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Britain's Independence Day?

While most analysts and polls predicted a close vote for the U.K. referendum, few predicted the vote to be in favor of the United Kingdom leaving the European Union.

Final results of the June 23rd United Kingdom referendum came out this morning stating that Britain has voted to leave. Prime Minister David Cameron also announced that he would step down as Britain's Prime Minister.

Consequently, the vote has kicked off a two-year negotiation with the European Union to hash out the terms of the separation. Details of the separation should come into focus in the upcoming months.

While the U.K. economy is expected to experience a drag from this decision, we do not expect this event to trigger a recession in the United States. Investors will question how the American economy is going to weather the storm. According to Torsten Slok, Chief International Economist with Deutsche Bank Securities, there could be a net effect of 0.4% decline in U.S. GDP which is significant, but not enough to push United States markets to recession.

No doubt equity markets have responded sharply to the results of the referendum. Investors with diversified portfolios should take note that a drop in the stock market may not translate to a drop in their bond and/or alternative investment portions of their portfolios.

It is important to note that the result of the referendum is a geopolitical event and not a financial event. Sharp drops in equities due to geopolitical events tend to reverse themselves and historically don't last very long.

In closing, this is not the first time a high profile event drove headlines and markets. Naturally our baseline emotion of fear and primal need for safety leads a knee-jerk reaction. It is important to remind ourselves that financial markets are resilient.

We encourage anyone with questions to contact their advisor.

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