June Newsletter

Down Ratley

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Should I stay or should I go now?

If I go there will be trouble
If I stay there will be double
Well come on an' let me know
Should I stay or should I go? The CLASH (1982)

June 23rd's Referendum will be the biggest political choice many of us will make in our lifetime.
It certainly will affect our economy, as well as our sovereignty, security, foreign policy and immigration to name just the headlines.

One key realisation is that there are no facts about what will happen next.
We have had plenty of experts telling us they know what will happen.

We have had in my view nonsensical predictions of the exact numbers for house price change, for the percentage that the economy will shrink and the amount an average family will be worse off.
I will finish this rant with my favourite prediction from the National Institute for Economic and Social Research.

"The think tank issued a projection showing that if immigration were cut by two thirds after a leave vote, GDP would be 9% lower and taxes would rise by £400 in today's money by 2065, compared with a vote Remain"

This threw me into a frenzy of worry until I realised that I would be one hundred and ten years old in 2065!!

An "OUT" vote is likely to mean greater change than an "IN'' vote and on balance I think economic uncertainty is more likely in the short to medium term.

In the longer term, if we are out of the EU, we could have a flexible economy trading across the world with our own rules and being able to change quickly to global trends.

An "IN" vote also has a degree of uncertainty with some EU countries having unstable economies and changing political climates along with the well documented troubles with the Euro, youth un- employment and immigration.

In the short to medium term do we stay in and argue for change or should we decide let's go all in, take the Euro as our currency and become the United States of Europe in the longer term.

Looks to me like we are in for an interesting time whatever happens.

As Wealth Managers we see our job as to position your portfolios to weather whatever economic storms are thrown at us, particularly, now, when we know that turbulence is on the way!

Typically, at least in the short term, stock markets prefer the outlook to be 'more of the same' rather than a prolonged period of uncertainty.

Therefore, it seems most likely that markets for equities and fixed interest securities would suffer the most volatility in the event of a leave vote carrying the day.

Whilst the wider global community is unlikely to feel the ripples of a leave vote it is fair to say that for the first time since 2008, we in the UK could be at the epicentre of a significant economic event.

Inevitably, this will have a negative impact on our UK equity exposure but as our holdings are predominantly in large global trading companies, we do not feel there will be any lasting damage done to portfolio values.

We have been aware for some time that our defensive assets are predominantly held in sterling government securities and for this reason we have spent time considering a range of outcomes that could potentially impact our client portfolios.

Some commentators have suggested that inflation could rise if we left the EU and others have suggested, backed by equally compelling statistics that inflation will rise if we stay in the EU!

We feel that, either way, inflation will have a part to play in all of our lives in the medium term and therefore wish to maintain our exposure to index-linked government securities. Index corporate securities are rare and therefore do not offer a complimentary or viable alternative to UK government holdings.

We have made the decision to introduce elements of global fixed interest exposure (albeit hedged back to Sterling to protect us against significant currency movements) to our client portfolios. Whilst we accept that this is not a panacea, we feel it offers additional stability in the event of a doomsday scenario for sterling as a safe haven currency.

Our next quarterly rebalance is due a week after the referendum on June 30th and we will be ready to act then or sooner once the Referendum dust has settled.

As always we are here if you need to chat.

Best wishes.

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