



BREXIT- The British People Have Spoken

The British people voted yesterday 52%-48% (approximately) to have Britain exit the European Union. Exit polls seemed to indicate that the British people were tired of being "ruled" by the EU bureaucrats in Brussels and worries about refugee immigration as the main reasons. While the polls showed a close vote, the markets rallied into the vote and seemed to indicate they believed the "Remain" vote would in the end, win.

The repercussions are immediate. United Kingdom P.M. David Cameron has resigned. He took a huge political risk in putting forth the referendum, and in the end, he lost. The Scottish Premier has already indicated they will conduct their own referendum in the fall, so logic would say they will secede from the EU as well.

The consequences of the vote? There is already a market impact:

- British market is down about 4%
- German DAX is down 7%
- Southern Euro (Spain, Italy) are down 10% because they have the most to risk if the EU splits
- Gold is +\$60 the AM

On this side of the Atlantic, US pre-market futures are down about 4% and the US dollar is rallying big time (up almost 2 cents vs Cdn\$ so far).

What about going forward?

Well we've had many of these market "shocks" in my 30+ years in finance. "Panic" has never been a good strategy. This is going to take 18-24 months to sort out for the Brits.

While the British economy is the second largest in Europe, it is not large in the global sense. If the British economy goes into a self-inflicted recession, I don't think the global impact will be huge. Global growth (esp. Euro) was already slow and anemic, maybe it weakens a bit more, but that would lead to my next point, which is all this means is global interest rates will stay lower for longer, and I would suspect negative interest rates will get "more negative" and that there may even be a united stimulus efforts by central bankers.

North American markets rallied into the Brexit vote, and we will simply give that back today. In fact, the pre market indication on the S&P 500 takes it back to where it stood in mid-May, or about 30 days ago.

The main economy that drives the global economy will be the USA, and the impact on the US economy from Brexit will be minimal. I would suggest it might help the Trump campaign, because the backlash against the establishment and governing bodies is spreading. Brexit was a vote for self- government, independence and nationalism, and a vote against unelected bureaucracy and the status quo.

There will be some tremendous opportunities as there always are during these "shocks". Right now, not sure what those will be until we see the fallout, but yes, there will be some chances to get in on some quality names.

My favorite economist, Milton Friedman once said he would be surprised if the EU lasted ten years. It started in 2000 and the cracks started in 2009-2010. Today, the British vote puts the EU's survival at risk.

As always, if there any questions with respect to your portfolios, do not hesitate to contact us, but for now we recommend as the British would say, "Keep Calm and Carry On".

Stay tuned,

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