

June 27, 2016

In the world of investing, the stock market loves good news, dislikes bad news, and absolutely hates uncertainty. Last week, when the results of the Brexit referendum became known to the world, financial markets were completely caught off guard by the “leave the EU” victory.

Investors face a number of uncertainties following the vote, including whether this is the beginning of a European movement to delink from the European Union and whether Scotland and Northern Ireland will seek independence from Britain. In addition, uncertainty remains over how Britain’s future relationship with the EU will take shape and the economic impact that Brexit will all have on the U.K., the EU, and the rest of the world. It is likely that we won’t have the answers to these issues for some time to come. It is also important to note that the referendum is technically non-binding. And while it is highly unlikely that the government will ignore the vote, there is currently an online petition with Parliament calling for a second vote that gathered over three million signatures in the first 48 hours after the results were announced. In the probable event that Brexit comes to fruition, the U.K. government will have two years to unwind its involvement with the EU, a process that will not likely even begin until a new prime minister is elected in the months to come.

One initial impact from the vote has been an increase in the dollar relative to the euro and pound. A sustained appreciation of the dollar would serve as a drag on the earnings of U.S. multinational companies. In addition, given the uncertainty of how the referendum will affect the global economy, it is unlikely that the Federal Reserve will increase interest rates anytime soon.

The many uncertainties surrounding the Brexit referendum will likely have a negative economic impact in Europe in the short term as business confidence and investment in Europe will likely suffer. However, we feel the long-term impact on the global economy will be minimal as the current uncertainties will gradually be sorted out. We expect the U.S. economy to remain resilient, pushing forward at a moderate pace as it has continually done in the face of many headwinds over the past few years. However, during the next few months, the uncertainty of the Brexit decision will likely cause a higher level of volatility in the stock market as investors try to digest what it all means. During this time, we will sort through all of the noise in search for long-term investment opportunities presented by the short-term volatility.

Sincerely,

Alison J. Gamble, President
Gamble Jones Investment Counsel

