

# 'Brit-in' or 'Brexit': Hedging in Times of Geopolitical Uncertainty

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# Contents

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- ❏ What are the polls saying?
- ❏ UK Macro Fundamentals
- ❏ Eurozone Macro Fundamentals
- ❏ Current Investor Sentiment
- ❏ How to hedge using S&L ETPs
- ❏ Positioning and Asset Allocation

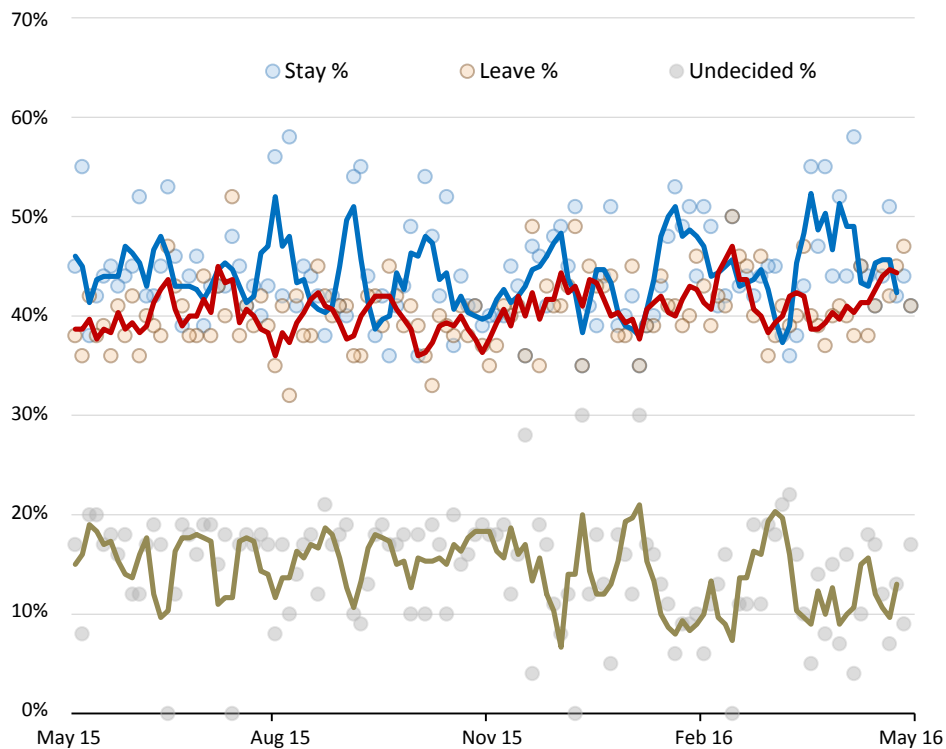
# 'Brit-in' vs 'Brexit': What does each side stand for?

	Stay – 'Brit-in'	Leave – 'Brexit'
<b>Trade and Economy</b>	<ul style="list-style-type: none"> <li>• Access to single market is key for Britain's economy</li> <li>• No clarity on what post-Brexit trade would look like</li> <li>• relies more on the EU for trade than vice-versa</li> </ul>	<ul style="list-style-type: none"> <li>• Britain has the ability to negotiate favourable trade deals without being a part of the EU</li> <li>• EU represents a declining trade market for the UK</li> <li>• Norway and Switzerland are examples of how UK can still maintain trade outside of EU</li> </ul>
<b>Immigration</b>	<ul style="list-style-type: none"> <li>• Net effect of immigration has been undoubtedly positive</li> <li>• Britain needs skilled and unskilled labour that the EU provides</li> <li>• Leaving the EU will not stop immigration</li> </ul>	<ul style="list-style-type: none"> <li>• Migrants put additional pressure on already strained public services and housing</li> <li>• Immigration is out of control and Brexit is needed so Britain can regain control of its borders</li> </ul>
<b>Cost</b>	<ul style="list-style-type: none"> <li>• Britain's net contribution is only £8.5 billion (after rebates and EU spending)</li> </ul>	<ul style="list-style-type: none"> <li>• Membership to the EU is expensive with Britain's contribution at £18 billion a year</li> </ul>
<b>Sovereignty</b>	<ul style="list-style-type: none"> <li>• Referendum is proof that UK has not lost sovereignty</li> <li>• Important laws and policies are still set by the British government</li> </ul>	<ul style="list-style-type: none"> <li>• Britain has forfeited its sovereignty and democracy as an EU member</li> <li>• UK can retain its influence without being a member</li> </ul>
<b>Regulation</b>	<ul style="list-style-type: none"> <li>• Much of EU regulation makes life easier and safer</li> <li>• EU also guarantees equal rights and labour standards</li> </ul>	<ul style="list-style-type: none"> <li>• EU over-regulation is a burden to UK businesses</li> <li>• UK businesses will thrive once freed from unnecessary bureaucratic intervention</li> </ul>
<b>Security</b>	<ul style="list-style-type: none"> <li>• Britain is stronger working with the EU in tackling rising political tensions</li> <li>• Sharing of intelligence with EU is increasingly important</li> </ul>	<ul style="list-style-type: none"> <li>• Open border prevents UK from checking and controlling people</li> <li>• Leaving EU is unlikely to weaken diplomatic relations with other countries</li> </ul>

# Neck-and-neck race will hinge on voter turnout

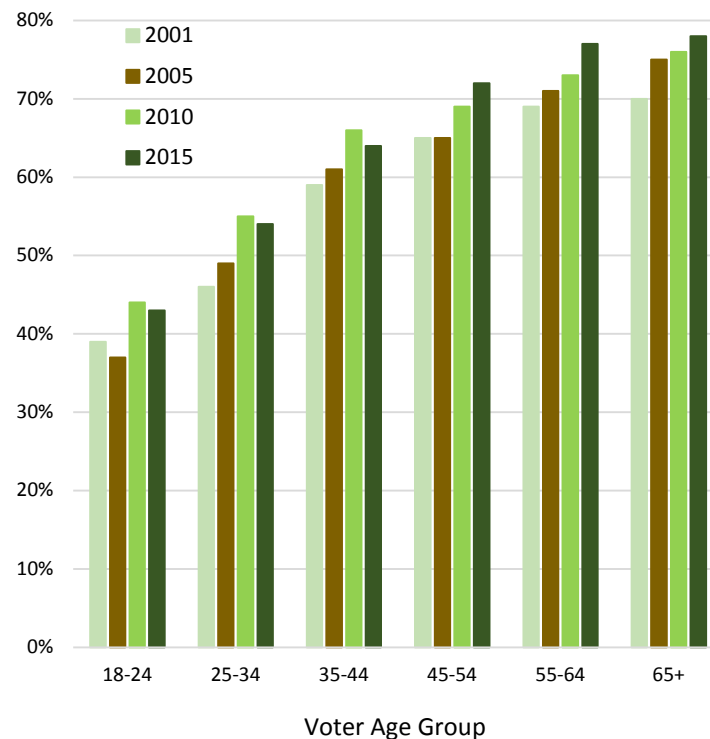
## Polls are too close to call!

Polling Results since May 2015



## Unlocking young votes will be key

Voter Participation by age group at previous elections

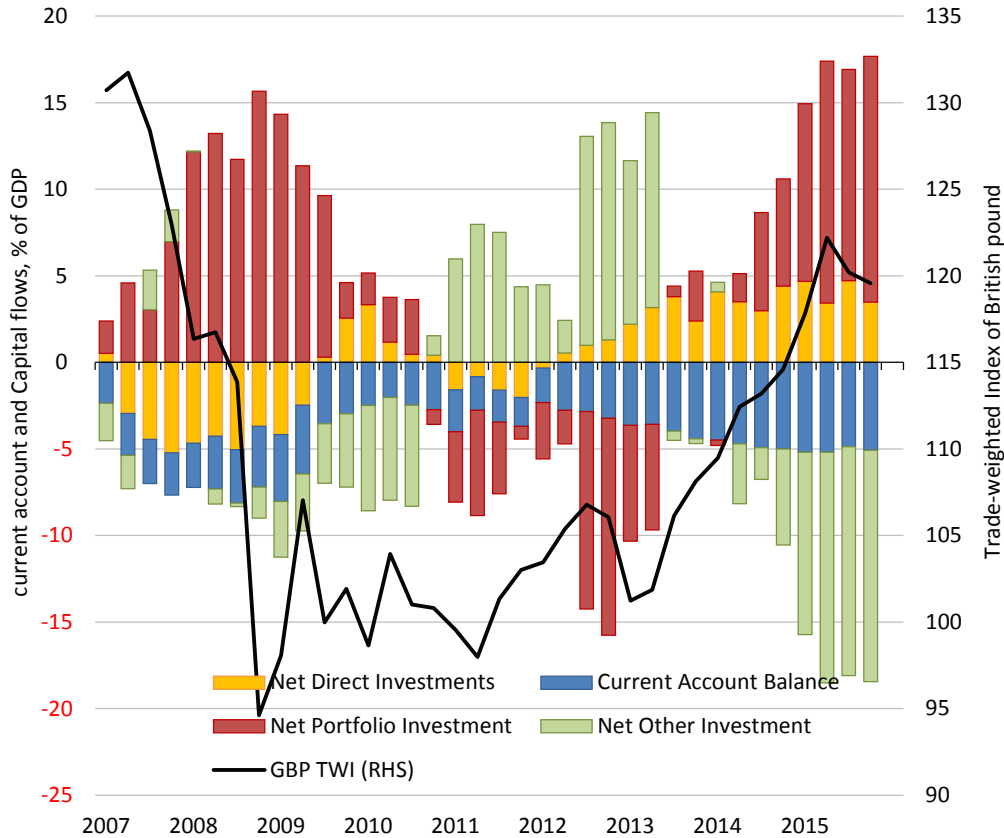


Source: WisdomTree Europe, FT, What UK Thinks, Ipsos Mori.  
Data as of 31/05/2016

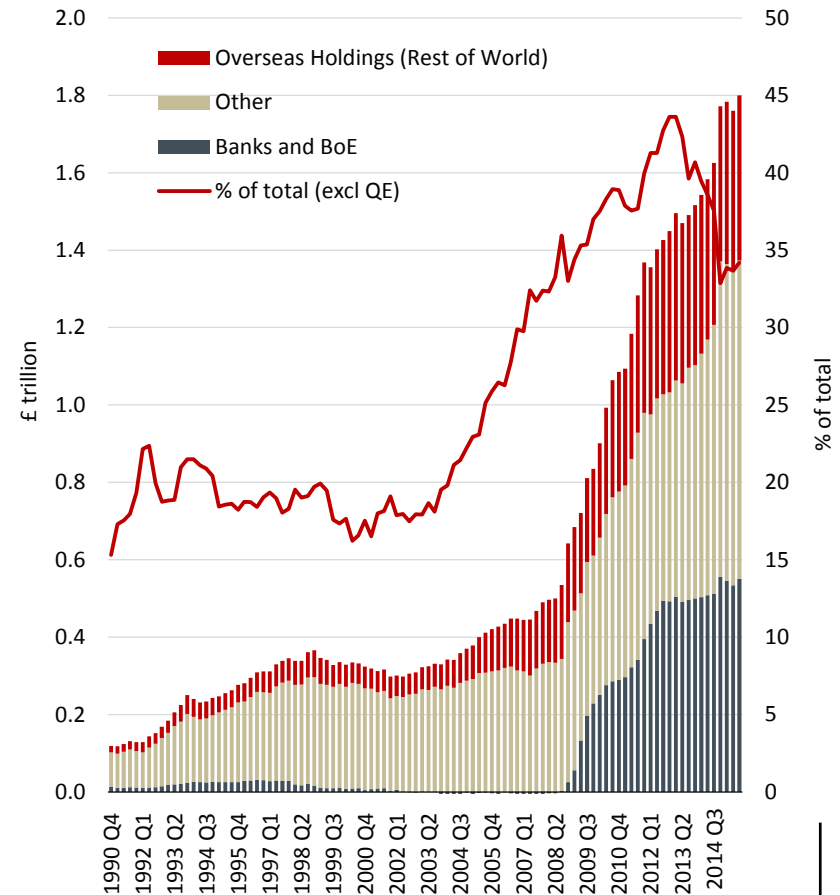


# Sterling Assets At Risk: when foreign capital stops funding UK's twin deficit

**Foreign investment into UK sustain sterling**  
UK Capital flows vs trade-weighted sterling



**Holdings of UK gilts by investor type**  
Amounts outstanding and % foreign held

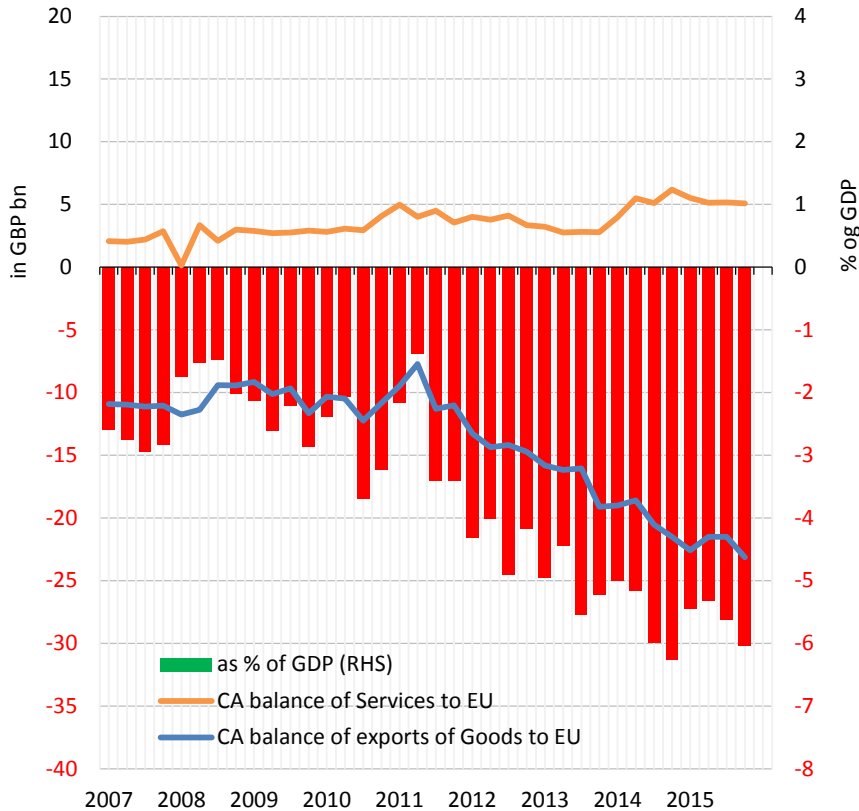


Source: WisdomTree Europe, Debt Management Office, ONS.

# Sterling Assets At Risk: when foreign capital stops funding UK's trade deficit

## UK trade with EU

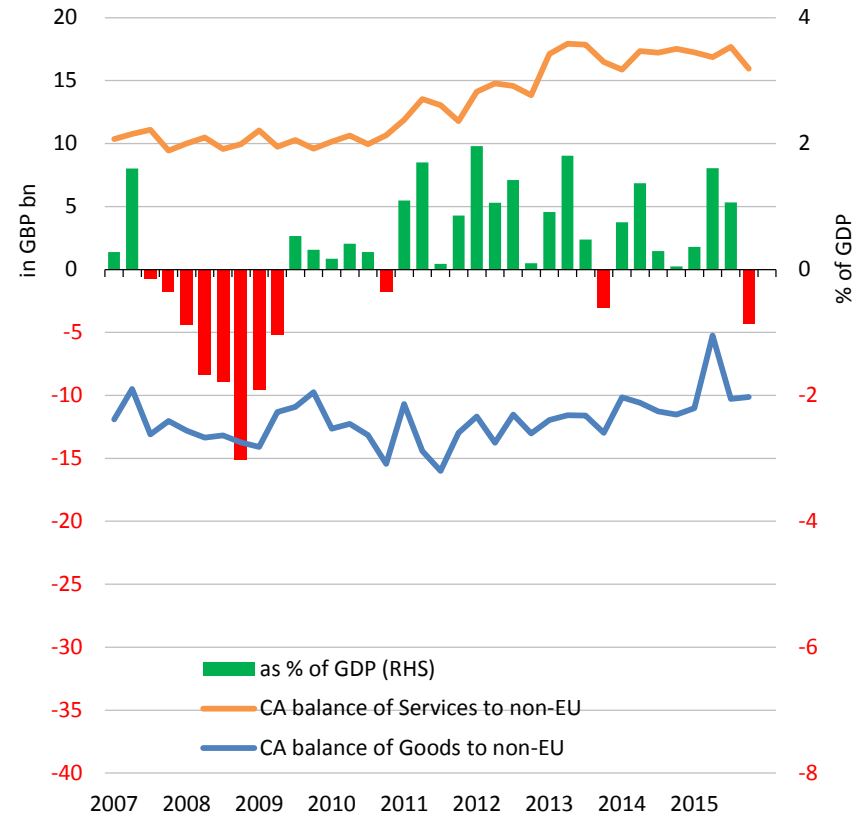
Current account balance



Source: WisdomTree Europe, ONS, Bloomberg

## UK trade with non-EU

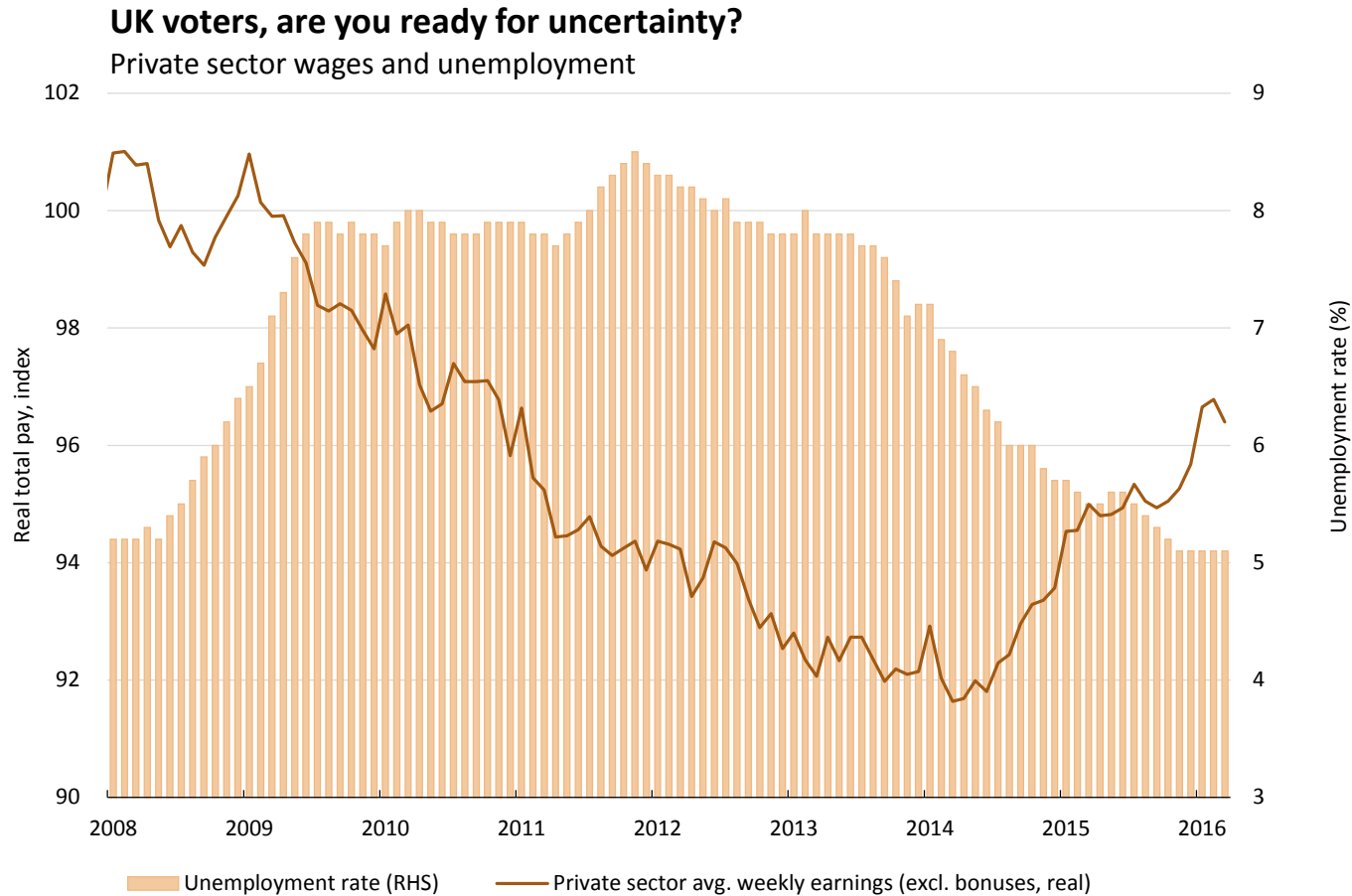
Current account balance



Source: WisdomTree Europe, ONS, Bloomberg



# UK households to vote with their pockets? hard earned restoration of income and jobs



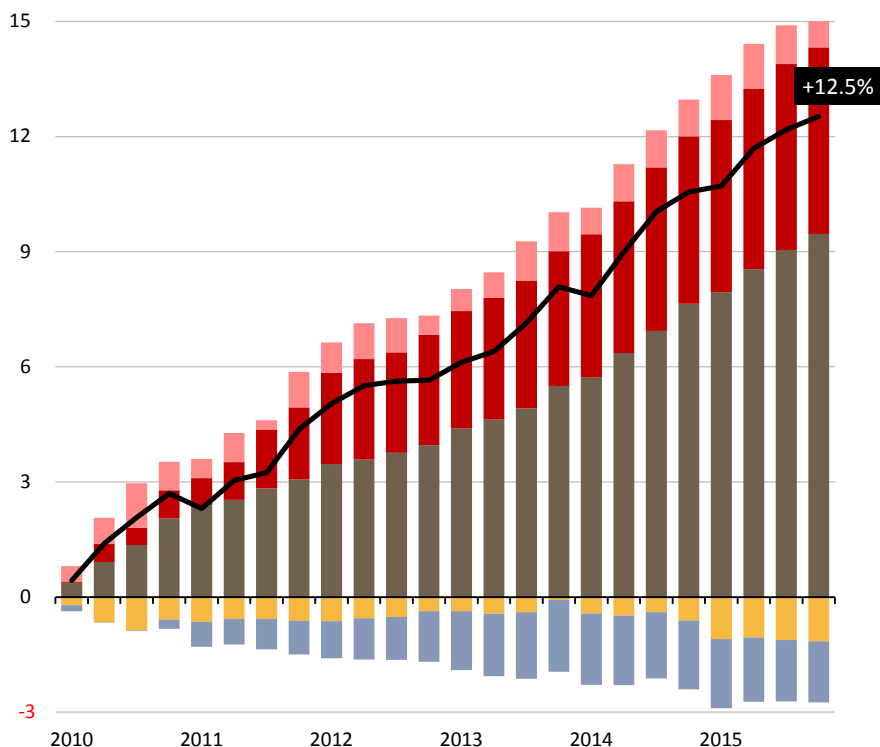
Source: WisdomTree Europe, Bloomberg.



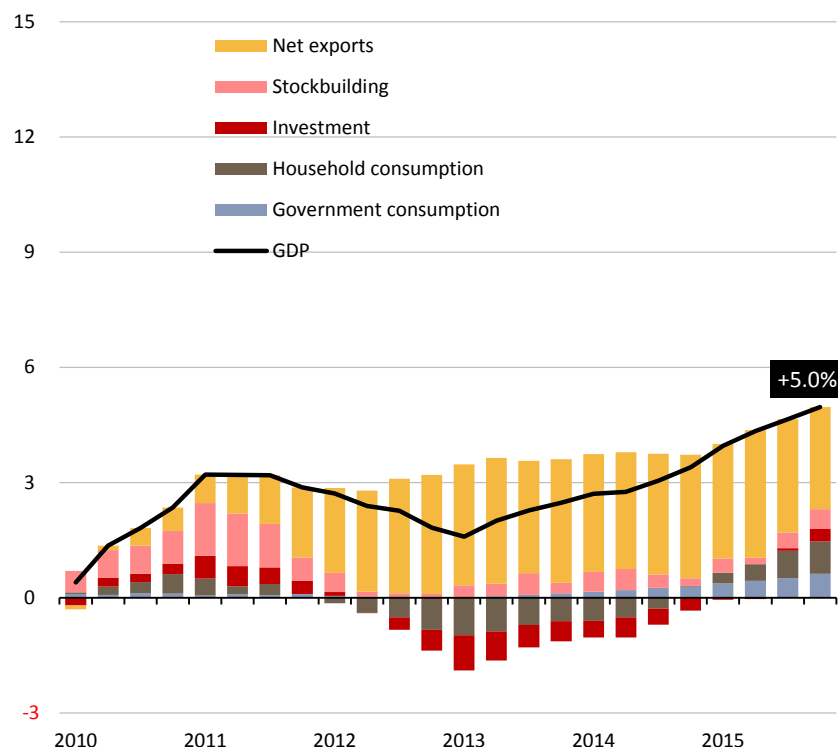


# Eurozone's rebalancing act: structural shift finally contributing to cyclical-led growth

**US GDP**  
Cumulative contribution  
(in percentage point)



**Eurozone GDP**  
Cumulative contribution  
(in percentage point)



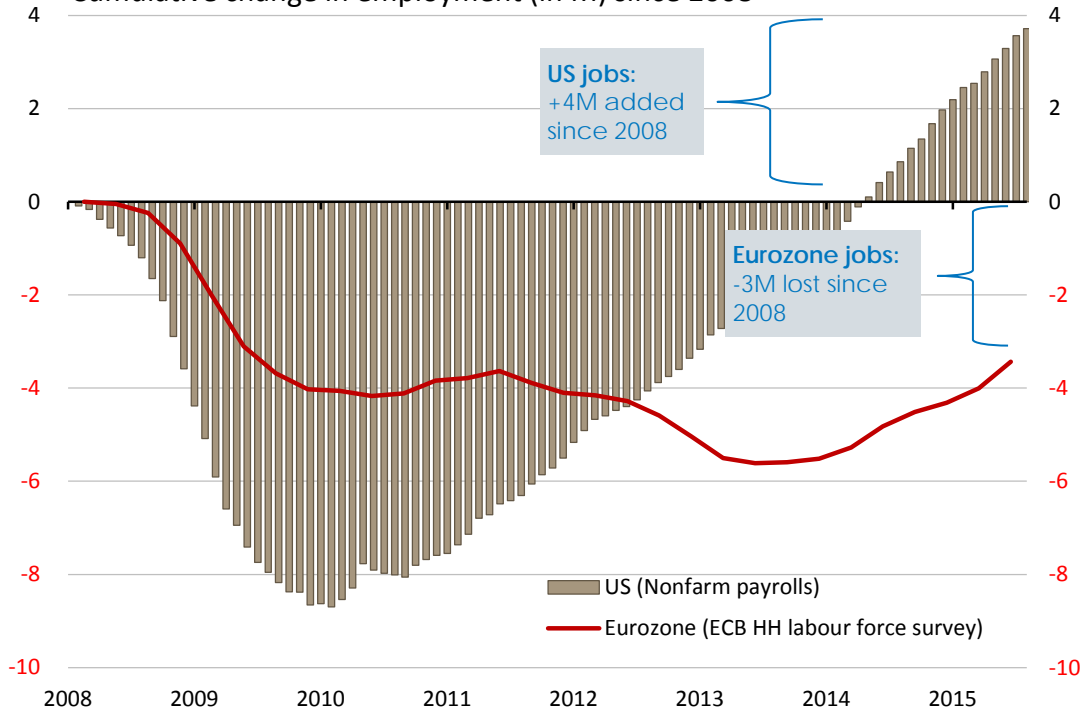
Source: WisdomTree Europe, Bloomberg.  
Data as at 31 March 2016



# Eurozone structural recovery: productivity gains are starting to turn jobs market around

## Eurozone jobs market recovery is 3 years behind the US...

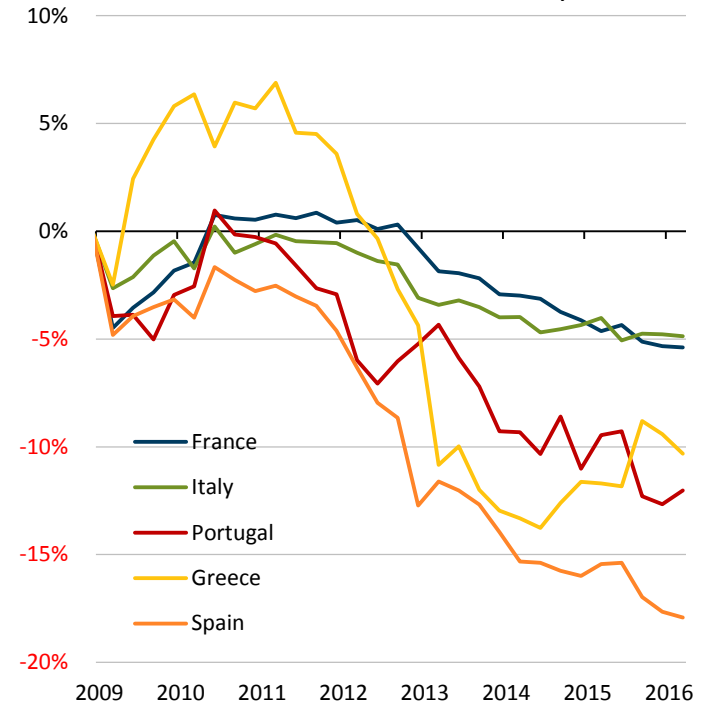
Cumulative change in employment (in M) since 2008



Source: WisdomTree Europe, Bloomberg.  
 Data as at 31 October 2015

## ...but broadening out into FR & IT

Unit labour costs relative to Germany



Source: WisdomTree Europe, Bloomberg.  
 Data as at 31 March 2016

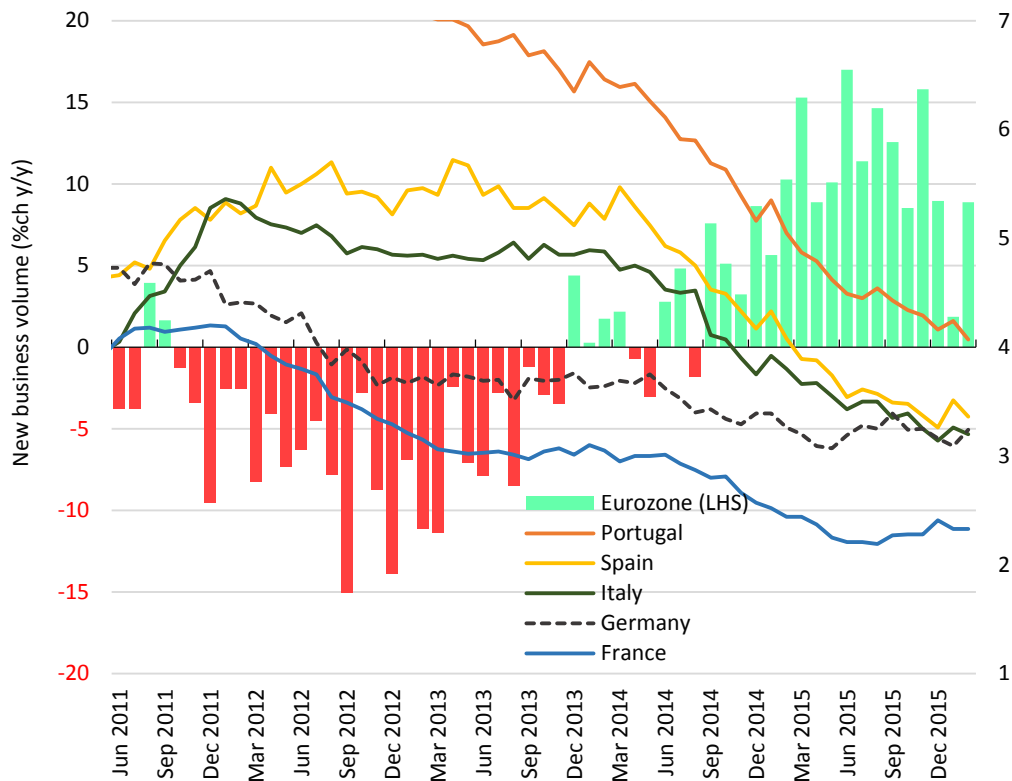
- Eurozone: approximately 4 years behind the US's structural recovery
- Broad based rebound depends on faster labour market reform in Italy and France

# SMEs: cheaper credit restores business confidence

## Bank loans to Eurozone small businesses

bank loans <=EUR 250K,

LHS: New business volume (%ch y/y); RHS: interest rate (%)

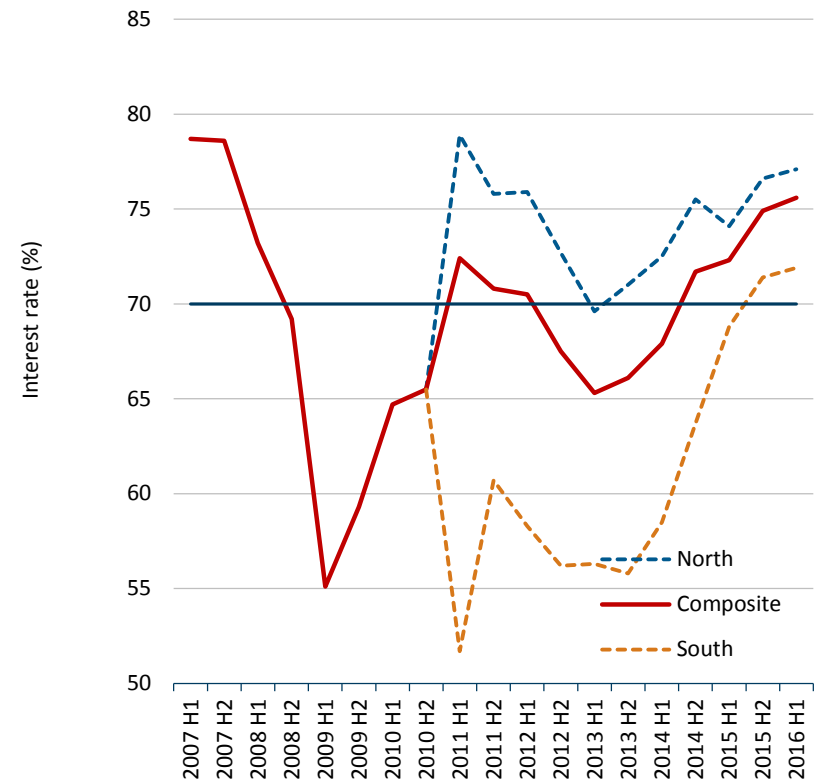


Source: WisdomTree Europe, Bloomberg.  
Data as at 26 February 2016

## Small business recovery broadening out

EU Craft and SME Barometer

>70 is expansion; <70 is contraction

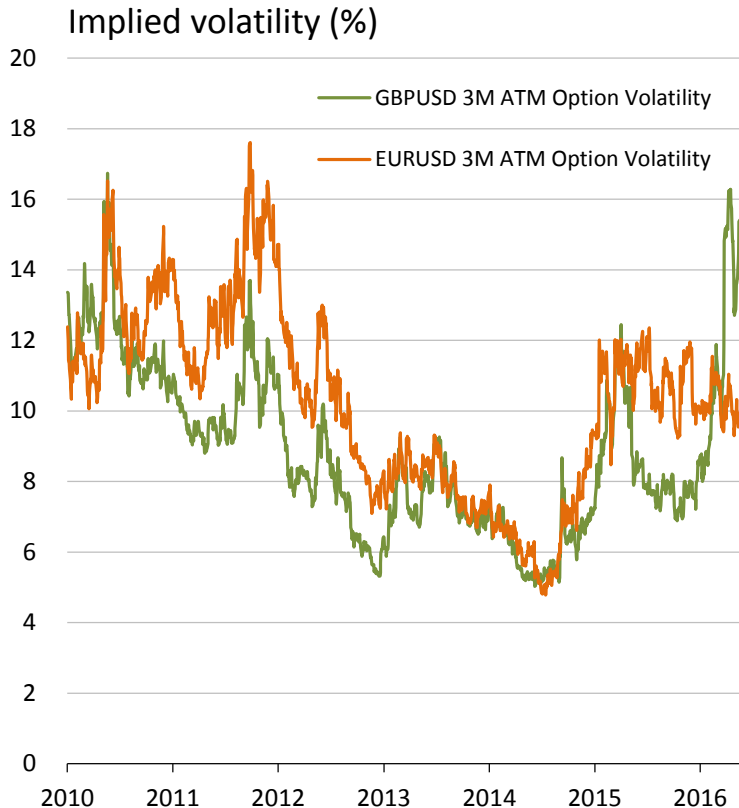


Source: WisdomTree Europe, Bloomberg.  
Data as at 26 February 2016

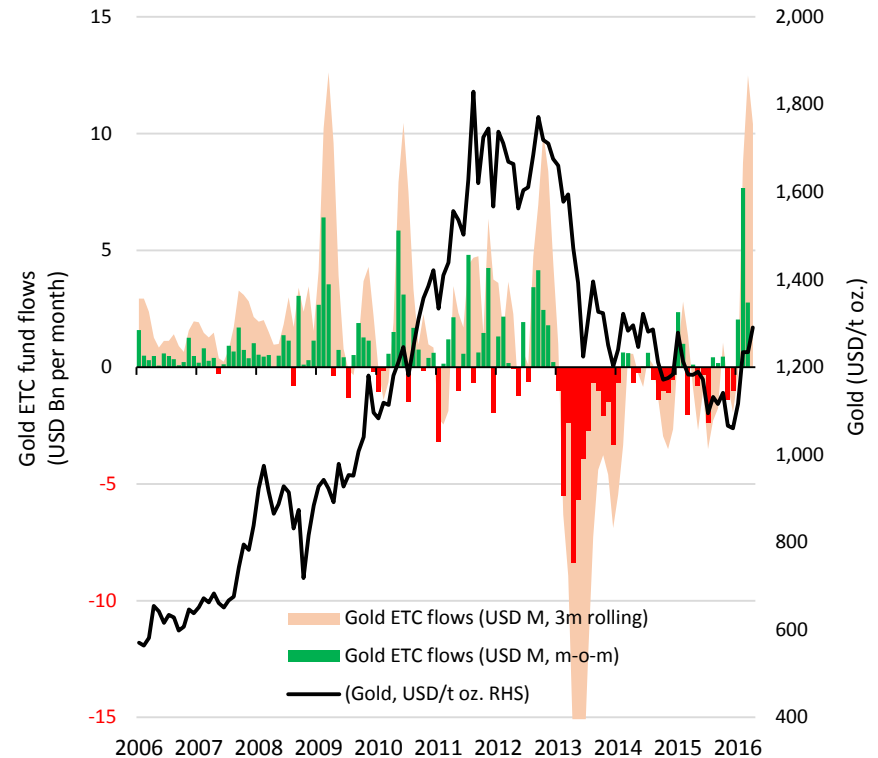


# FX markets nervous as investors continue piling into Gold

## Pressure on Pound and Euro ahead of EU referendum



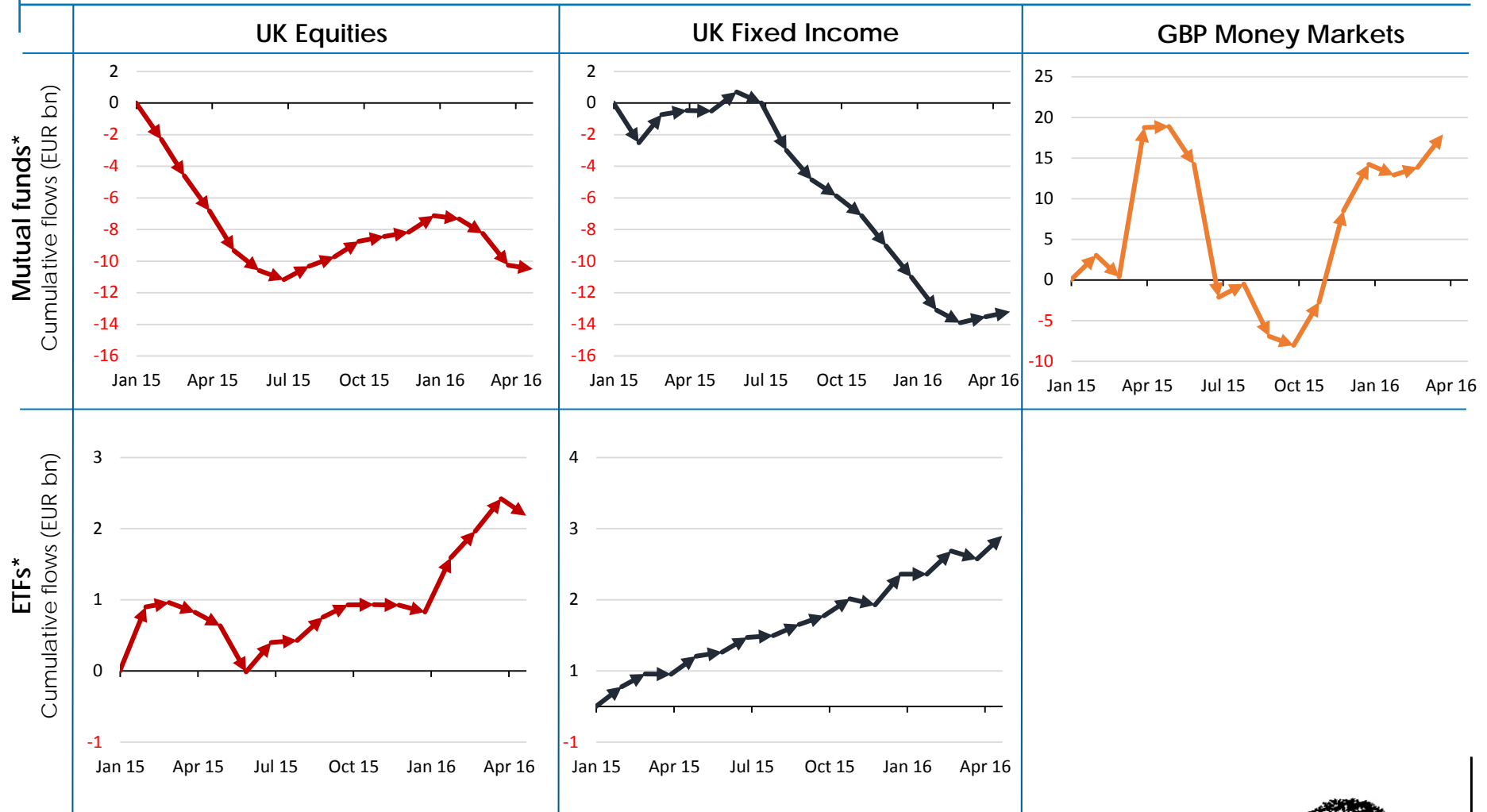
## Gold Price vs Gold ETC fund flows



Source: WisdomTree Europe, Bloomberg.  
Past performance is not indicative of future returns.



# Brexit and market sentiment: Flows of European-domiciled funds



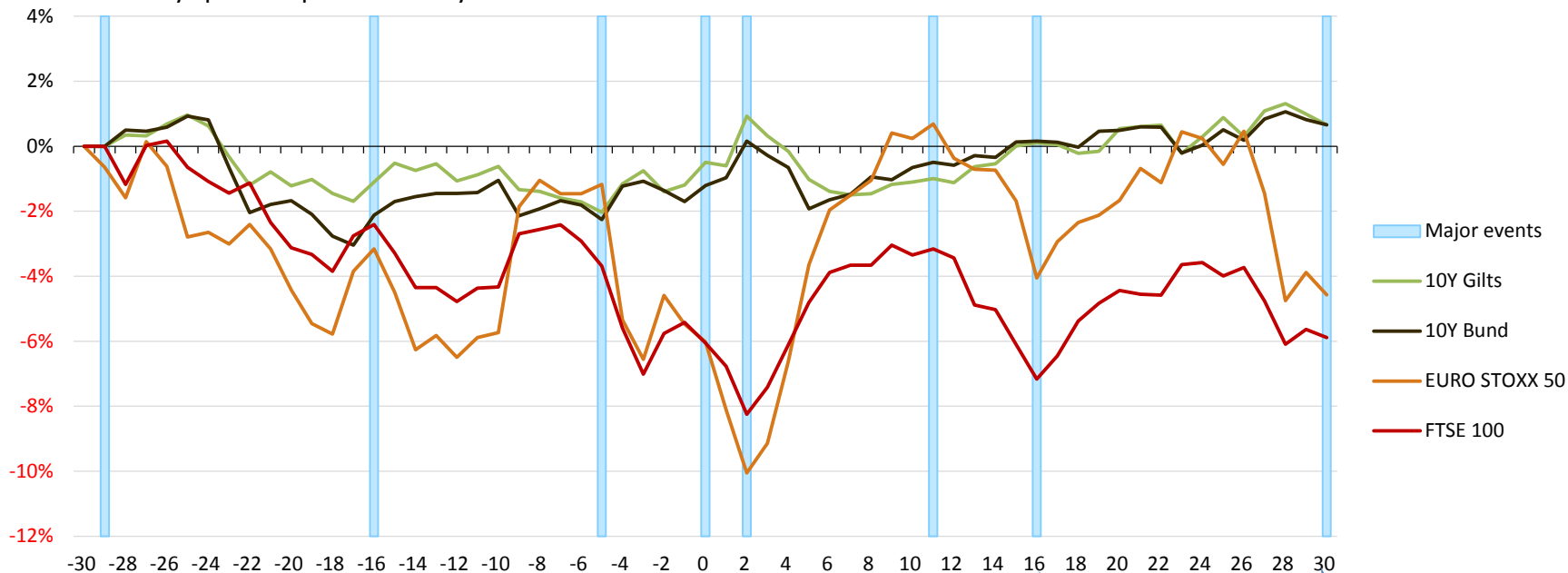
Sources of all charts: WisdomTree Europe, Morningstar. Mutual fund flows as of 29 February 2016; ETF flows as of 31 March 2016.  
\*Excluding funds of funds and feeder funds. Past performance is not indicative of future returns.



# Brexit and market sentiment, pre and post: Grexit is our 'best' guide for risk-off/on positioning

## Grexit Fears

30 days pre and post Greece's yes or no vote on Troika bailout terms



Source: WisdomTree Europe, The Daily Telegraph.

**25 May:**  
Greek PM rejects bailout, threatens to default

**11 June:**  
IMF walks out from bailout talks

**26 June:**  
Greek PM announces referendum on bailout terms

**3 July:**  
Referendum held: Greeks vote no to bailout terms

**7 July:**  
Deadline for bailout terms extended

**20 July:**  
Greek Banks reopen

**27 July:**  
Troika resumes negotiations

**14 August:**  
Greece accepts Troika bailout terms

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