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No: 42, April 2016

Brexit positioning

The two most reliable indicators of how the Brexit referendum will play out continue to be the behaviour of sterling in foreign exchange markets and the betting odds. In recent days both have shifted slightly in favour of the Remain camp, with sterling improving against both the dollar and the euro, and odds shortening for a Remain result.

However, a lot can happen between now and 23rd June, and it is interesting to note that the pound has not been the only casualty – there are growing signs that the UK economy is faltering, with weak unemployment numbers earlier in April, and slowing GDP growth. How much of this is down to referendum worries is impossible to tell, but we know that markets and businesses dislike uncertainty, and fears about the future direction of the nation must be top of that list.

From an investment management standpoint, we continue to position portfolios to be largely agnostic about the outcome, not least because it would be risky on what is still a close-call vote to do otherwise. If we leave the EU, the dollar and other overseas elements of our client portfolios would benefit greatly from an almost certain devaluation of sterling. If we remain, then the UK element of portfolios would benefit from a probable uplift in the UK equity market, as well as a bounce back in the UK's economic growth later in the year. In either scenario, we are comfortable with our decision to reduce slightly our commitment to equity markets and hold some cash: there will be some interesting opportunities in the coming months, and having a modest element of cash in our client portfolios will provide us with the flexibility to ensure we can benefit from these.

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