

June 24, 2016

Our Thoughts on Brexit

Markets worldwide have fallen significantly in the wake of the U.K.'s vote to leave the European Union. This is obviously a very fluid situation, but we wanted to reach out this morning to share our initial thoughts.

The vote to leave the E.U. was a surprise. In fact, stock markets across the world rose in anticipation of a "Remain" vote as survey results published this past week pointed to the U.K. maintaining the status quo. Investors and traders positioned themselves accordingly, and we are witnessing the unwinding of many of those positions. Although the S&P 500 and Dow Jones Industrial Average are off significantly this morning, the indices haven't fallen much farther than the levels reached just last week, when it appeared that the "Leave" contingent was gaining an edge in the polls.

That said, investors dislike uncertainty, and a great deal of uncertainty has now been injected into world markets—particularly in Europe—as the U.K. must now renegotiate its trade agreements over the next two years. We stress that this will be a long process, and that over this time investors will be able to evaluate, adapt and adjust to this new reality. Economic growth in the U.K. and the Eurozone could slow as a result of this decision, but it is far too early to estimate the magnitude of any downturn.

Currency markets were immediately roiled by the surprise decision, with the British Pound falling vis-à-vis most major currencies. The Euro has also fallen versus the dollar. Given the interconnectedness of world financial markets, it is probably the currency fluctuations that affect us most here in the United States. The U.S. is a safe haven for many investors, and we are thus seeing large capital inflows, with investors flocking to safe assets such as U.S. Treasuries. In fact, yields have fallen around the globe as investors seek out the safety of sovereign debt.

We will continue to monitor developments, and make adjustments as necessary. We believe it is important, however, to maintain the proper perspective. The U.K.'s decision to leave the E.U. is most certainly an important event. The decision is not simply the withdrawal from a trade pact, but from a social pact as well. But at the same time, it is by no means a cataclysmic event, either. Markets often overshoot on the downside, and in the fullness of time this could likely be an opportunity for longer-term investors.

In this environment, we take comfort in our long-standing philosophy of investing only in high-quality companies that have the ability to grow their earnings and dividends in even the most difficult economic environments. Our companies have historically proven their ability to adjust and adapt, and we believe this time will be no different. Finally, keep in mind that the United States economy will likely be the least affected by the surprise vote.

Please know that we are here to help with any questions or concerns you might have.

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