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MARKET MATTERS: The Brexit and the markets; much ado about something

A TV screen shows global stocks plunging following the British Brexit vote as traders, background, work at the Euronext Amsterdam Stock Exchange, Netherlands, June 24. *Peter Dejong — The Associated Press*

Joseph Matthews

Three trading days. That is all it took for the market to calm after an unexpected decision by the United Kingdom to leave the European Union. Markets around the world saw stocks fall sharply, with about a $2.8 trillion drop in the value of world stocks, the biggest daily loss ever.

By the middle of this week, however, stocks began to rally and show gains. While some savvy traders may have seen the volatility as an opportunity to purchase stocks, others watched as the world financial system reacted to the uncertainty brought about by the vote.

There is much to learn from the Brexit, as it is known, and while there are many investors that still may be unsure about the long-term impact, the first lesson is the need for a patient and calm approach. Oftentimes nothing will come from panic but chaos, and while the UK's decision to leave the EU certainly will have an impact on global markets, it does not mean that chaos is an inevitable result.

In highly volatile markets, investors should not over-react, and should always keep a long-term focus. That focus, at least for now, should be on the world's central banks, among other areas, as they work to stabilize markets.

Investors should also examine the new reality in Europe and consider the impact of the vote and the timing of any changes, including, for instance, that it will take at least two years for Britain to negotiate its exit from the EU and hammer out new trade agreements, among other issues.

Clearly, some of the immediate results of the Brexit vote were influenced by uncertainty. For instance:

• U.S. stocks fell at the open on the morning after the vote, with investors looking to safe haven assets, such as government bonds and gold. The S&P 500 index, the Dow Jones

Industrial Average and Nasdaq Composite index all began the session down sharply … and ended the day down sharply.

• Oil prices also dropped that day, as investors considered the implications of the Brexit on global oil markets and consumption.

Yet, only days later, the market had regained much of its losses and oil was up again, just shy of $50 per barrel. While the markets reacted strongly to the Brexit vote, a more holistic view suggests it was a political, rather than financial shock.

There are several factors to consider in the long term. I believe the UK faces a prolonged period of uncertainty, which could negatively affect growth as well as impacting the British pound. This in turn could lead to inflation over the long term.

Although I expect a response from the European Central Bank in support of corporate bonds and sovereign credit, I also see U.S. assets, including stocks, bonds, currency and corporate credit, as comparatively safer havens. It is reasonable to consider that risk-aversion will remain elevated as long as there is uncertainty on how the transition is clarified.

Until the UK and Europe come to terms on the details of the separation and the impact of the realignment is mapped out, there will be uncertainty in the markets. It may be a good time to meet with your financial adviser and assess your long-term financial plan.

The world markets have taken a collective deep breath and are now recovering from the initial shock of the Brexit vote. But there is a long way to go until the new order is solidified. By taking a long-term view and exercising patience, investors can remain diligent, while also making informed decisions on their portfolios.

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