Brexit: Increased Market Volatility May Present Opportunities

TRUXTON TRUST
A PRIVATE BANK

Drew Mallory, CFA
Managing Director
Wealth Management Services

In a very narrow contest, UK voters have opted to leave the European Union (EU) with a 51.9% majority. While the exit of the UK from the EU will not officially occur for at least two years, global capital markets are responding today with a selloff in risk assets. Increased volatility is likely as market participants digest the implications of the UK's EU departure. The Pound (relative to the US Dollar and the Euro) and European exposed banks have both experienced meaningful declines. While UK and European equity indices rebounded nicely off the open, they closed solidly in negative territory. Back in the US, stocks are trading down but are holding up well relative to the rest of the world. The selloff in the global equity markets has been orderly thus far and does not indicate panicked selling. In a flight to safety, high-quality sovereign bond yields around the globe have surged even lower. UK government bonds have rallied as the likelihood of slower economic growth and a potential monetary policy response by the Bank of England has increased. The surge in high-quality bonds, despite their historically low yields, is a reminder of their purpose in diversified portfolios – risk management. The referendum's result will likely mean the Federal Reserve will be on pause for rate hikes for the duration of 2016.

The UK's process of separating from the EU has only just begun and there are many unknowns as to the timing or how the exit will be achieved procedurally. The next stop is the British Parliament where formal approval must occur prior to engaging the EU on separation proceedings. Like most well documented issues related to the EU, the UK's separation and its implications will be a red tape filled, highly politicized, painful and multi-year process. Complicating things further, Scotland, which voted strongly in favor of remaining in the EU, may have its own referendum - to leave the UK.

We continue to believe the UK referendum does not pose a systemic threat to the global economy and that the US economy will continue to be a bright spot in the global economy. As a result, we remain committed to maintaining our current equity exposure by emphasizing high-quality US stocks. Given our US-centric positioning and diversified international allocation, direct exposure to UK stocks is less than 3% of our total equity exposure. Increased volatility often presents opportunities to enhance portfolios by acquiring quality assets at attractive valuations. We remain vigilant on finding such opportunities. ■

Contact

Please contact us should you have any questions or concerns.

Drew Mallory, CFA
Managing Director, Wealth Management Services
615-515-1720 | drew.mallory@truxtontrust.com