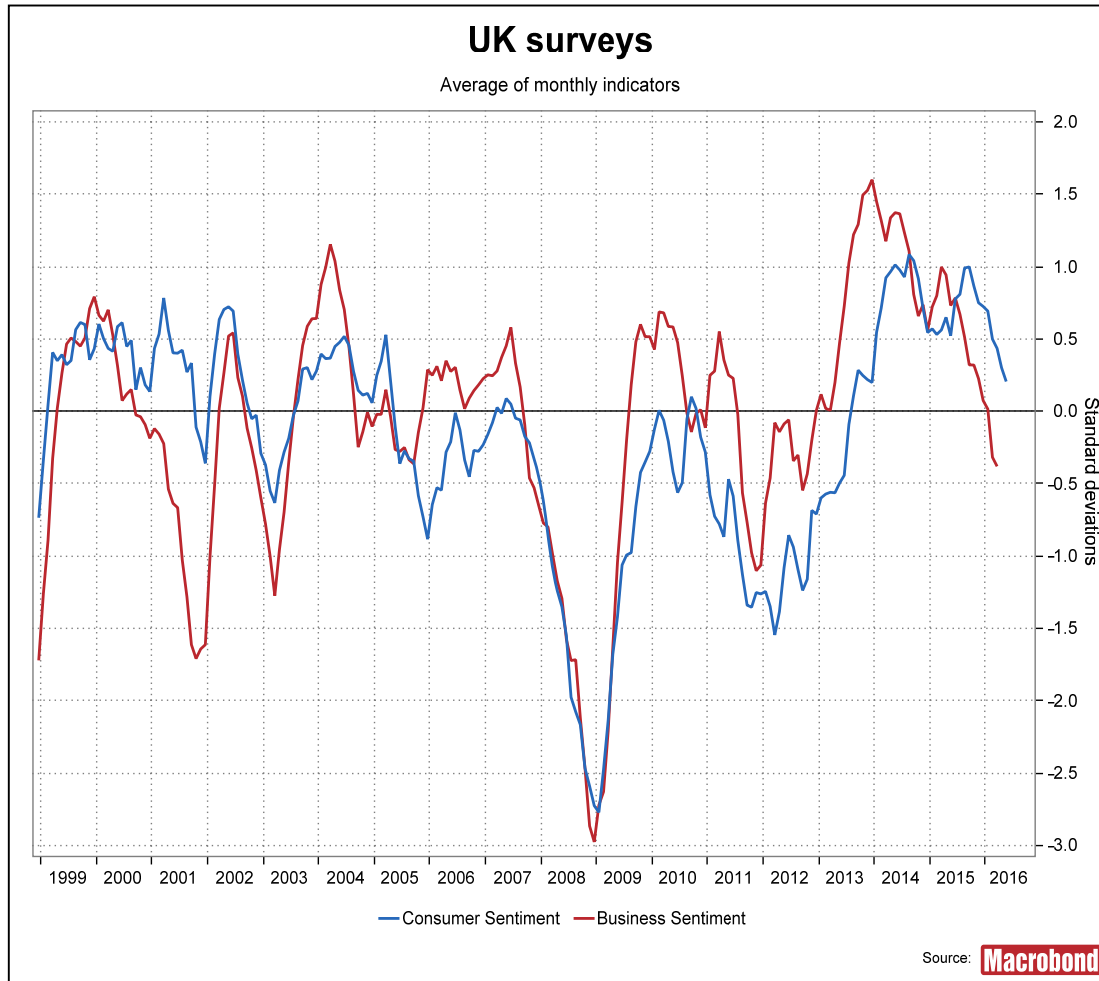


# Time to decide what leave actually means





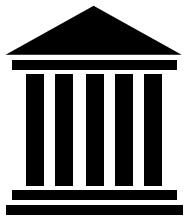
# How big is the potential short-term economic shock?



- **CPI (level)**      ↑ 3 – 5%
- **Consumption**      ↓ 2 – 3%
- **Investment**      ↓ 5 – 10%
- **GDP (level)**      ↓ 2 – 4 %



## Monetary policy



Bank of England

- Liquidity operations
- Interest rate cuts
- Quantitative easing
- Credit easing

## Fiscal policy

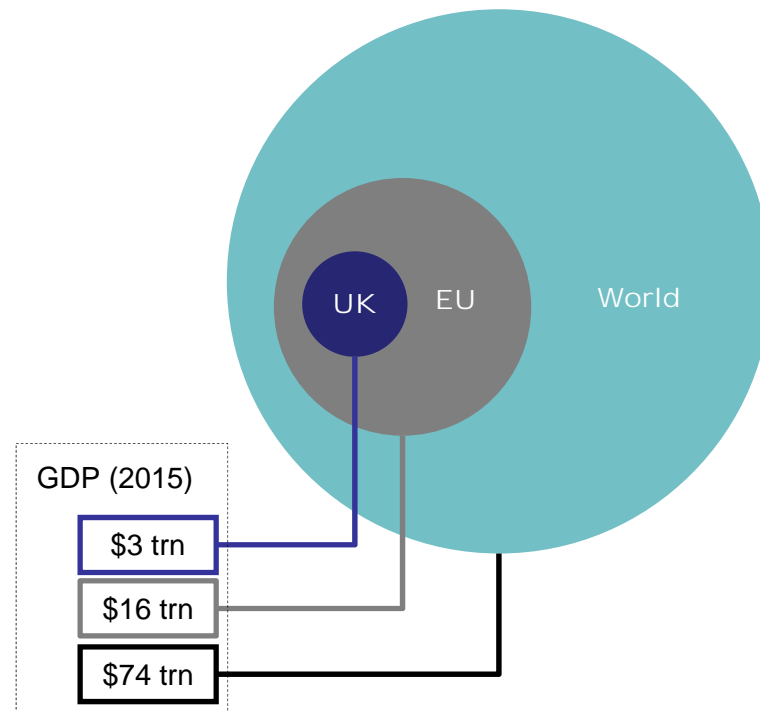


HM Treasury

- Automatic stabilisers
- No emergency fiscal cuts



- UK only accounts for:
  - 17% of EU GDP
  - 4% of World GDP
- Global growth will be directly dented by less than ½% in 2016/17
- US insulated
- EM could benefit from lower rates
- Financial and political contagion are the much bigger concerns

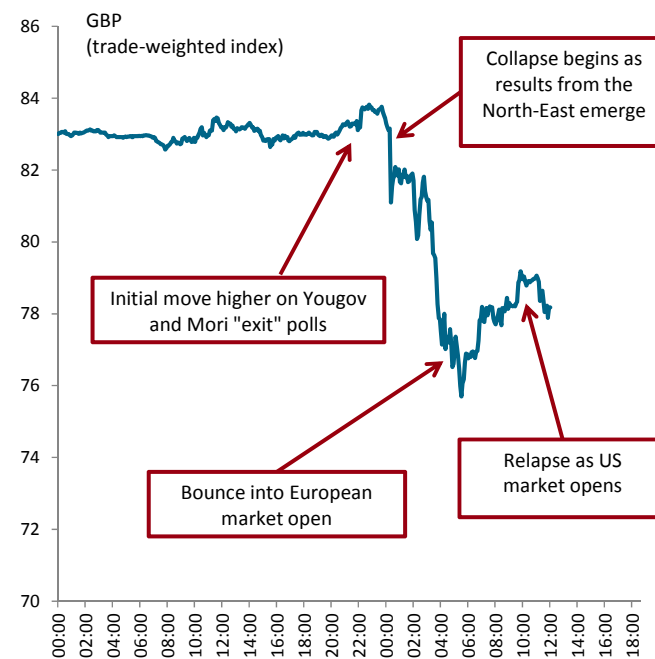




# Initial market reaction: lots of volatility

### Biggest adjustment in GBP

Asset class	impact	Description
GBP	↓↓↓	<ul style="list-style-type: none"> <li>Initial 10% fall in GBP</li> <li>Subsequent 5% rebound</li> </ul>
Equities	↓	<ul style="list-style-type: none"> <li>4-10 % off major global equity indices</li> <li>FTSE cushioned by FX adjustment</li> <li>Major hit to European banks (-10%)</li> </ul>
Credits	↓	<ul style="list-style-type: none"> <li>Relatively muted widening in credit spreads</li> <li>Weakness in peripheral debt</li> </ul>
Gilts	↑	<ul style="list-style-type: none"> <li>A BoE rate cut now priced in for 2017 H1</li> <li>25bp drop in ten/thirty year gilt yields</li> </ul>

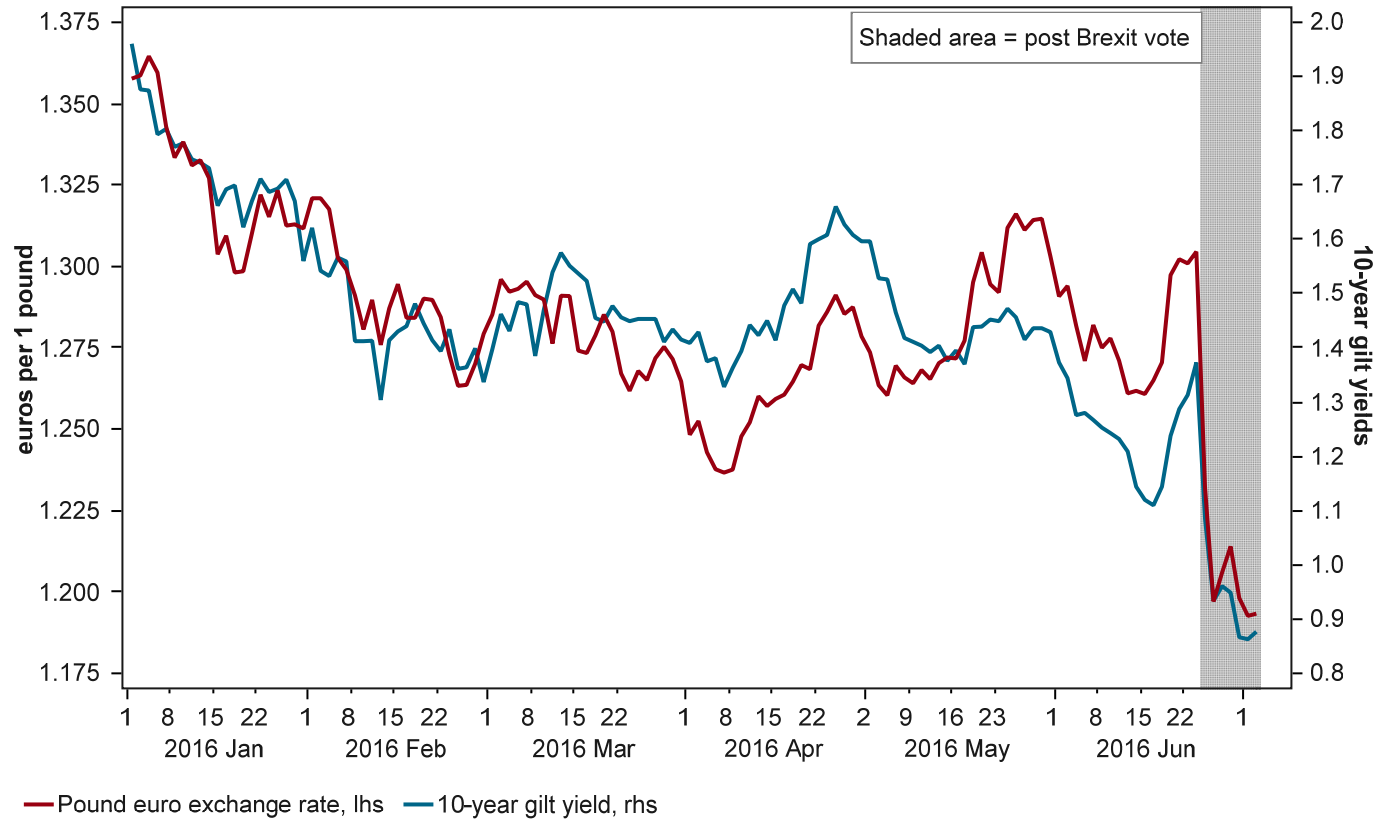






# Gilt yields and sterling have tumbled

Gilt yields and sterling versus the euro



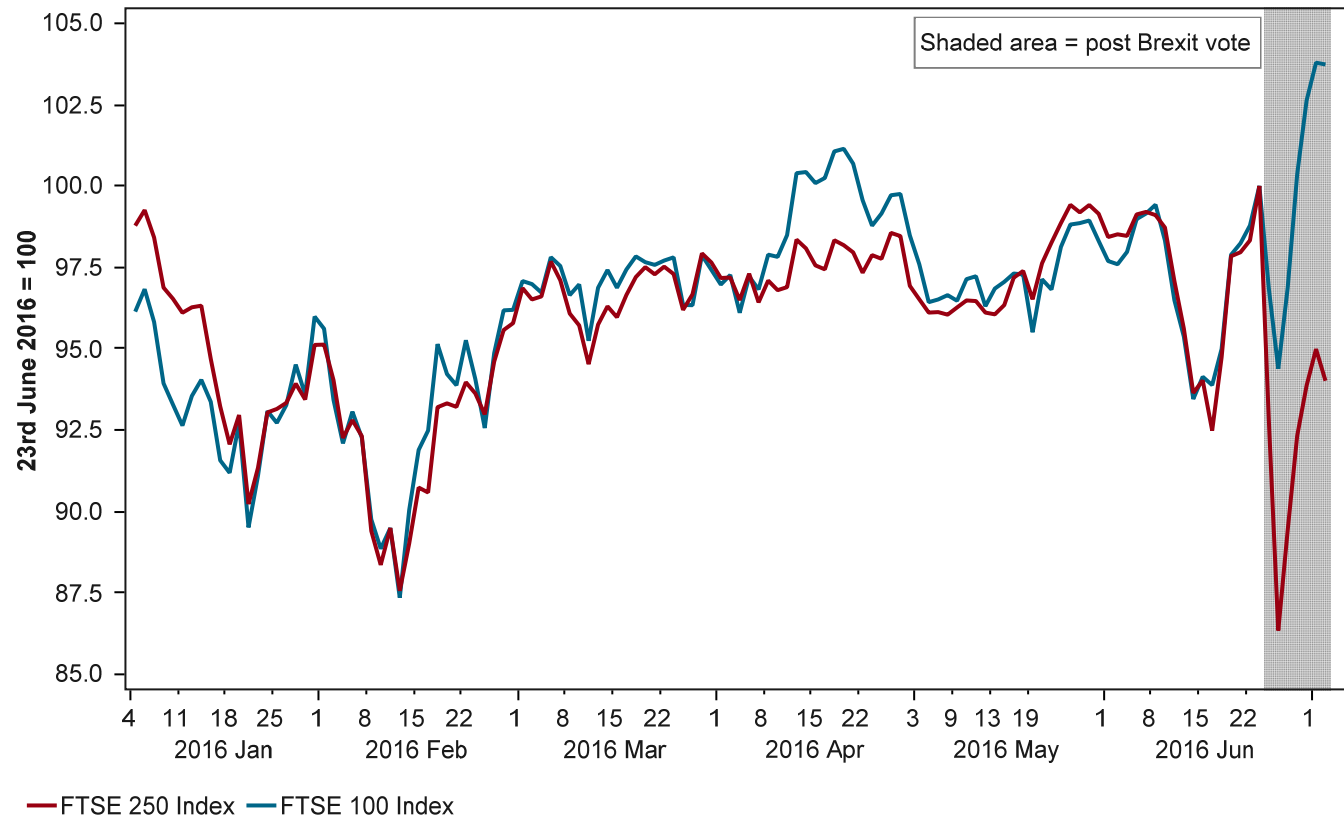
Source: L&G, Macrobond



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# UK domestic companies under-performed

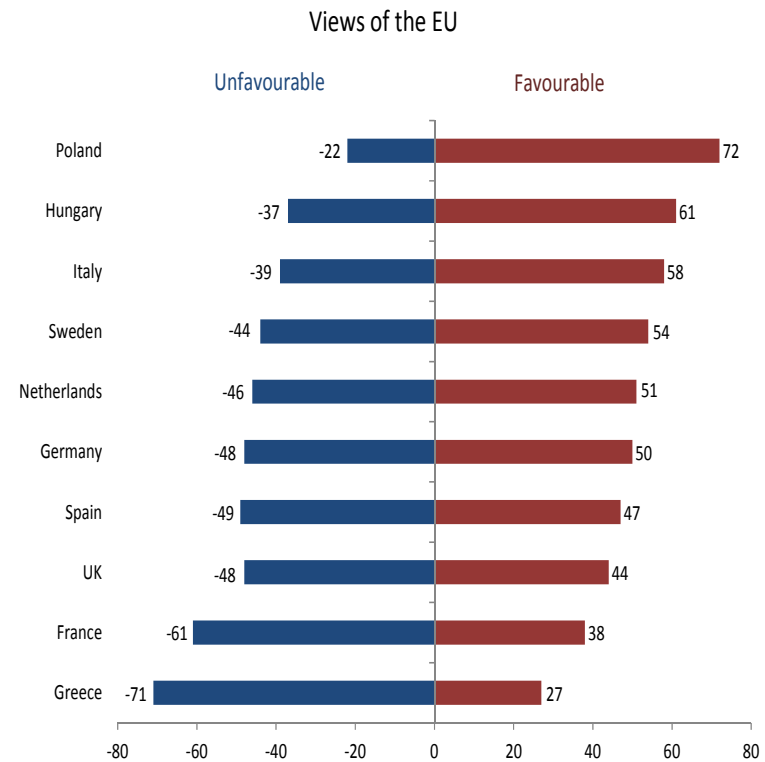
UK equities



Source: L&G, Macrobond



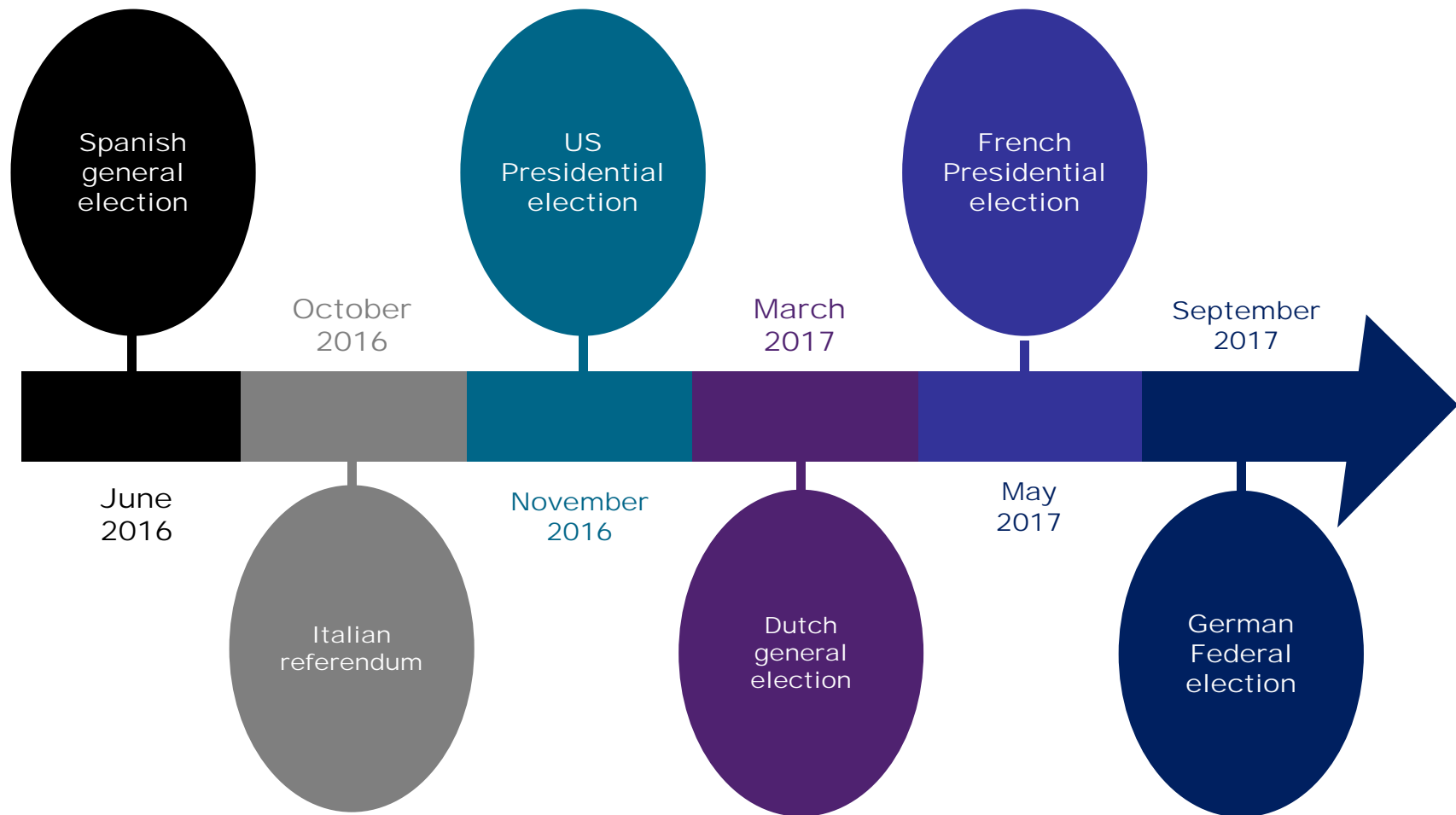
# Medium-term concerns: The UK is not the only unhappy member of the club



Source: Pew Research Centre, Spring 2016 Attitudes Survey



# iapf No let-up in political risk





- The UK electorate's decision to leave the EU implies a period of economic and political uncertainty lies ahead.
- The direct impact is not sufficient to trigger systemic global worries.
- Financial & political contagion to other EU member states are the focus of concern.



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