

‘Britin’ or ‘Brexit’?: Pre- 23 June Referendum – 2015 Grexit episode suggests to stay hedged until ‘B’-Day (Part 2)

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In the second instalment of our ‘Britin’ or ‘Brexit’ series, we look at the key issues in the run-up to the Referendum. View [‘Britin’ or ‘Brexit’? : In a nutshell](#) for last week’s high level analysis.

The markets don’t like Britain’s flirting with the status quo. When there is no obvious economic upside and only uncertainty, markets turn bearish. The elevated volatility in sterling which, at 12% is on par with levels last seen during the Eurozone’s sovereign default and banking crisis in 2010-2011, suggests investor sentiment to the sterling is outright downbeat.

Chart 1 shows the trend in European equities and bonds in the 30 workdays leading up to and the 30 work days following the 5 July 2015 “Grexit” referendum, the de facto vote by Greece to accept tough austerity in exchange for a bailout, and secure its future membership in the EMU. While not directly comparable to “Brexit”, it is in our view the closest reference for how markets may potentially react leading up to 23 June, the date when Britain’s future membership in the EU is put to a referendum.

In the run-up to the vote and the real possibility of “Grexit”, a trend of risk aversion is evident in both the UK and Eurozone, with equity markets weakening and bond markets gaining strength. The FTSE 100 and EURO STOXX 50 fell by approximately 6% in the 30 days leading up to the referendum, and further slides reversed only *after* the extension of the bailout deadline restored market confidence and a deal would be agreed, which was four days after Greece’s vote decisively rejected the bailout terms.

As polls continue to gravitate around a nearly evenly split opinion on whether Britain stays in or out of the EU, the spectre of uncertainty will loom large, potentially exposing European equities to downward risk similar to the “Grexit” period of fear last year. Safe havens, including gilts and gold, are likely to find ongoing appeal with investors. **So what?** Amidst a vulnerable sterling and euro, it may be prudent to hedge long UK and broad European equity market exposure.

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