Schroders

Brexit

Schroders Live – EU Referendum Special

At a special event following the result of the European Union referendum, four Schroders experts assess the possible implications of the Britain's decision to leave the economic bloc.

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Peter Harrison

Group Chief Executive

Azad Zangana

Senior European Economist and Strategist

Marcus Brookes

Head of Multi-Manager

Nicholette MacDonald-Brown

Fund Manager, European Equities and Co-Head of Pan European Equity Research

Unstructured Learning Time

Global stock markets have fallen sharply in the wake of the UK's decision to exit the European Union (EU). In highly volatile trading, sterling also struck multi-decade lows against the dollar following the surprise poll result.

However, the possible longer-term implications of Britain's decision to extricate itself from the 28-nation bloc remain unclear. To help assess what these might be, Schroders Live – EU Referendum Special brought together a panel of experts to hear their thoughts on the key issues; not least how investors might navigate the immediate market fall-out.

Few parallels to 2008/09

Schroders' Group Chief Executive Officer Peter Harrison, Senior European Economist and Strategist Azad Zangana, Head of Multi-Manager Marcus Brookes and Fund Manager, European Equities, Nicholette MacDonald-Brown, contributed to the wide-ranging discussion, chaired by the award-winning journalist Andrea Catherwood.

All the commentators agreed that today's events had very few parallels to those of the 2008/09 global financial crisis. This was particularly the case with regards to the corporate sector, where balance sheets are now in much better shape than eight years ago when the global banking system teetered on the brink of collapse.

The "huge amount of leverage in the system" was the key precursor to the events of 2008/09, explained Harrison, who continued: "This is about the UK leaving a trade bloc, it's not about global leverage and a collapse in world trade, I think the two are very different events."

Strong corporate balance sheets

The panellists discussed the possible policy response to any potential fall-out to the real economy following the UK's decision to leave the EU. However, they doubted that the world's central banks would have a "silver bullet" to cure all ills.

This time, explained MacDonald-Brown, individual companies would play a key role in shoring up confidence, pointing out that they were in much stronger financial health than they had been at the time of the 2008/09 financial crisis, particularly with regards to their balance sheets.

'Are we going to see some of these companies step up and use their balance sheets to buy back stock to publically demonstrate their confidence in their companies?' asked the fund manager. 'It's going to be very difficult for some central banker to make some grand pronouncement to make everyone feel better, but can individual companies do it? Probably."

Fear of political repercussions

With regards to the immediate impact of Brexit on the UK's economic growth prospects, Zangana said he expected growth would be lower, and inflation higher. However, while he anticipated that the Bank of England would cut interest rates, it was unlikely to act imminently. Instead, the institution would probably wait before it acted, looking for any signs of a downturn in forward-looking sentiment indicators used to track the health of the UK economy.

However, the economist warned the political risks of the day's events were potentially far greater, flagging the upcoming 2017 elections in France and Germany. There was, he said, the potential for political "contagion to spread into peripheral Europe, some of the core European countries" as other anti-establishment parties garner enough support on the back of Brexit for their own referendums. While this is a risk, Zangana underlined it is not his base-case scenario.

Not the moment to panic

On the question of any long-term impact of the day's events on UK markets, MacDonald-Brown began by reminding investors that the bulk of earnings of the FTSE 100 companies are derived from outside of the UK. And, while many FTSE 250 companies have greater domestic exposure, the market appears to have already discounted many of the risks.

"What is happening today is a de-rating, with regards to immediate earnings impact on companies it's very hard to tell," explained the fund manager. However, sterling's depreciation could act as a prompt for merger and acquisition activity, as UK assets potentially become far better value for overseas buyers.

As to how long-term investors react to market movements, the message was clear. 'This is not a moment to panic. These tend to be opportunities in the long term', explained MacDonald-Brown. This point was concurred with by Brookes, who noted 'there are some babies being thrown out with the bath water', pointing in particular to some of the sharp declines seen overnight in Asian markets.

Longer-term outlook little changed

Brookes continued: "We are selectively going through some of these numbers and think 'there's something we can pick up a bit cheaper'". This calm approach was being replicated across the company said Harrison: "Just coming off the fund management floor there were a number of people selectively buying things that have been mispriced, and I think what we are seeing is a bit of bargain hunting going on."

On the outlook for markets for the rest of this year, Zangana said that the events had not changed the view that "bonds are incredibly expensive, and offer very little value. Meanwhile equities are becoming more attractive given the sell-off that we've seen".

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