**Britain Exiting the European Union (BREXIT):** It can be seen in the tables[1] below that global markets are reacting rather negatively to the British referendum vote to exit the European Union (EU).

| | | | |
|---|---|---|---|
| Dow Jones | 17,506.63 | -504.44 | (-2.80%) |
| S&P 500 | 2,051.82 | -61.50 | (-2.91%) |
| Nasdaq | 4,743.64 | -166.40 | (-3.39%) |

World markets

| | | |
|---|---|---|
| Shanghai | 2,854.29 | -37.67 (-1.30%) |
| Nikkei 225 | 14,952.02 | -1,286.33 (-7.92%) |
| Hang Seng Index | 20,259.13 | -609.21 (-2.92%) |
| TSEC | 8,476.99 | -199.69 (-2.30%) |
| FTSE 100 | 6,190.08 | -148.02 (-2.34%) |
| EURO STOXX 50 | 2,805.06 | -232.80 (-7.66%) |
| CAC 40 | 4,145.49 | -320.41 (-7.17%) |
| S&P TSX | 13,954.55 | -176.90 (-1.25%) |
| S&P/ASX 200 | 5,113.20 | -167.50 (-3.17%) |
| BSE Sensex | 26,397.71 | -604.51 (-2.24%) |
| TA25 | 1,432.64 | -0.94 (-0.07%) |
| SMI | 7,784.10 | -238.95 (-2.98%) |
| ATX | 2,083.05 | -159.06 (-7.09%) |
| IBOVESPA | 49,655.80 | -1,904.02 (-3.69%) |

It can be clearly observed that most of the global market indexes have lost up to 8% in the post-Brexit vote. The impact has been rather steep because markets were expecting a vote from Britain to stay in the EU. Instead, the Brits surprised the world by choosing to exit the EU.

Obviously, there is an element of human error in the form of impulsiveness when markets react. This is magnified during the initial reactionary period of any event. We believe that we are facing a similar over-reaction in the current market situation. Having said that, we would like to share our thoughts and crucial variables that will have critical impact on the markets going forward.

1. **Uncertainty in the European Union:** Markets are very concerned with the uncertainty created by this event. If Britain can vote to exit the European Union, so can other countries in the EU. If that happens, it could and would put significant pressure on the banking sector not only in the EU but worldwide.
2. **Dollar Strength:** The initial reaction has translated in the strengthening of the Dollar and the Yen versus most European currencies, especially the British pound. This would put pressure on US and Japanese companies that depend on global sales.
3. **Total Market Damage:** We believe that the damage in capital markets will be quick and swift but manageable. The most important aspect is the long term impact of Brexit on economic fundamentals of global economies. It's important to know that Brexit could take up to 2 years to be enacted. Despite the current uncertainty based on various aspects of the Brexit, we believe that sentiment should stabilize over the next few months.

[1] Source: http://www.googlefinance.com

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4. **European Banks:** Banks, especially in Europe have taken a huge beating over the last year. Most European banks have lost 50-70% in the last 12 months. The major reason for this could be the debt that these banks hold and the expectations of delinquencies on the debt held by these banks.
5. **US Banks and the recent Stress Test:** The recent stress test performed on the major US Banks was a success overall (Results released June 23, 2016). The stress test included 33 largest US banks. The conclusion of this exercise illustrated a stronger capital position of these banks and their ability to function well in an eventuality like we faced in 2008-09. In other words, the US banking system is in much healthy position than it was pre 2008-09 recession.

**Inference:** Despite the negative sentiment that markets are experiencing currently, we believe that this is more a political event than an economic event. We do not believe that this would turn into a banking or a debt contagion that would adversely impact the global economics. We will definitely feel the adverse impact on capital markets in the short term. We believe that this would be an opportunity to invest in fundamentally strong areas in the markets that have and are being unduly punished.

PLEASE REMEMBER: Each investor is unique and should invest to compliment their respective financial conditions and objectives.

## *Please review the following disclaimer*



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