



The electorate has given its verdict. By a margin that is large enough to remove doubts about its legitimacy, UK voters have judged the benefits of an independent life outside the EU to be worth the costs of leaving it.

In spite of the more emotional appeals to the contrary, this is not a disaster. The UK will certainly suffer an economic impact as businesses consider their options, possibly even a short recession, but trade with Europe will not stop. We now have two years to renegotiate our relationship with the EU trading bloc. It will be in both our interests to do so sensibly and, as an economic powerhouse, we will have a good bargaining hand. With an open economy, strong rule of law, a functioning democracy, good education, the historic benefit of having English as our mother tongue and fundamentally pro-business policies that reward hard work, over the medium term Britain will certainly prosper.

For shorter-term focussed financial markets however, the hard maths of the decision is unambiguously negative. It has immediate unquantifiable costs, unknown unintended consequences and uncertain future benefits. From a narrowly British perspective the costs are likely to include a prolonged period of reduced investment and consequently lower growth until the new relationship with the EU is agreed, progressive loss of the benefits of being a member of a large trade bloc and, lastly, political upheaval as the Conservative mandate for government has been undermined. A general election and a re-run of the Scottish referendum are suddenly both real prospects.

But this is not just a UK issue. Our decision leads to significantly heightened political uncertainty across Europe, which may even bring the sustainability of the Euro-Zone (as opposed to the European Union) back into question. This risk is a very unwelcome additional dampener on the already depressed animal spirits of global businesses, potentially impacting growth even beyond Europe's borders.

In sum, the referendum result raises many more questions than it answers and investors dislike uncertainty. The immediate impact will be seen today in lower share prices and weaker sterling as global investors adjust to the UK's decision. The moves are likely to be particularly sharp as markets have recently risen in anticipation that the result would be different.

However, in the midst of the maelstrom, two factors suggest that the turbulence may pass sooner rather than later. First, growth fears should not be overblown. The UK will suffer a hit, but with governments and central banks standing by to provide support, the immediate impact in Europe should be relatively small. With the US economy still delivering solid performance and the Developing world stabilising, the picture for global growth should not change very much. More crucially, since its weaknesses were exposed in 2007, the World's financial system has built-up its capital reserves and it is now well braced for trouble. The suppliers of capital (banks) are not overextended, the users of capital (investors) are not complacent and the world's financial firefighters (the central banks) are fully engaged in ensuring that any sparks of fear are rapidly doused with liquidity. In this context the potential for a single adverse event (such as Brexit) to have a domino effect is low.

In our judgement the system is capable of absorbing this shock, but investment portfolios will certainly not be immune from some impact. We now expect a period of heightened volatility until the politics of the separation process become clearer, however we believe our investment positioning should be relatively resilient for a number of reasons. First, our weighting in equities is substantially tilted to international (non UK) companies and revenue streams, which gives some protection against falling sterling. Second, over the past six months we have adjusted our fixed income and cash holdings. Finally, we expect our exposures to property and other “real assets” to provide some additional cushioning effect.

Once again it is a time for cool heads and steady hands. By ensuring that our decisions are made by highly experienced investment managers in collaboration with our dedicated research department we have built these characteristics in to our investment process - common sense always prevails. We will of course be keeping the situation under close review, but please do not hesitate to contact your investment manager if you have any questions.