

# Market Alert

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## *“UK Votes to Leave EU”*

**Brexit concerns have dominated the news over the last few months and United Kingdom (UK) voters surprised the markets when they elected to leave the European Union (EU) yesterday after 43 years of membership. The unprecedented nature of this decision coupled with the fact that markets were leaning towards a “Remain” vote, have led to a sharp decline in the global equity markets. Following is a summary of USI Advisors observations on the political, economic and market impact of this decision. USI Advisors will continue to assess the longer term implications of the Brexit vote and will provide a detailed Research Update accordingly.**

### Political Impact:

On June 23, 2016 British voters elected to leave the EU, an event that was unlikely just a few weeks ago according to opinion polls. This outcome was a surprise to investors that attributed a low probability to this event, and has had an immediate impact on the UK political arena as Prime Minister David Cameron has resigned. The longer term political impact on the UK and Europe is unknown at this point, but the changes in political leadership will likely drive the terms of the separation. A number of political parties opposed to elements of the UK membership have gained popularity in EU countries, which may open the door for other nations to follow suit. As other member countries potentially try to renegotiate terms of their relationship with the EU, this increases future political uncertainty in the Eurozone.

### Market Impact:

The referendum results have already had an impact on global markets today and a more severe initial reaction is evident in UK assets. The British pound has fallen, volatility has increased and UK equities are down significantly. The major US equity indices have also dropped sharply and we expect to see continued volatility in the broader global markets over the coming weeks. The sudden plunge in the global markets is also reflective of the fact that investors may have not priced in the possibility of this unprecedented mandate. Over the short term, we expect heightened volatility in equities, fixed income markets and currencies.

### Economic Impact:

The UK economy enters a period of uncertainty that may take some time to stabilize. The European Union is UK's biggest trading partner, with about half of UK exports going to EU countries. The UK has also benefited from the EU trade agreements with over 50 other economies that now will need to be re-negotiated as new trade agreements. It is anticipated that the country's exports may experience a significant drag depending on the length of time it will take to carry out the separation. The UK is currently the world's fifth largest economy, so any slowdown could potentially have adverse ramifications to the global economy. The impact on the broader EU is too early to gauge but the region will likely be economically impacted by the departure of the largest financial center. We anticipate the impact on the United States (US) economy to be less direct, however US companies with European operations based in Britain could be affected. This outcome might also trigger a stronger dollar which hurts US trade. The Federal Reserve recently decided to keep rates unchanged, on fears of a Brexit vote to leave. The Fed will likely take into account how this situation evolves when making future monetary policy decisions.

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As the market reacts to this unexpected result, USI Advisors will continue to assess the situation and its possible implications. However, in our view, this type of volatility has become more common in response to unexpected geopolitical events. Making asset allocation changes in reaction to these events can potentially hurt investors' ability to meet their long-term investment goals. It is important to remain well diversified and stay the course as we navigate through another volatile market environment.