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MVAM Newsletter

'Brexit Realities Loom Large - a no deal IS worse than a bad deal'

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Dallas was a hit TV series of the late 70's and early 80's. But as the show waned its top stars left. As the stars left ratings fell further, a vicious circle. In a last-ditch effort, the cheque book was waved and former star Patrick Duffy (who played Bobby Ewing for those who remember) came back to the show despite being killed off the season before. To get around this the writers made as if the last season was all just a dream!! A total rewind. Now wouldn't that be nice with Brexit. Wake up one day and the referendum has just been a bad dream. Well economies would certainly love it, and perhaps there is still a chance of a second referendum, but unlikely despite the opinion polls.

So, what to make of the mess? Well, before the election we outlined what was likely to happen to Sterling, the Economy and Immigration. Our suggestions have held pretty well but now its time to revisit. This time however we start with the Economy...

THE ECONOMY - We have long said that Brexit for the economy would be like a slow-motion car crash. Time seems to slowdown in emergencies and people involved in car crashes often speak of this phenomenon. Brexit is the same in our opinion. After the referendum you could see the economic car would hit the buffers, but hasn't it taken a while? Now however, we have hit the buffers full on. Expect economic data to deteriorate sharply from now. This is whether we get a deal or not. Whether we get a deal will determine how 2019/20 will be. No deal and things will get very messy.

STERLING - We expected immediate Sterling weakness on a Leave vote. We got it. Sterling is 10% weaker today. A No Deal, in our opinion, will see Sterling match that fall again. A Deal however, especially keeping us in the Customs Union, would see Sterling gain a bit of that 10% back. No wonder people are delaying their summer holidays.

IMMIGRATION - The main reason behind the Leave vote we are led to believe. Well immigration is a function of how well an economy is doing. Emigration is of course the opposite of Immigration. A hard Brexit may well at least help the UK with one export - people!

All this a bit gloomy? Well it is part of why the markets are having a bad time. Dallas, the TV series, peaked in popularity when the storyline saw JR Ewing, its top star, shot. Dealing with the entire political class of this country in the same way, whilst having its appeal is a step too far. But even the politicians are now recognising that their political lives depend on a deal.

This is finally positive for the markets. If a deal is done and our views on Sterling are correct, being invested in Sterling assets may just about be the best place to be over the next six months. So, whilst dreams may not come true, Armageddon is almost always avoided.

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Mole Valley Asset Management Ltd.

Website: www.mvam.com

Tel: 01306 776999

Email: enquiries@mvam.com

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