

The following message is sent on behalf Ron Hanson, Chief Investment Officer and Brent Joyce, Chief Investment Strategist of GLC Asset Management Group.

Market response to the UK referendum results – A yes for “Brexit”

The people of Britain have spoken and...

As a result Britain will start the process of exiting the European Union and the economic and political fallout has begun. British Prime Minister David Cameron has already announced he will step down later this year. Risk assets (e.g. stocks, commodities) are selling off. Gold bullion and sovereign bonds are up. The exception is European peripheral bonds like Greece, Italy, Spain, and Portugal which are selling off due to the uncertainty of the survival of the European Union. The British pound traded down overnight to a three decade low of 1.3228 GBP/USD before stabilizing (at time of writing) to 1.37. Clearly markets are pricing in the risks very quickly. The question will be how this will impact growth in the region for the medium and longer term. Scotland, which voted strongly in favour of remaining in the EU, is already making noise about another referendum - which calls into question the future of the UK itself. Meanwhile there will be increasing speculation on 'who's next' to leave the EU. These questions will be ongoing and create some uncertainty in the months ahead. In fact, the technicalities of how the UK will actually exit remains an open question and will evolve over time.

In the near term we expect to see some sharp movements in capital markets

Currently the markets are reacting to the news of the UK having voted to exit the EU, and the reactions are greater as a result of polls having created expectations that Britain would vote to remain. With fast moving and changed expectations, and now reality setting in, some of the current sell off is simply reversing the gains made in the days before the votes were counted. Movements within the following ranges would not be a surprise to us:

- Canadian equities falling in the range of -3 to -5%
- US equities falling in the range of -5 to -7%
- British and European equities falling in the range of -12% to -16%
- The British Pound falling in the range of -9% to -11%
- Gold spot prices rising +8% to +10%
- 10 yr US Treasuries yields reaching low ranges of 1.5-1.6%
- 10 yr Govt of Canada yields reaching low ranges of 1.0 – 1.1%
- German Bunds would go back to negative yield
- Spreads on Greece/Spain/Portugal/Italian sovereigns would widen

Despite our expectations that we will see markets sell off in the near term, some sectors of the market, and many companies, will avoid significant de-valuation (e.g. the US dollar, North American and Asian markets will fare better than their European counter parts). This shows signs that investors continue to recognize some regions will continue to see economic strength and are likely to succeed despite the current market challenges. As the current situation moves past this acute stage, we hope to see a greater number of stocks and sectors (even within Europe) responding to their fundamental outlook, and not simply getting swept up in the broad sell-offs of stocks that we are currently seeing.

For example, although stocks generally will be weaker in the near term, Canada's gold sector is likely to fare better and provide some support to the Canadian market as losses will be cushioned somewhat by 7% weighting of gold equities. In addition a well-diversified portfolio will be benefitting from the rally in bonds as in general yields have dropped sharply.

When will markets recover?

The exact timing of a recovery cannot be predicted and we caution against those who believe they can. We expect that markets will continue to be volatile and further losses are possible, particularly until policy makers, such as the Bank of England, take steps to calm the markets and shore up economic stability. On that note, the Bank of England (BOE) has already pledged to provide an extra 250 billion pounds in support of the financial system. In addition, the BOE Governor Mark Carney also said the BOE has further measures if needed to deal with what he described as a "period of uncertainty and adjustment". The European Central Bank (ECB) also provided a statement that it stands ready to provide liquidity if needed.

It may be some time before the event news subsides, and equity markets return to assessing the fundamental outlook for companies on a stock by stock basis – but they always do.

What are we doing?

We understand that market volatility and heightened media attention has caused some investors to be concerned about the state of their investment portfolios, and we take our responsibility as professional money managers very seriously.

At GLC we have clear, defined investment processes in place which means that, rather than focusing on the market hype, we can quickly factor in the new realities and circumstances affecting the stocks and bonds we hold, and focus on recognizing and acting on opportunities as they present themselves. During periods of market volatility, when it can be difficult to remove human emotion and personal bias from decision making, the merits of GLC's disciplined investment processes shine through.

What should I do?

As long term investors, your best bet is to stick with your long term investment plan. A well-diversified portfolio is unlikely to be as heavily weighted in one or two sectors or regions of the world, and therefore can provide the added benefit of softening the effects of short-term volatility and sharp market pull backs.

The possible outcomes from the June 23rd referendum vote are many, and many economic and financial implications remain speculative in nature. During times of uncertainty, it is not uncommon for markets to overshoot to the downside, as a result, we caution against knee-jerk reactions when it comes to your long-term investment plans. Much regret can come from decisions made on emotion and haste.

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