

## **Update from Standard Life regarding the Brexit vote implications – July 2016**

Please find attached a [Rapid Response Note](#) from one of our major fund managers, Standard Life, and commentary below regarding the implications following the UK's vote to leave the European Union.

### **UK VOTE TO LEAVE THE EUROPEAN UNION**

The decision on 23 June by the UK to negotiate an exit from the European Union (EU) clearly has significant implications for financial assets, politics (UK and EU), economies and currencies. We will be providing investors with regular updates as this situation progresses, the first being the attached Rapid Response Note.

Standard Life Investments' initial views are detailed below. In coming days and weeks we expect to see:

- material declines in UK and European equities (these have since increased - JWP)
- sterling to suffer further weakness
- Bank of England forecast to cut rates by 0.25% by July
- investor rotation out of UK domestic and European-exposed stocks
- market volatility will increase
- significant downgrades to UK 2017 GDP forecasts, more modest

Despite the relatively orderly response across most markets following the vote, experience of previous crises suggests that several weeks and months are required for asset prices to find their new equilibrium levels. The extent of further price declines will heavily depend on the policy response from central banks and governments. European markets are very much exposed to the political fallout from the UK's decision to exit the EU.

The full implications of the UK vote will only become apparent over time. There are several important time-frames ranging from the immediate market and corporate reactions, several central bank decisions in July through to October/November when elections are scheduled in several key countries. The often referenced 'Article 50' simply starts a two-year period for the UK to arrange exit from the EU. Negotiations covering new UK/EU trading agreements (e.g. access to the single market) are not covered by this initial two-year period and will almost certainly take considerably longer.

The political ramifications for the UK are already becoming apparent. The wider implications for Europe will appear over time. In such a fluid situation it is impossible to accurately predict what the final political consequences will be. A framework of examining how politics influences economic activity, policy responses and what is priced into markets will help investors navigate their way.