



Economic and Market Insights

June 24, 2016

By Scott Colbert, CFA

*Commerce Trust Chief Economist, Director of Fixed Income
The Commerce Trust Company*

The UK Deals Itself A New Hand With The European Union

As we mentioned in our communication to clients earlier this week, the vote by the United Kingdom (UK) to leave the European Union (EU) would be an historic one, and the surprising results of the British referendum this morning confirmed the country's decision to leave the European economic alliance of 28 countries. Once again, Chief Economist Scott Colbert, CFA, skips the political motivations and gets straight to this event's economic impact on you.

Q. What will happen now that the British referendum vote to exit the EU is final?

A. As we alerted clients earlier this week, worldwide markets would react negatively to a decision to leave the EU. Stock exchange futures are down across the board and European currencies fell against the dollar. There will be continued volatility, some very pronounced, as the world digests this news.

Our position was that clients should be mentally prepared for a relentless string of media coverage, that volatile markets would likely calm down after an initial adjustment period, and that this disruption will likely present some rebalancing opportunities with the international markets. Talk to your advisor about staying true to your market allocations in your portfolio as these markets become fairly distorted. We still believe this to be the best approach.

Q. What will other EU members do as a result of this decision?

A. While we cannot speculate on the politics, it is safe to say that some member countries will re-evaluate their roles in this important economic alliance. This British decision really represents a cross-current of issues, ranging from economic independence to nuts-and-bolts trade agreements, from social issues involving the changing dynamics of immigration policy to daily travel across closely-knit European borders. In addition, currency exchanges are hugely affected – even right now the pound is



down 10% to the dollar as of yesterday. Despite some contrary opinion, we believe the existence of the euro as a currency will continue and that the EU will likely remain intact. We will all watch with great interest what information comes out from Europe today as the world waits for these issues to unwind in due course. It's important to remember that the UK has approximately two years to renegotiate new agreements and, amazingly, nothing specifically changed today with its European neighbors. But clearly there will be a backlog of issues to sort out.

Q. Is there anything to do to my portfolio at this point?

A. You should always contact your investment advisor with any questions. We do believe there will likely be opportunities coming from this European dislocation. At the moment, average European shares are down significantly. For example, in aggregate, European stock indexes are down about 9½% percent (adjusted for currency) today. Don't be compelled to short-circuit your asset allocations for a temporarily bumpy international market. Just remember U.S. markets had a 10.5% correction back in the first quarter and we've already recovered. We believe most of the market disruption due to a Brexit will eventually be reclaimed and it is affording us all some investment opportunities as a result.

Takeaways:

- Be prepared for plenty of economic media coverage now that the Brexit decision has been made.
- Recognize that global and U.S. markets, while volatile now, might calm down once the dust settles over time.
- Some international opportunities will actually present themselves along the way.
- Talk to your investment advisor and rebalance to your investment portfolio allocations if necessary.

Past performance is no guarantee of future results, and the opinions and other information in the investment commentary are as of June 24, 2016. This summary is intended to provide general information only and is reflective of the opinions of The Commerce Trust Company Investment Policy Committee.

This material is not a recommendation of any particular security, is not based on any particular financial situation or needs, and is not intended to replace the advice of a qualified attorney, tax advisor or investment professional. Diversification does not guarantee a profit or protect against all risk.

The information in this commentary should not be construed as an individualized recommendation of any kind. Strategies discussed here in a general manner may not be appropriate for everyone.

Commerce Trust does not provide tax advice or legal advice to customers. Consult a tax specialist regarding tax implications related to any product and specific financial situations.

Data contained herein from third-party providers is obtained from what are considered reliable sources. However, its accuracy, completeness or reliability cannot be guaranteed. All expressions of opinion are subject to change without notice depending upon worldwide market, economic or political conditions.

NOT FDIC INSURED

MAY LOSE VALUE

NO BANK GUARANTEE