## Brexit update

### SUMMARY


- **Market reaction has been within the realms of expectations given Brexit vote.** Markets recovered some of their immediate losses, while Euro area periphery bond spreads widened
- **Political implications still being worked through.** The vote has huge implications for Europe, UK and Scotland politics.
- **We prefer to remain cautiously positioned.** We have been reducing our suggested allocation to risk assets and believe this remains appropriate until the situation calms down or real value is created.


### BACKGROUND

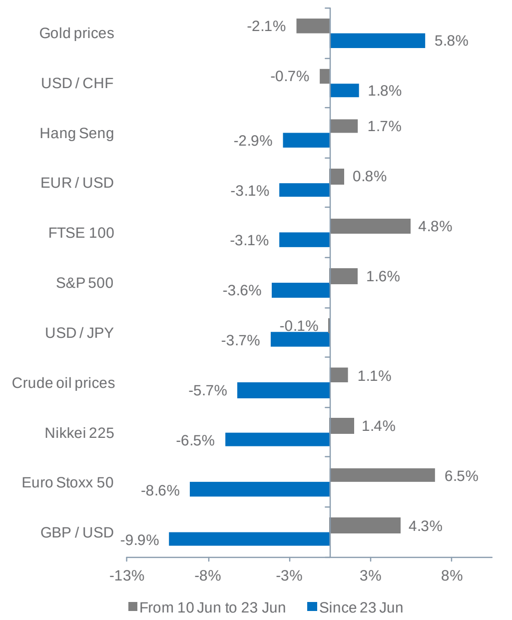
- **Markets recover some of their losses.** The FTSE 100 index, which was down over 8% at one stage on Friday, was down 'just' 3% by the close. The S&P500 index closed down 3.6% compared to futures indicating a 5% loss. The Euro Stoxx 50 index, however, closed down 8.6%.
- **UK Prime Minister resigns, Labour leader under pressure.** PM Cameron has indicated he will step down in October, with no clear successor identified. Labour leader Corbyn came under criticism for allegedly not campaigning for the Remain camp vociferously enough. The sacking of Hilary Benn from Corbyn's 'shadow cabinet' has led to 11 members of the shadow cabinet resigning.
- **Initial EU rhetoric hawkish.** The vote has clearly upset European leaders with many arguing for a swift UK exit. German Chancellor Merkel has tried to calm the situation by suggesting the process should not be rushed.
- **Spanish People's Party benefits.** The conservative People's Party garnered more support than expected, but still fell short of a majority. Coalition talks may be easier than feared.

### WHAT DOES THIS MEAN FOR INVESTORS?

- **Markets likely to calm down gradually in the coming days.** While there is still a lot of uncertainty, the headlines are likely to become more conciliatory. The focus will now shift to Tuesday's EU leaders summit and which of the 5 potential exit models (see table) might be pursued.
- **Maintain cautious allocation**. We have been dialing back our suggested exposure to risk assets throughout the past 6 months. We believe a cautious approach remains warranted as markets have not sold off significantly enough to warrant bargain hunting. Our three favoured areas are multi-asset income, bonds and multi-asset global macro strategies.
- **Watch Euro area equities.** One of our themes that has clearly been adversely impacted by the Brexit vote is Euro area equities. The UK vote may raise questions about the viability of the Euro area project. However, it is also possible that European voters will look at the Brexit impact and think twice about a protest vote going forward. At this point, we prefer not to act in haste either in buying or selling Euro area equities.

### Gold rose while risky assets plunged following the Brexit vote

*Local currency performance of different asset classes in the two weeks to the Brexit vote and after the results on Friday, 24 June, 2016*




*Source: Bloomberg, Standard Chartered*

*27 June performance as of 7:00 am Singapore (SGP) time*

### Key technical support levels

*Key support levels of major indices – percentage from current spot level, spot as at 7:00 am SGP time*

| Market | Spot | First key support | Second key support |
|---|---|---|---|
| Nikkei 225 | 14,952 | -2.9% | -6.4% |
| Hang Seng | 20,259 | -6.7% | -9.9% |
| Euro Stoxx 50 | 2,776 | -1.4% | -3.7% |
| FTSE 100 | 6,139 | -6.0% | -10.6% |
| S&P 500 | 2,037 | -0.6% | -3.3% |

*Source: Standard Chartered*

### The long term impact of Brexit depends on the form the new relationship between the UK and EU takes

*Potential UK-EU relationship models post Brexit*

| Model | Description | Verdict |
|---|---|---|
| **Norwegian-style EEA agreement** | UK maintains full access to single market but must adopt EU standards and regulations with little influence over these. The UK still contributes significantly to the EU budget and is unable to impose immigration restrictions | ● (Unlikely) |
| **Turkish-style customs union** | Internal tariff barriers are avoided. The UK is required to implement EU external tariffs, without influence or guaranteed access to third markets | ● (Unlikely) |
| **FTA-based approach** | UK is free to agree FTAs independently. Tariff barriers unlikely | ● (Likely) |
| **Swiss-style bilateral accords** | Bilateral accords will govern the UK's access to the single market in specific sectors. The UK has to follow regulations for sectors covered but negotiates FTAs separately | ● (Likely) |
| **MFN-based approach** | Agreement for common standards not needed but at the expense of facing EU's common external tariff | ● (Unlikely) |

***Legend:***
● - Unlikely ● - Likely

*Source: Global Counsel, Standard Chartered*

# Disclosure Appendix

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