

Investors, beware the Brexit **red herring**

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Over the past few months it has been impossible to avoid Brexit, particularly in Ireland where we have such strong economic links with the UK

Most economists and commentators here accept that a no deal Brexit will lead to some short term disruption for the Irish economy. Unfortunately it is difficult to disagree with this assessment.

But how should investors view a no deal Brexit?

Put simply we see Brexit as an issue which is unlikely to have a significant impact on world markets irrespective of the version of Brexit that comes to pass. Some readers might find this difficult to digest given the torrent of recent coverage of the topic. This might strike others as a classic case of investor complacency. But our basis for this is rational and simple – **ultimately the UK is just not significant enough on its own to lead world investment markets.**

Why?

At present the UK only accounts for around 2% of the global economy and 5% of the world stock market. Irrespective of the nature of Brexit, slower UK economic growth will not on its own drag the world economy down in 2019. In contrast the US and Chinese economies combined account for over 30% of the world economy. It is these economies large global investors are watching closely, not the UK. To draw a stock market analogy, the UK economy is more like a mid-sized company, not one of the index heavyweights that will drive the stock market higher or lower.

In practice we have already seen evidence of the lack of a 'Brexit effect' for globally diversified investors. Up to the end of February 2019 world stock markets were up 30% for Irish investors since the referendum. Indeed since Prime Minister May lost the vote on her Brexit bill on January 15th, world stock markets are up 7% for Irish investors. It is clear from these performances that of all the things preoccupying global investors, **Brexit isn't one of them.**

The UK Market

Granted the most recognisable UK stock market, the FTSE 100, has underperformed other international stock markets since the referendum in 2016. However, this market is very exposed to global sectors like banking, pharmaceuticals, energy and mining – not the UK economy. Consequently, global developments have affected performance much more than the UK economy or Brexit.

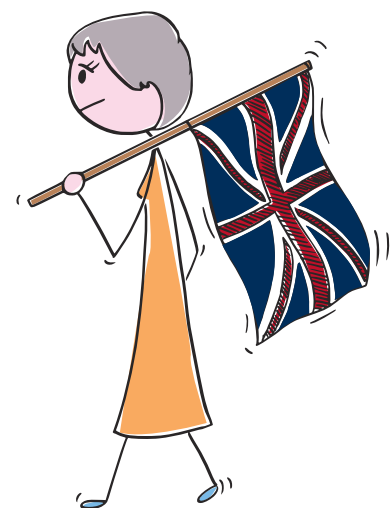


In stock market terms, Brexit's narrow influence has been limited to companies that are more exposed to the UK economy. The FTSE 250 Index is a good example – here concerns about the impact Brexit could have on the UK economy have weighed on this market to the extent that it has underperformed even the FTSE 100 since the referendum result in 2016. The Irish stock market has also underperformed in recent times and while this might not be explicitly down to Brexit, the close economic links between the UK and Ireland may mean global investors take a more cautious approach towards Irish companies for the time being.

Beyond stock markets, a no deal Brexit could weigh on UK property, albeit with the caveat that the impact really depends on the location and quality of the property. If a no deal Brexit does come to pass, the burden is likely to fall heaviest on sterling which could easily revisit the financial crisis lows of around 96p versus the euro.

Some Final Thoughts

As we approach March 29th it is crucial that investors 'Brexit proof' their investment portfolios. Check your portfolio for signs that it may be overexposed to UK domestically focused shares, UK property and sterling. If it is, it may be worth spreading the risk more from a geographical perspective. However if your portfolio is well spread geographically, then Brexit could actually end up being a real red herring.



Warning: The value of your investment can go down as well as up.

Warning: These funds may be affected by changes in currency exchange rates.

Warning: If you invest in these funds you may lose some or all of the money you invest.

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