

# A moment in markets – Brexit anguish is at the forefront again

Published 22 September 2020

## Mobeen Tahir

Director, Research

The 'B' word is back. It was not making headlines for most of this year because both parties involved – the UK and Europe – were embroiled in a more urgent crisis in the shape of a pandemic. The two sides are still making heated exchanges over Brexit negotiations while the 31st December 2020 deadline for agreeing the terms of their future relationship approaches quickly.

### **Bad for Europe but worse for the UK**

UK's equity market has trailed Europe's considerably this year. The UK's FTSE 100 Index is down over 20%<sup>1</sup> while Euro Stoxx 600 Index is down just over 11%<sup>2</sup> year-to-date in sterling and euros respectively (see Figure 01 below). If we compare the two in Euros, the UK fares even worse on account of Sterling's weakness relative to the Euro – another sign of the UK being hurt more by the risk of Brexit disruption and uncertainty.

*Source: WisdomTree, Bloomberg. Data as of 22 September 2020. Total return indices shown in respective local currency. Indices rebased to 100 on 01 January 2020.*

### **Historical performance is not an indication of future performance and any investments may go down in value.**

Now, while it is possible to make a case about the pandemic causing more economic damage to the UK than Europe, the Brexit factor can certainly not be disregarded. The European Union (EU) accounts for 43% of all UK exports and 51% of all UK imports<sup>3</sup>. The UK's share in EU's trade is not insignificant but is certainly smaller with the UK accounting for 14.9% of all EU exports and 10% of all EU imports<sup>4</sup>. UK falling out of the trade union without a conducive trade deal will put UK exports at a competitive disadvantage and sting the UK much more than the EU.

### **The silver lining may be short-lived**

The FTSE 100 Index made gains of nearly 15% between 23 June 2016<sup>5</sup>– Brexit referendum day – and the end of 2016 (see Figure 02 below). This was not because markets perceived Brexit to bring significant economic benefits to the UK economy. Instead, it was triggered by a drastic fall in sterling – a sign that economic prospects had sharply deteriorated. Given FTSE 100 companies generate more than 70% of their revenue from abroad, sterling depreciation boosted the competitiveness of UK exports – in the short term – and hence, lifted UK equities.

*Source: WisdomTree, Bloomberg. Data shown for 2016. Price Index shown for FTSE 100 Index. Pound Sterling is represented by Deutsche Bank GBP Trade Weighted Index.*

**Historical performance is not an indication of future performance and any investments may go down in value.**

A similar effect could provide a silver lining now with sterling likely to get weaker as the Brexit conundrum becomes more vexatious. The Bank of England's recent indication that it is amenable to considering negative interest rates may also hold the currency from gaining strength. This short-term respite must not, however, mask UK's Brexit challenge even if equity markets end up taking a myopic view.

Investors could therefore consider continuing to seek defensive hedges to not only mitigate the risk of a disorderly and disruptive Brexit, but also the uncertainty leading up to it.

1 Bloomberg, as of 22 September, on a total return basis.

2 Bloomberg, as of 22 September, on a total return basis.

3 UK House of Commons Library. Data for 2019.

4 European Commission. Data for 2019.

5 Bloomberg, on GBP total return basis.

## Important Risks Related to this Article

### Important Information

**Marketing communications issued in the European Economic Area (“EEA”):** This document has been issued and approved by WisdomTree Ireland Limited, which is authorised and regulated by the Central Bank of Ireland.

**Marketing communications issued in jurisdictions outside of the EEA:** This document has been issued and approved by WisdomTree UK Limited, which is authorised and regulated by the United Kingdom Financial Conduct Authority.

WisdomTree Ireland Limited and WisdomTree UK Limited are each referred to as “WisdomTree” (as applicable). Our Conflicts of Interest Policy and Inventory are available on request.

**For professional clients only. The information contained in this document is for your general information only and is neither an offer for sale nor a solicitation of an offer to buy securities or shares. This document should not be used as the basis for any investment decision. Investments may go up or down in value and you may lose some or all of the amount invested. Past performance is not necessarily a guide to future performance. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice.**

The application of regulations and tax laws can often lead to a number of different interpretations. Any views or opinions expressed in this communication represent the views of WisdomTree and should not be construed as regulatory, tax or legal advice. WisdomTree makes no warranty or representation as to the accuracy of any of the views or opinions expressed in this communication. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice.

This document is not, and under no circumstances is to be construed as, an advertisement or any other step in furtherance of a public offering of shares or securities in the United States or any province or territory thereof. Neither this document nor any copy hereof should be taken, transmitted or distributed (directly or indirectly) into the United States.

Although WisdomTree endeavours to ensure the accuracy of the content in this document, WisdomTree does not warrant or guarantee its accuracy or correctness. Where WisdomTree has expressed its own opinions related to product or market activity, these views may change. Neither WisdomTree, nor any affiliate, nor any of their respective officers, directors, partners, or employees accepts any liability whatsoever for any direct or consequential loss arising from any use of this document or its contents.