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BIZ INSIGHT

Uncertainties of the post-Brexit era

THE UK's faith in the European Union was eventually decided in a referendum last week with Britains voting to leave the EU. That means there will be a period of uncertainty while the UK negotiates a separation agreement involving trade and a host of other issues.

The major event on the horizon will be how and when the UK parliament votes to leave the EU following the activating of Article 50. Once that happens it could take up to two years before an agreement is reached.

While the path to exit is not yet clear, there are nonetheless clear implications for the UK over its decision to leave the EU. There could be a recession in the second half of the year and policy easing from the Bank of England. The domestic political turbulence may complicate the process of leaving the EU.

According to many economist and analyst forecasts, economically, the UK vote to leave the euro-zone will have a negative effect on its economy. Growth is forecast to fall minus 1 per cent and euro-zone growth could be set back minus 0.2 per cent. As for the financial markets, the STOXX Europe 600 is expected to drop between 5-10 per cent, relative to the US being hit with the same price-to-earnings ratio crisis as seen in Greece.

Until the terms of leaving the EU are settled and new regulations between the British and the European Union are made, Brexit will affect global stocks and currencies. It will also accelerate moving risky assets into safe havens.

There will be a period of high volatility and market sell-offs but there could be a strong response from European Central Bank and the Bank of England to prevent systematic risk and ease financial conditions. Questions continue to primarily focus on the politics of the matter but more question are being asked about monetary and fiscal policy actions in light of what the economic data says about the potential fall-out.

Given the circumstances, there are rising concerns that the Scottish could vote to split from the UK, another potential fissure for the British economy that would become much more problematic if the EU were to break up completely. That has been part of what is driving investors to sell euros and pounds as well as buy gold and others safe-haven currencies.

But investors should be wary of worldwide sluggish growth and uncertainties which could cause volatility at any moment. Until the terms of Brexit are clear and there is no further spill-over effect on the region, it is recommended that investors keep abreast of market updates, manage asset exposure and use effective approaches like a fundamental bottom-up strategy, which is generally resistant to market volatility and likely to provide better-than-expected returns over longer periods.

Contributed by Asset Plus Fund Management

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