"BREXIT"

As you will be aware, the British public have voted to leave the European Union. A surprise for many, not least financial markets, which had been led by the polls and betting odds in the run-up to the vote. Until last night markets were positioned for the UK to remain in the EU. The outcome of the vote has, unsurprisingly, led to a sharp reversal in market positioning. Below we set our reaction to events and how clients' portfolios are positioned. We will provide further commentary as events unfold in the coming days and weeks.

Commentary

Markets have reacted in conventional fashion, which has not always been the case in recent times. Risk assets have fallen and bonds and gold have risen. The pound has fallen sharply. Having said that, as the day has progressed, some modest recovery is now underway – at least temporarily.

Markets dislike uncertainty, and that will continue to be reflected in the months ahead. Negotiations between the UK and the rest of the world will take some time and we are not going to try and predict the outcome, but we do know that article 50 (which is the article setting the conditions for departure) will not be invoked until the new prime minister is in situ, so we know that the UK will remain a member of the EU for at least another 27-28 months. What we also know is that trade between the EU and the UK will be temporarily compromised, but in the long-term we still need each other so do not predict any dramatic long-term damage. The real danger lies in the political environment and "Brexit" will no doubt add fuel to far-right political parties in an already flammable environment (note Donald Trump's arrival in Scotland this morning). The political and financial establishment grossly underestimated the degree of dissatisfaction amongst British voters, and it is that disconnect that has been their downfall.

Clients' Portfolios

As you may be aware, we have been defensively positioned across all portfolios in recent months. Relatively high allocations to government bonds, underweight equity positioning (particularly the UK), and meaningful US dollar and Euro exposure, imply that portfolios have been relatively well insulated against "Brexit". Volatility is high, so we will wait for more clarity on events over the coming days and will avoid any reactive behaviour until markets settle down.

In summary, we see no need to panic, and will react rationally to events as they unfold. Defensive portfolio positioning remains well suited to the current climate and we will, as ever, take advantage of market opportunities to add value to clients' portfolios in the months ahead.

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