ECONOMICREVIEW of June 2016

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Our monthly economic review is intended to provide background to recent developments in investment markets as well as to give an indication of how some key issues could impact in the future.

It is not intended that individual investment decisions should be taken based on this information; we are always ready to discuss your individual requirements. I hope you will find this review to be of interest.

Paul Smith

THE UK'S 'BREXIT' REFERENDUM VOTE GOES TO THE WIRE

In a dramatic vote in the UK's 'Brexit' referendum, held on June 23rd, the British people decided, by a margin of 51.9% to 48.1%, to leave the European Union (EU) after over four decades of membership.

At the close of a sometimes contentious and bad-mannered campaign by the two opposing sides – 'Leave' and 'Remain'– the Prime Minister, David Cameron, conceded defeat for his preferred option of 'Remain' and duly stood down as the leader of the country. This resignation will enable the new leader of the Government to decide who will head the negotiations with the EU following the enactment of 'Article 50' of the Treaty on European Unity, which legislates for a country's exit from the EU.

GLOBAL MARKETS INITIALLY REACT NEGATIVELY

As the final result of the referendum was not declared until around 6.30am (BST) on the 24th, it was the Sterling currency that took the initial hit. However, the pound recouped some of its losses to finish that very volatile day's trading at $1.3626, down 11.81 US cents.

At the 8.00am (BST) opening of the UK Stock Exchange on Friday the 24th, the leading FTSE100 index fell by over 549 points, to an intraday low of 5,788.70, down 8.7% before recovering strongly to close at 6,138.70 on that day, down 3.15%. (Please see 'Latest Markets' on page 2 of this Review.)

EUROPEAN AND WORLD LEADERS REACT TO THE RESULT

International reaction to the 'Leave' vote was rapid, with the European Union issuing a joint statement from the Presidents of the European Commission, Jean-Claude Juncker, the European Council, Donald Tusk, and European Parliament, Martin Schulz, together with Mark Rutte, the Prime Minister of The Netherlands. It read: *"We now expect the United Kingdom government to give effect to this decision of the British people as soon as possible, however painful that process may be. Any delay would unnecessarily prolong uncertainty.*

"We hope to have the UK as a close partner of the EU also in he future."

UK votes to leave the EU after 43 years

Meanwhile, Angela Merkel, the Chancellor of Germany said: *"We take note of the British people's decision with regret. There is no doubt that this is a blow to Europe and to the European unification process."*

President Obama commented: *"The people of the United Kingdom have spoken, and we respect their decision. The special relationship between the United States and the United Kingdom is enduring, and the United Kingdom's membership in NATO remains a vital cornerstone of U.S. foreign, security, and economic policy… The United Kingdom and the European Union will remain indispensable partners of the United States even as they begin negotiating their ongoing relationship to ensure continued stability, security, and prosperity for Europe, Great Britain and Northern Ireland, and the world."*

DIFFICULT DECISIONS STILL NEED TO BE MADE

The medium and long-term ramifications will take some time to evolve, with a new UK civil service unit, headed by Oliver Letwin, a Government Cabinet Office minister, starting the negotiations with the EU.

Meanwhile, the Chancellor said: *"I do not resile from any of the concerns I raised during the campaign. But now we must respond loud and clear: Britain is open for business and the British economy is fundamentally strong."*

LATEST MARKETS:
(DATA COMPILED BY THE OUTSOURCED MARKETING DEPARTMENT)

The somewhat unexpected success of the 'Leave' campaign in the Brexit referendum, declared in the early hours of June 24th, precipitated a violent sell-off of UK equities with the FTSE100 losing over 500 points within minutes of it opening, following the results. However, by the month end it had recovered strongly to close at 6,504.30, up 4.39% on the month. Meanwhile, the wider FTSE 250 fell by 5.32% to 16,271.10; the reliance of the mid cap benchmarks member companies on the UK caused this sharper decline. The junior AIM market followed suit declining by 4.27% to 707.90.

Global markets also reacted negatively, as the sentiment was reflected in Europe as the Eurostoxx50 lost 6.49% on the month, to close at 2,864.74.

American markets fared similarly. The Dow Jones lost 0.80% in the month, ending at 17,929.99 while the technology based Nasdaq dipped by 2.13% to 4,842.67.

Still there was no respite to the bearish sentiment in Japan as the Nikkei225 closed June at 15,575.92, down 9.63%.

Negative sentiment had a far more profound effect in the foreign exchanges where, at one point on 25th June, Sterling had fallen to $1.32 against the greenback, only to claw back some ground to close the month at $1.35, to register a monthly fall of 6.90%. Sterling was also unloved in Europe with the pound losing 8.46% against the Euro to €1.19. The US Dollar remained flat in June against the Euro at $1.11.

As always, in times of increased market volatility, Gold reclaimed its 'safe haven' status seeing a monthly rise of 8.81% to $1,322.15 a Troy ounce.

'Black Gold' – Oil, as measured by the Brent Crude benchmark, remained steady at $50.05 a barrel, a rise of 1.09%.

ELEVEN YEAR LOW FOR UK UNEMPLOYMENT

Unemployment in the UK has now fallen to its lowest level for over a decade. The Office for National Statistics (ONS) reports that in the three month period to the end of April 2016, there were 1.67 million unemployed, a fall of 20,000 from the preceding quarter. The percentage of the population out of work dipped marginally to 5%; the lowest level seen since October 2005.

The number of people in work increased by 55,000 to 31.6 million, which represents 74.2% of the population.

Earnings, excluding bonuses, rose by 2.3%. This was higher than anticipated by many market analysts, partly due to the introduction of the new National Living Wage of £7.20 per hour; 1.8 million workers aged over 25 benefited, resulting in earnings growth in April rising by 2.5%. Earnings, including bonuses, also grew by 2% in the same period.

There were mixed messages in the public sector, with employment increasing by 6,000 overall, thanks to a rise in those employed by the NHS, however, local government saw a decline in the number of employees, down to 2.2 million.

Positive news on the jobs front

THE SERVICES SECTOR CONTINUES TO GROW

The powerhouse of the UK economy, the services industry, which contributed all of the country's 0.4% economic growth in Q1 2016, continued to grow in May, albeit at a *"subdued"* level.

Mixed messages from Markit/CIPS

The Markit/CIPS Purchasing Managers Index (PMI) for the sector rose to 53.5, against the 52.3 level seen in April. Any figure above 50 indicates growth in the sector.

Over 30% of respondents to the PMI survey cited uncertainty over the EU referendum as a limiting factor to their growth prospects in the period covered. The latest PMI also noted that respondents reported new business in services grew at its slowest rate for nearly four years.

Job creation in the sector was also muted, recording its lowest pace seen since August 2013, largely as a result of *"lacklustre inflows"* of new business and the introduction of the new National Living Wage.

Reinforcing these findings, Chris Williamson of Markit commented: *"The PMI surveys show that the pace of economic growth remained subdued in May, as 'Brexit' worries exacerbated existing headwinds."*