

June 24, 2016

## Implications of the U.K.'s Historic Vote to Exit the EU

Yesterday marked an historic event in the European Union (EU) as British citizens made their voices heard around the globe by voting to break from the EU, an economic and political alliance across Europe. The EU was formally named in 1993 and its original roots date back to 1957 with the formation of the EEC (European Economic Community). The aim of the EEC was to prevent wars and strengthen economic bonds. Britain joined the EEC in 1973.

The EU is comprised of [28 member countries](#). Each member country acts independently but allows free movement of goods, capital, services and people between member states. In 2002, nineteen of the 28 member countries elected to share a common currency, the Euro. The United Kingdom (U.K.) chose to maintain their long-standing currency, the British pound sterling.

The U.K.'s vote to leave the EU ("Brexit") marks a significant event that will be felt across the globe politically, economically, and financially.

### Political

The decision by the British public to leave the EU created an earthquake for the political British elite and pushed Prime Minister David Cameron to resign. The vote to leave sets a precedent never before seen in the EU's history. The toll of the bell against the establishment has been rung loudly and we may see other "EU confidence votes" by other member countries in the future. We expect uncertainty to remain high as we look for signs that other member countries' minority parties try to flex their muscles. Broader political fallout is certainly a question for the future.

### Economic

The economic impact from the Brexit vote will unfold over time. Although U.K.'s exit is a significant shock, we believe this will be felt more severely locally than globally. Expect U.K. growth to be negatively impacted and inflation to increase due to the depreciation of the British currency. However, since the U.K.'s Gross Domestic Product (GDP) growth represents just 4% of world GDP, the ripple effects globally will be muted. Expect to see lower rates in the U.K. compared to what a "remain" vote would have indicated. In the short-term, this may convince the U.S. Federal Reserve to put off any rate hike longer than otherwise expected.

### Financial

Capital markets reacted violently as the results surprised many investors (and book makers...). Overnight, the British pound sterling fell sharply, down 10% against the dollar to its lowest level in over 30 years. Anticipation for additional Euro stimulus also sent the dollar higher.

Uncertainty regarding the future of the EU and the U.K. sent many investors across the globe searching for safe havens. Following the results, the U.S. 10-year Treasury moved from 1.74% to 1.43%, and the German 10-year turned definitively negative to yield -0.14%. Gold topped \$1,350 overnight, up 5% from its previous close. Global equities sold off hard at the open; however, they seem to be leveling off as the day progresses.

### **What should you do?**

While the volatility we have seen is extreme, we urge our clients to remain calm in the face of extraordinary uncertainty. Although we do not expect clarity on the long-term effects of the Brexit vote for some time, we do believe much of the movement in the financial markets is reactionary and extremely short-sighted. At this point, we believe the best course of action is to be patient as levelheadedness returns to the market. The H&H investment advisory group designs its client portfolios to be well diversified. Although the general direction in risk assets today is down, over time we expect the benefits of diversification to take hold and minimize the volatility in returns.

We will continue to monitor this situation closely and look for appropriate investment opportunities in the wake of this historical event. If you have any questions or concerns, please contact me or your H&H consultant or advisor.

Sincerely,

A handwritten signature in blue ink, appearing to read "Rodger Metzger". The signature is fluid and cursive, with the first name "Rodger" and last name "Metzger" clearly distinguishable.

Rodger K. Metzger, CFA  
President and CIO  
H&H Investment Advisory Group

### **Disclaimer**

Hooker & Holcombe Investment Advisors, Inc. (HHIA) is wholly-owned by Hooker & Holcombe, Inc., located at 65 LaSalle Road, West Hartford, CT 06107 and is an SEC Registered Investment Advisor.

Terms of Use: This document is intended for use only by the recipient and is provided to you as a service of HHIA. All rights to this product are reserved by HHIA. This document may be copied or forwarded only in its entirety. Partial reproduction is strictly prohibited.

The content contained herein is (1) informational only and should not be construed as investment advice; (2) obtained from sources deemed to be reliable but is not warranted by HHIA to be accurate, complete, or timely; (3) is not intended as an offer or solicitation for the sale of an investment product of service; (4) should not be relied on for legal, accounting, or tax purposes. HHIA does not accept liability for any losses, direct or indirect, sustained in connection with the use of this content. HHIA recommends that you consult with a qualified investment advisor for guidance regarding your particular situation on appropriate investment strategies for your portfolio.