

Market update Black Swan alert – Brexit occurs June 24, 2016

Contrary to market positioning, Britons voted on June 23 to leave the European community. Prime Minister David Cameron has announced his resignation. Equity markets in Europe and U.S. futures are selling off hard, bond yields have fallen and both the U.S. dollar and gold are rallying.

U.K. bank stocks were down 30%. A number of peripheral European banks have not opened as “the market can’t price them”. Having the European banking sector get shelled is one of many things that are not good for overall liquidity and growth in Europe.

Immediate questions for market participants to consider include:

- Will other EU nations advance secession initiatives? Right wing parties in France, Italy and the Netherlands have already been vocal on this subject.
- Will there be further implications for the integrity of the U.K.?
- What other second order effects will there be in the U.K.? How quickly, for example will London property prices be affected?
- Will huge market volatility and forced margin selling cause problems anywhere in the European financial or macro hedge fund sector?
- With European yields falling, is a U.S. Fed interest rate increase now off the table for 2016?
- Is the populist “Brexit” outcome a harbinger for political outcomes elsewhere? What about the U.S.?

The Harbour balanced funds are well positioned for this outcome. Broadly speaking we are underweight equities, underweight Europe, underweight financials and overweight gold.

Harbour Global Growth & Income Fund

- Non-gold equity weight of 50%
- 7.2% of the fund is invested in gold equities (12.6% of total equity exposure) and 23% cash
- European equity exposure (including U.K.) is 11.6% of equity vs. the benchmark weight of 22.5% (MSCI World Index)
- U.K. equity weight is only 4.7% of equity vs. benchmark of 7.3%. The fund is overweight U.S. equities.
- Holds less than 1% exposure to European financials: Prudential, an Asian-centric U.K. lifeco

Market Commentary



- The fund is 95% hedged on sterling, 50% on Euro, 40% on U.S dollars and unhedged on Japanese yen and Swiss franc. It will generate substantial gains on currency.

Harbour Growth & Income Fund

- Non-gold equity weight of 58%
- 9.6% of the fund is invested in gold equities (14% of total equity exposure)
- 8% invested in Europe, of which 39% is in Switzerland, with the currency unhedged. The Swiss franc is flat against the Canadian dollar at time of this commentary.
- U.K. exposure is 3.3%, mostly in Vodafone, which yields 5.4%. U.K. is 16% of revenues. With rates falling everywhere, yield stocks should work better than the market
- The fund is 95% hedged on Sterling, 75% on Euro, 50% on U.S. dollar and unhedged on Japanese Yen and Swiss Franc.

At Harbour, we continue to assess opportunities but as there are multiple second order factors to consider, we will move cautiously.

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