WHAT NOW FOR A POST-BREXIT UK?

Our **View** on Financial Markets

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As co-founder and co-owner of Albin Kistler AG, André Kistler regularly publishes views and expectations on financial market developments.

The periodically appearing views on financial markets are also available on Albin Kistler's website as downloadable PDF.

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Current Turbulences
Many speculators were caught wrong-footed by the decision of British voters to leave the European Union. Shares in European and UK companies came under strong pressure, as did the pound and the euro.

However, closer analysis of the events shows that it is not the UK that lies at the heart of the crisis but the structures of the European Union and therefore the euro as well. Brexit is a wake-up call for the EU and is forcing political leaders to do some soul-searching.

Scepticism about further integration is widespread – it is more democracy that is required, not bureaucracy. The EU has major structural deficiencies and its crisis management over the past ten years has been a disaster.

Europe needs a new vision, not just reforms. The more centralised the way in which the system has been managed, the more crisis-prone it has become.

What are the likely impacts?
The UK will now need to meet the challenges of global competition on its own and reform itself on an ongoing basis. We believe the recession fears are exaggerated. Switzerland is the perfect example of how successful an independent country can be in terms of governance and business.

Brexit, and the turbulence it has caused, means the prospect of a return to normal interest rates is now an even more distant one. Central banks no longer feel committed to long-term monetary stability and have instead morphed into agents of politicians.

The EU's zero interest rates policy makes overcapacity and the misallocation of resources a permanent feature thus setting the stage for the next crisis.

An institutional tie between Switzerland and the EU seems even more unlikely in a post-Brexit world. That's good news for the Swiss franc and the corporate sector.

Investment Policy
We have not speculated for or against Brexit. Consequently, the impact of the decision taken by British voters on our client portfolios is marginal.

What's more, the diversification benefits of Swiss franc bonds in combination with the equities of high-quality, financially sound companies once again became apparent. The slight fall in share prices was cushioned by a rise in Swiss franc bond prices.

In a highly competitive world with ongoing pressure on margins and interest rates, secure and sustainable returns will continue to be sought.

While prospective returns on many investments have fallen since the financial crisis, dividend and earnings yields for first-class equities remain at an attractive level.