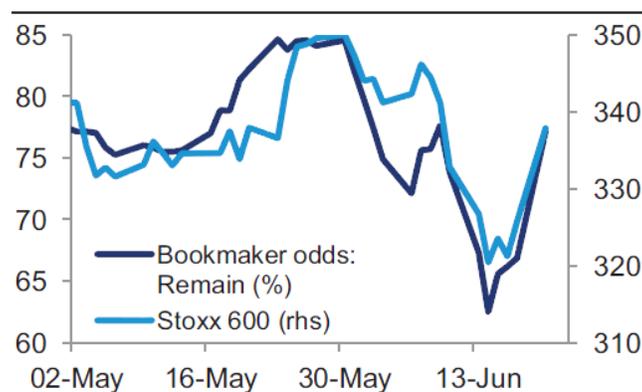


From Wall Street to The City, the focus of the markets this week is on whether the U.K. votes to leave or remain in the European Union. We believe the outcome of the vote will set the stage for where the markets trade in the short run. This makes the decision important for possibly the next couple of months but regardless of what the Brits decide we do not expect a significant long-term impact, no matter what George Soros says to the contrary.

The referendum to leave the European Union has often appeared more like a soap opera than a political campaign. Politicians, economists, celebrities, and even footballers have stated their opinions on whether Britain would be better off remaining in the EU or bidding adieu. As often becomes the case, whether in Europe or the U.S., the vote has become less about actual economic realities and more about the threat of a dire economic collapse or newfound liberty (from an already free nation).

The newspapers mostly support Brexit while most of the politicians support Bremin. We believe the tide may have been turned for good on behalf of the “remain” side when two days ago all 20 teams of the English Premier League unanimously expressed their support for staying in the European Union.



Source: Bloomberg Finance LP, Deutsche Bank Research

While there are certainly both pros and cons of staying or leaving, the financial markets are clearly hoping for the “remain” camp to prevail. The chart, courtesy of Deutsche Bank Research, shows the strong correlation of the Stoxx 600 (Europe total market index) and the bookmaker odds that Britain remains in the EU.

Assuming the bookmakers get this right and the U.K. decides to maintain membership in the EU, we believe there will be a short “risk-on” rally the global equity markets will experience. The rally will not be backed by any substantive change in the outlook for earnings growth so we do not expect any long lasting benefit for investors.

For those of us on this side of the pond, many will just regret that the vote has come and gone. The Brexit campaign has provided a small amount of diversion from our own political circus and the world is likely to focus again on this November’s election in the U.S. I do not expect to see any press releases will all 32 NFL teams endorsing a candidate, unless of course, Peyton Manning decides to enter the race at the last minute.