

# Credential Market Insights

## SPECIAL EDITION

### Britain Decides - As of June 24, 2016

World financial markets and investors were anxious, and nervous, in the weeks leading up to Britain's referendum whether to remain in the European Union or not. With the votes casted and counted, the Brexit (**Britain exits**) side of the debate prevailed, but by a narrow margin.

#### The History

In 1957, under the Treaty of Rome, the United Kingdom has been a member of the European Economic Community (EEC) up until 1993, where it was replaced by the current European Union (EU). One of the goals of the EEC was to bring about economic uniformity to allow free movement of goods, capital, people, and services within member states, the European Single Market. Since the United Kingdom's accession to membership in 1973, various groups and parties have called for a referendum for the people to determine if the U.K. should remain in the Union. The electorate was given the choice in 1975 and voted in favour of remaining. Fast forward to 2013, British PM David Cameron revived the referendum question again as his campaign commitment if his Conservative Party wins the 2015 general election, which they did. On February 22, 2016, Mr. Cameron announced June 23<sup>rd</sup> as the date for the referendum. If the populous voted to leave, Article 50 of the Lisbon Treaty would be invoked to outline the legal framework for the U.K.'s exit, while if they voted to stay, the U.K. would press forward with a renegotiation of its membership.

#### The Current State

The United Kingdom is not part of the 19-country Euro bloc, having opted to keep the British pound as its currency. However, as part of the EU, the U.K. benefits with freer trade with the world's largest economic union allowing its businesses to access 500M additional customers. In addition to trade, capital flows into the U.K. have risen considerably since the creation of the EU with roughly half of foreign investments deriving from the EU. Lastly, with the withdrawal, the movement of persons between the U.K. and EU may be burdened.

#### The Decision

Britons have spoken and have voted to withdraw from the European Union.

#### The Effects

With the *Brexit* side having won by a surprise 51.8% to 48.2% margin, global markets from Europe to Asia and North American plummeted on the news of the decision, as investors flocked to safe-haven asset gold and the U.S. dollar. The decision has also set in motion a series of events affecting the U.K. and the rest of the world.

- With Article 50 of the Lisbon Treaty being triggered, British and EU lawmakers will begin working on the terms of U.K.'s exit from the EU within the next 24 months. As well, any existing agreements may need to be reworked to exclude the U.K.
- U.K. businesses may see their products become more expensive as they may no longer enjoy the benefits of tariff-free trade associated with a European Single Market. On the flip side, leaving the EU may allow the U.K. to better negotiate trade arrangements suitable for them
- Foreign investment into the U.K. may be dampened as firms gauge the uncertainty of the broken union. However, this is expected to be only for the short term as Britain should remain a destination for capital given its stature within the international economic community
- Shortly after the results of the "Leave" vote, it is expected that emotions will remain fairly high with perhaps animosity from the EU and the world towards the U.K. However, it is likely in the best interests of all parties to push their differences aside and endeavour towards building strong relationships

- As a privilege given to EU member states, the vote has set a precedence for other countries contemplating leaving the EU even though their situation will not be exactly like that of the U.K. Countries such as Greece, who had their Grexit referendum in June 2015, may revisit the topic and follow U.K.'s lead, while Ireland and Scotland may look to revive their independence from the United Kingdom.

To provide a global perspective of the reaction to the Brexit referendum, here are some key data points from the close on June 23 to the time of distribution of this Special Edition.

	June 23 <sup>rd</sup> Close	June 24 <sup>th</sup> (@ 12pm EDT)	Change
S&P/TSX Composite	14,131.38	13,934.57	-196.81 (-1.4%)
S&P 500	2,113.32	2,056.86	-56.46 (-2.7%)
Dow Jones Industrial Average	18,011.07	17,544.46	-466.61 (-2.6%)
Nasdaq	4,910.04	4,755.77	-154.27 (-3.1%)
FTSE 100 (United Kingdom)	6,338.10	6,162.97	-175.13 (-2.8%)
DAX (Germany)	10,257.03	9,557.16	-699.87 (-6.8%)
Nikkei 225 (Japan)	16,238.35	14,952.02 (Close)	-1,286.33 (-7.9%)
Hang Seng (Hong Kong)	20,868.34	20,259.13 (Close)	-609.21 (-2.9%)
CSI 300 (Shanghai)	3,117.32	3,077.16 (Close)	-40.16 (-1.3%)
Gold	US\$1,256.40	US\$1,320.90	\$US64.50 (5.1%)
WTI Crude Oil	US\$50.19	US\$48.85	-US\$1.34 (-2.7%)
Euro-USD	1.1397	1.1109	-0.0276 (-2.4%)
GBP-USD	1.4976	1.3638	-0.1239 (-8.3%)
CAD-USD	0.7836	0.7734	-0.0102 (-1.3%)
GBP-CAD	1.8989	1.7624	-0.1365 (-7.19%)

Source Bloomberg

The true gains and loss effects of Britain's exit from the European Union is too soon to determine. As the fifth largest economy in the world, any effects are not expected to be long-term and the U.K. will survive. As with the decision to leave, it could be as simple as a referendum for the Britain to return to the EU, but not likely to occur for many decades to come.

### The Key Takeaways

- Market volatility is likely to persist over next few days as information is being digested, while the longer term implications of the Brexit decision has yet to be determined.

Credential will continue to closely monitor the events of this historic day.

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