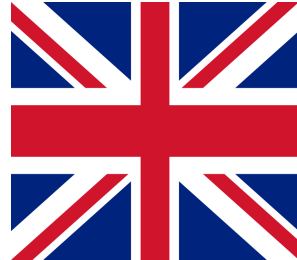


Investing in a post-Brexit world



Russ Mould, AJ Bell Investment Director
Shares LIVE – 10 September 2016



Risk warnings

- The value of your investments can go down as well as up and you may get back less than you originally invested.
- We don't offer advice, so it's important you understand the risks, if you're unsure please consult a suitably qualified financial adviser.
- Tax treatment depends on your individual circumstances and rules may change.
- Past performance is not a guide to future performance and some investments need to be held for the long term.

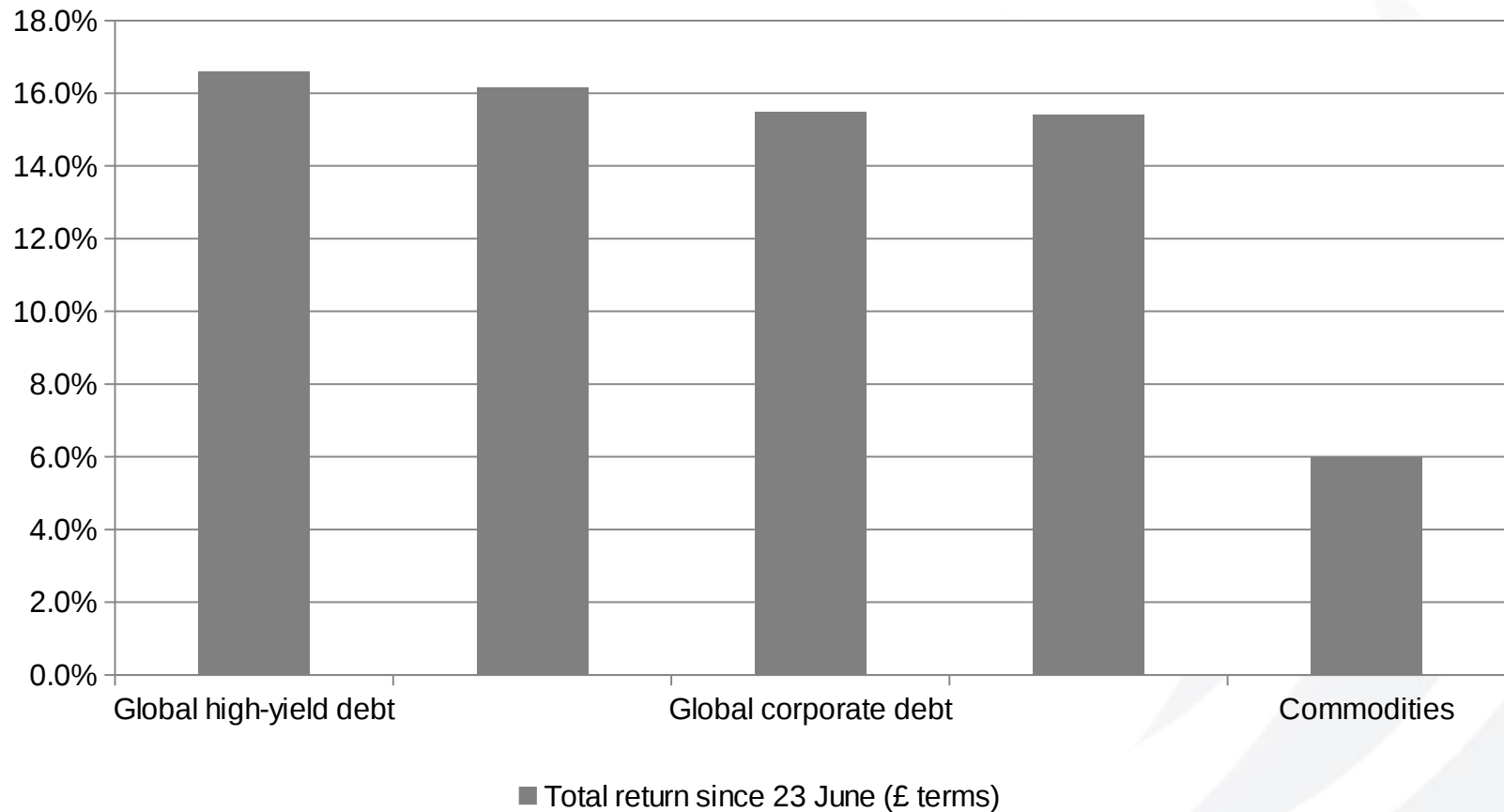
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1. What the market is thinking

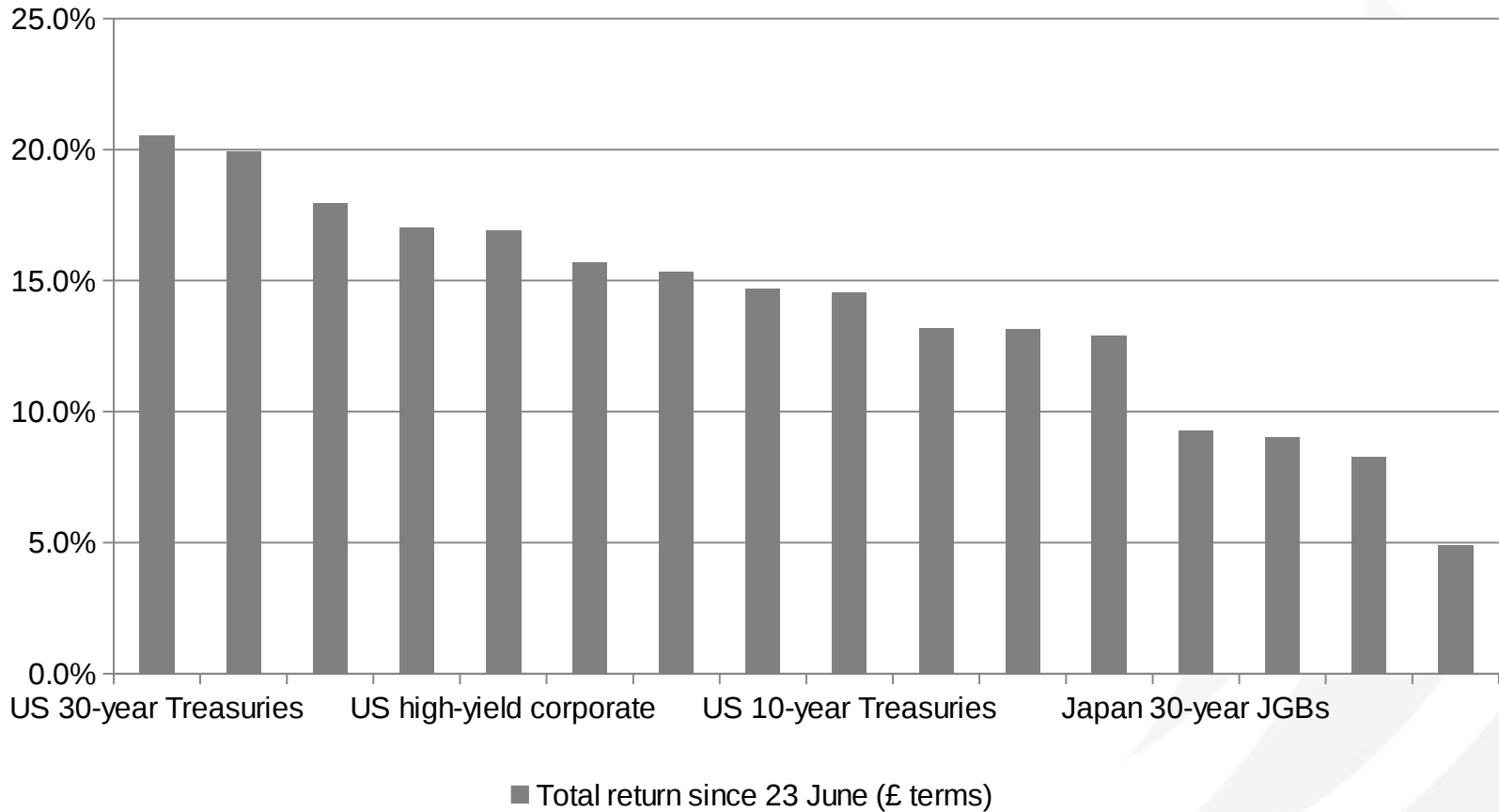
- Clear performance trends in global financial markets since 23 June
 - (Pretty much) everything you can think of has gone up
 - Except the pound (and interest rates)
 - Overseas was a good place to be
 - In UK, stocks have bounced, with dollar-earners and exporters leading, domestic plays lagging
 - Globally, emerging stock markets have done the best
 - BUT bonds have outperformed stocks in a scramble for yield (and long-dated and junk paper have thrived)
- Central banks remain key players (Bank of England three-point programme on 4 August with more to come?)

Up, up and away: global asset classes



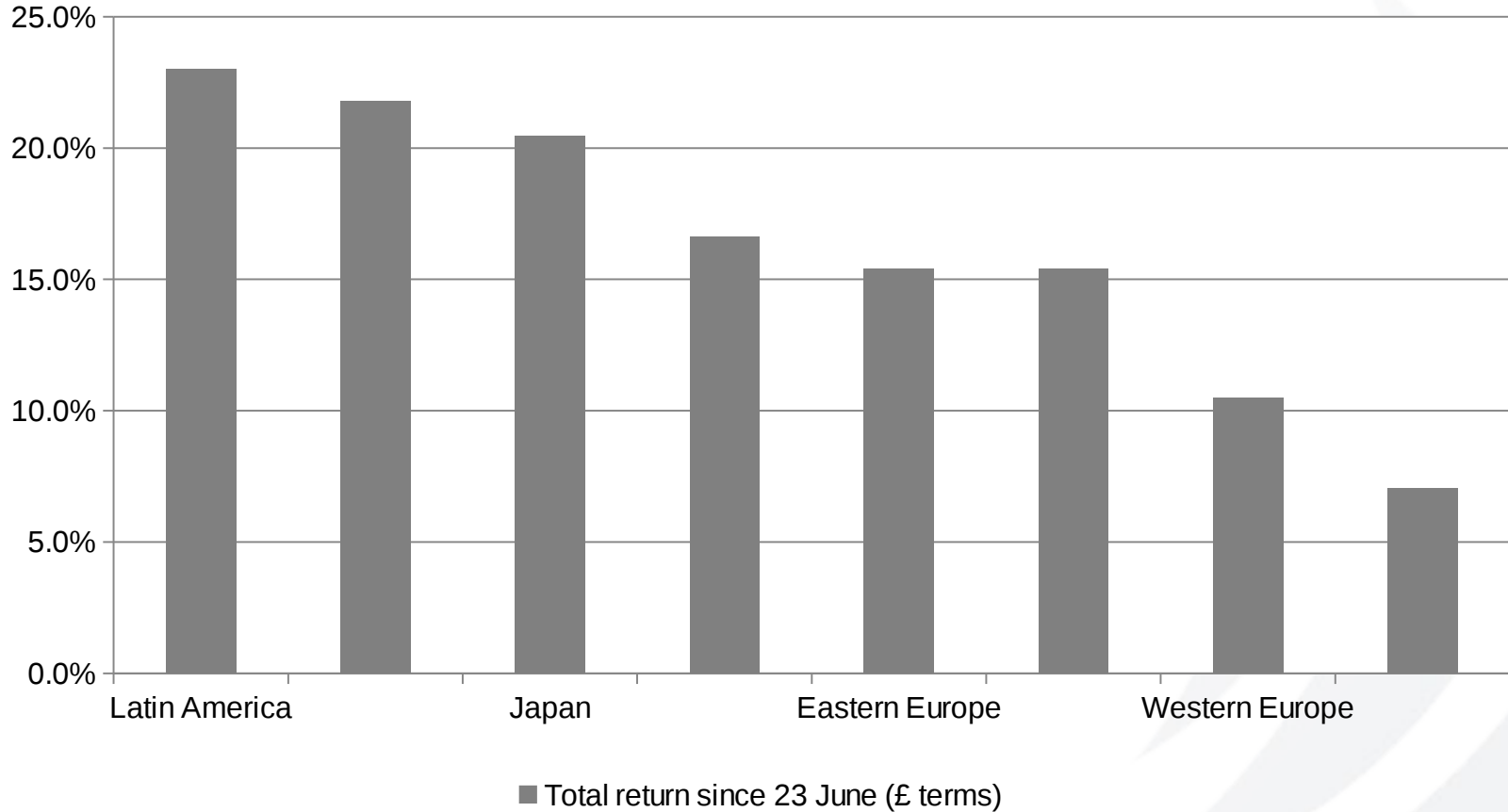
Source: Thomson Reuters Datastream. Covers period 23 June to 31 August 2016

A scramble for yield



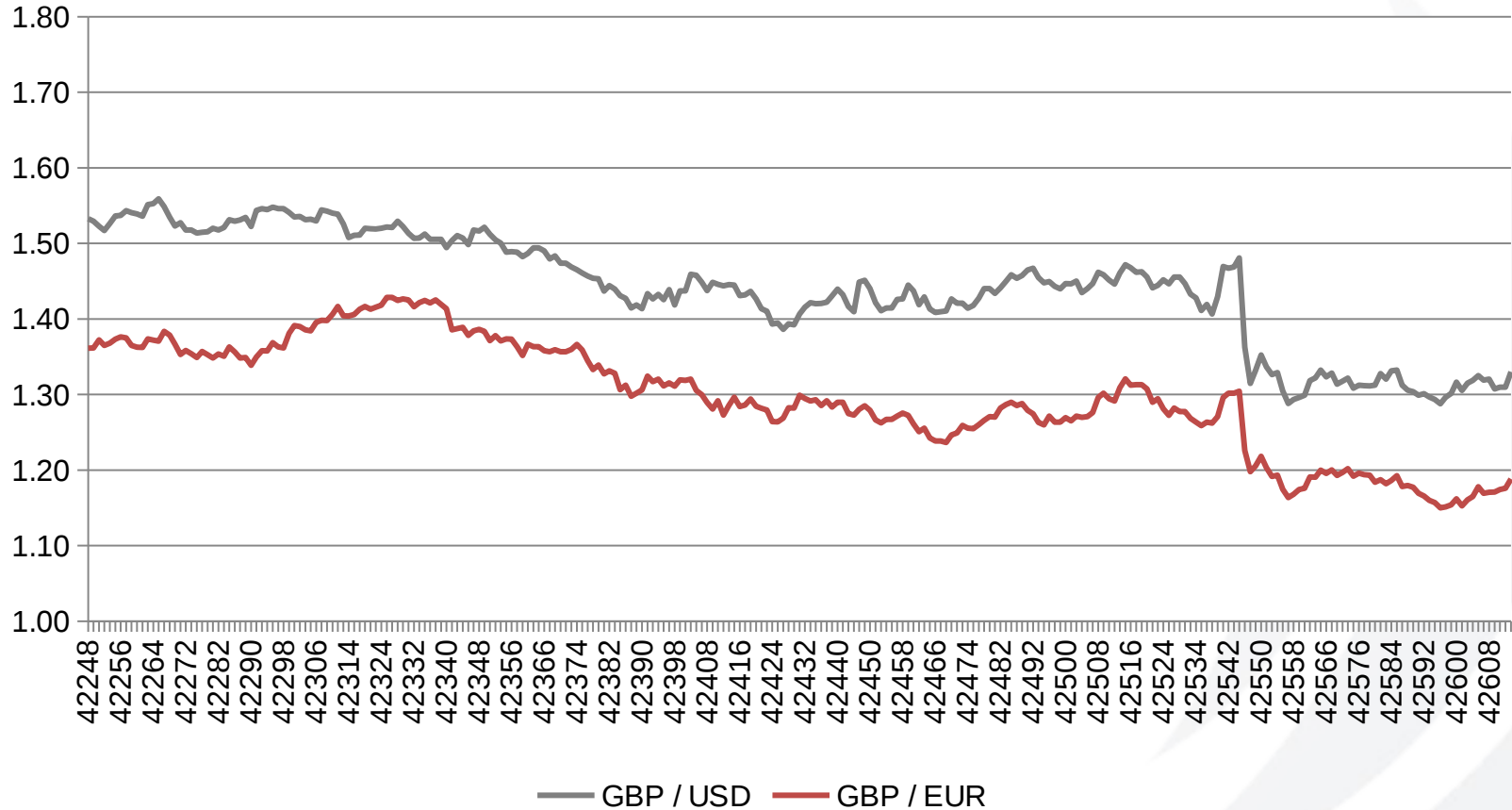
Source: Thomson Reuters Datastream. Covers period 23 June to 31 August 2016

Overseas was the place to be ...



Source: Thomson Reuters Datastream. Covers period 23 June to 31 August 2016

... As the pound plunged



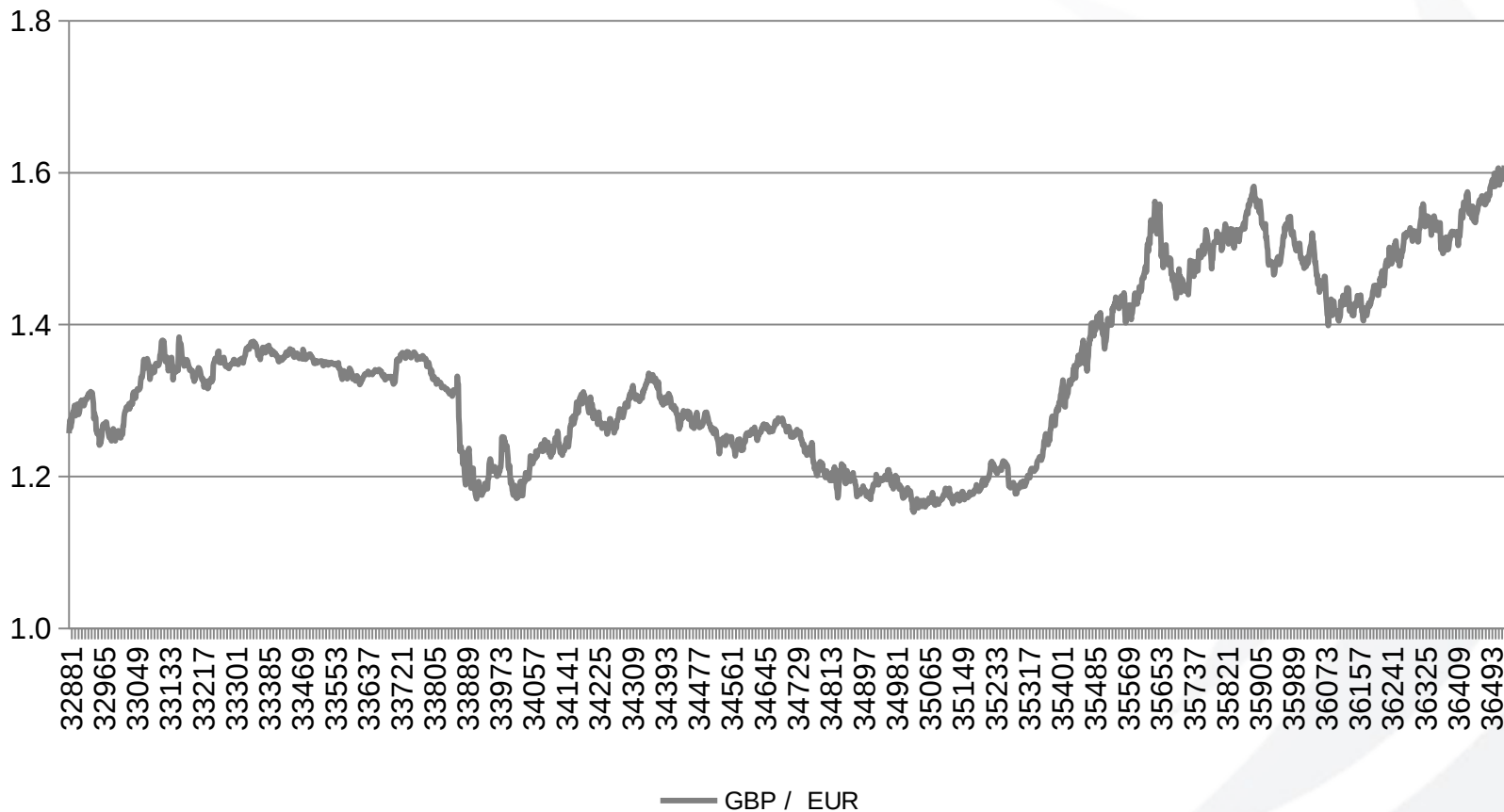
Source: Thomson Reuters Datastream

Exporters and dollar led domestic plays

Top 10	Index since 23 June	Bottom 10	Index since 23 June
Tech Hardware	58.7%	Financial Services	1.9%
Pharma & Biotech	19.0%	Travel & Leisure	1.5%
Construct. & Mats	16.2%	Food/Drug Retail	0.5%
Software	15.7%	Electricity	0.3%
Leisure Goods	14.9%	Life Insurance	-1.2%
Forestry & Paper	13.8%	Household Goods	-1.5%
Mining	13.1%	General Retailers	-2.2%
Industrial Engineer.	11.8%	REITs	-5.9%
Personal Goods	11.0%	Fixed Line Telecoms	-9.4%
Beverages	10.9%	Real Estate Inv. Svs	-10.2%
FTSE All-Share	7.0%		

Source: Thomson Reuters Datastream. Covers period 23 June to 31 August 2015. Top 10 FTSE All-Share sector indices

But will it last?



Source: Thomson Reuters Datastream

1992 devaluation; QE I to III

Top 10 sectors	12m after ERM exit
Financial Services	99.3%
Con. & Materials	88.8%
Industrial Metals	70.1%
Banks	69.4%
Tech Hardware	64.6%
Forestry & Paper	56.7%
Equity Investments	56.3%
Aerospace/Defence	56.1%
Non-life insurance	56.0%
Electricals/Electronics	51.7%
FTSE All Share	33.0%

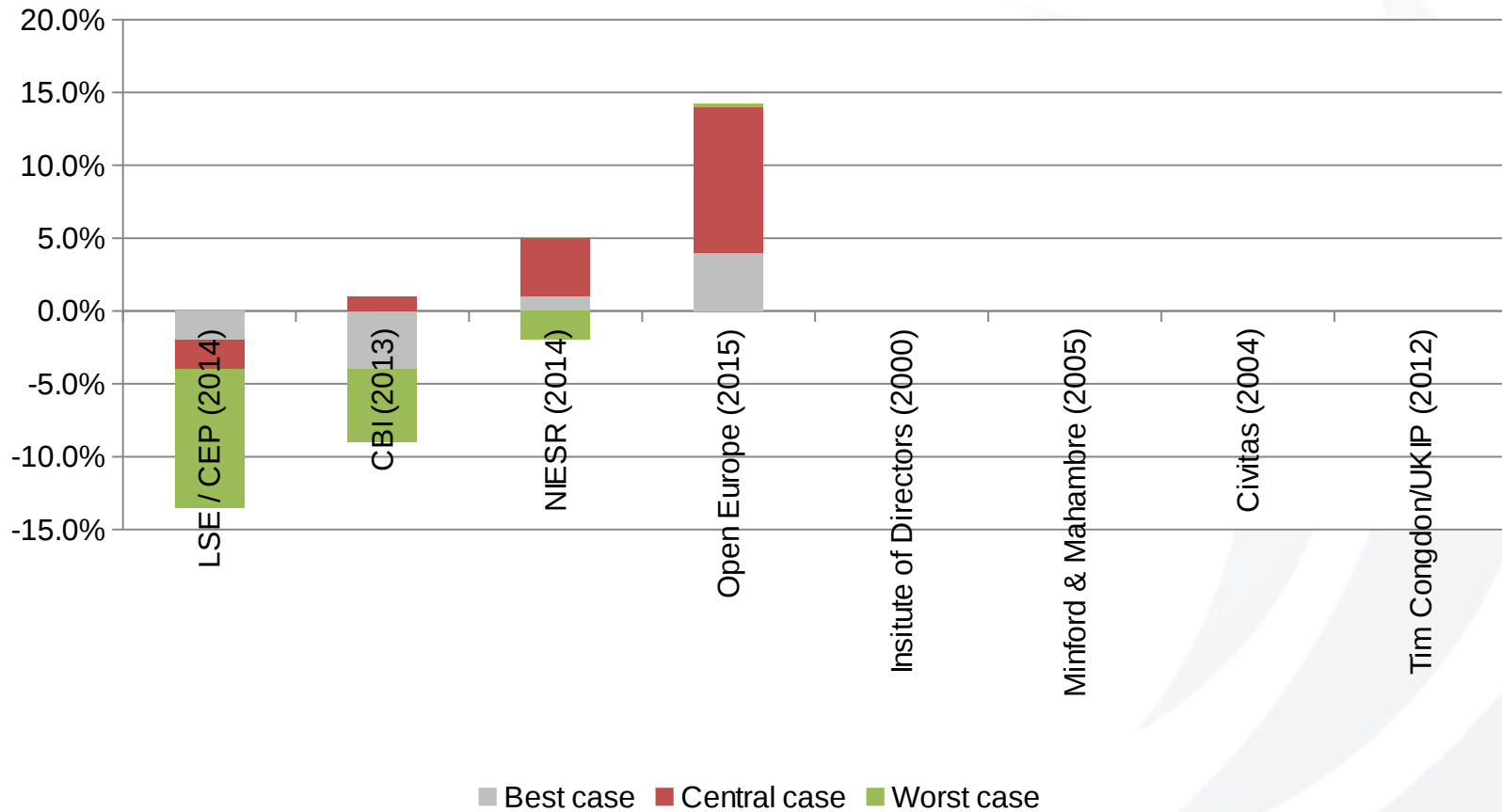
Source: Thomson Reuters Datastream

Top 10 sectors	12m avg. post QE
Forestry & Paper	119.8%
Auto & Parts	91.5%
Leisure Goods	86.3%
Life Insurance	74.9%
Tech Hardware	74.9%
Banks	70.2%
Industrial Engineer.	63.4%
Real Estate Inv. Svs.	58.6%
Elect. & Electricals	53.3%
Financial Services	51.6%
FTSE All Share	35.4%

2. Themes to watch



No-one knows: estimated impact of Brexit on UK GDP



Source: Capital Economics report *The economic impact of 'Brexit'*, prepared for Woodford Investment Management

Themes to watch

- Central banks could well remain (very) active ...
- ... Even if (supposed) omnipotence and the (supposed) power of monetary stimulus comes into greater question.
- Drumbeat for fiscal stimulus could grow (ever) louder – Abe, Trudeau, Renzi, Lew and May (?) as the narrative shifts (watch the Apple tax grab).
- Politics to remain a (short-term) wild-card: no General Election in the UK, but watch Italy and the US in 2016, Germany, France and the Netherlands in 2017

3. End-games



Two end-games = bar-bell strategy?

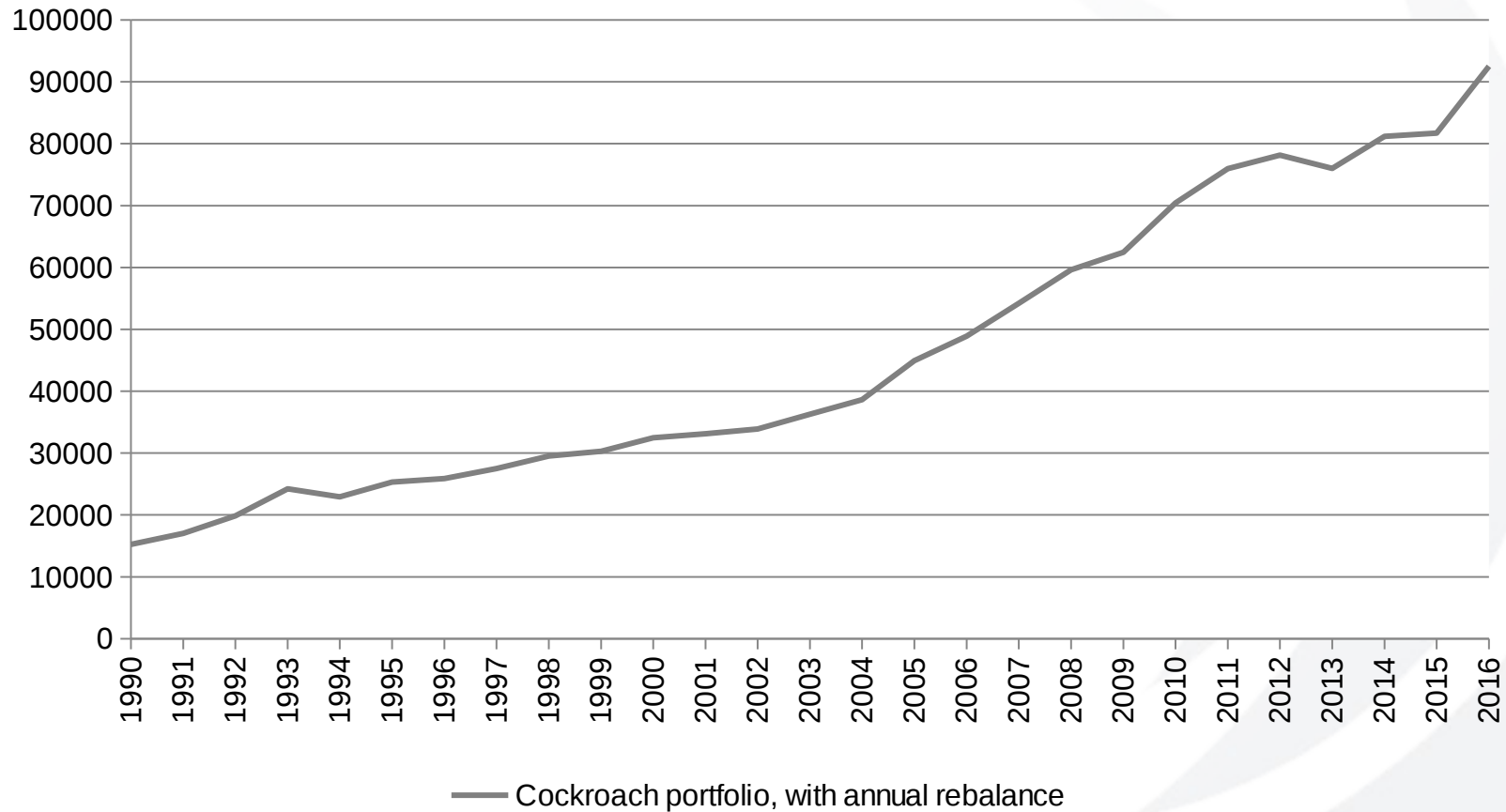
- **Deflation**

- Deflationary, supply-side bust (as per Tech in 2000-03)
- OR
- Debt, the dollar, demographics and the internet prove too powerful
- **Sovereign bonds, cash, income-generating equities**

- **Inflation**

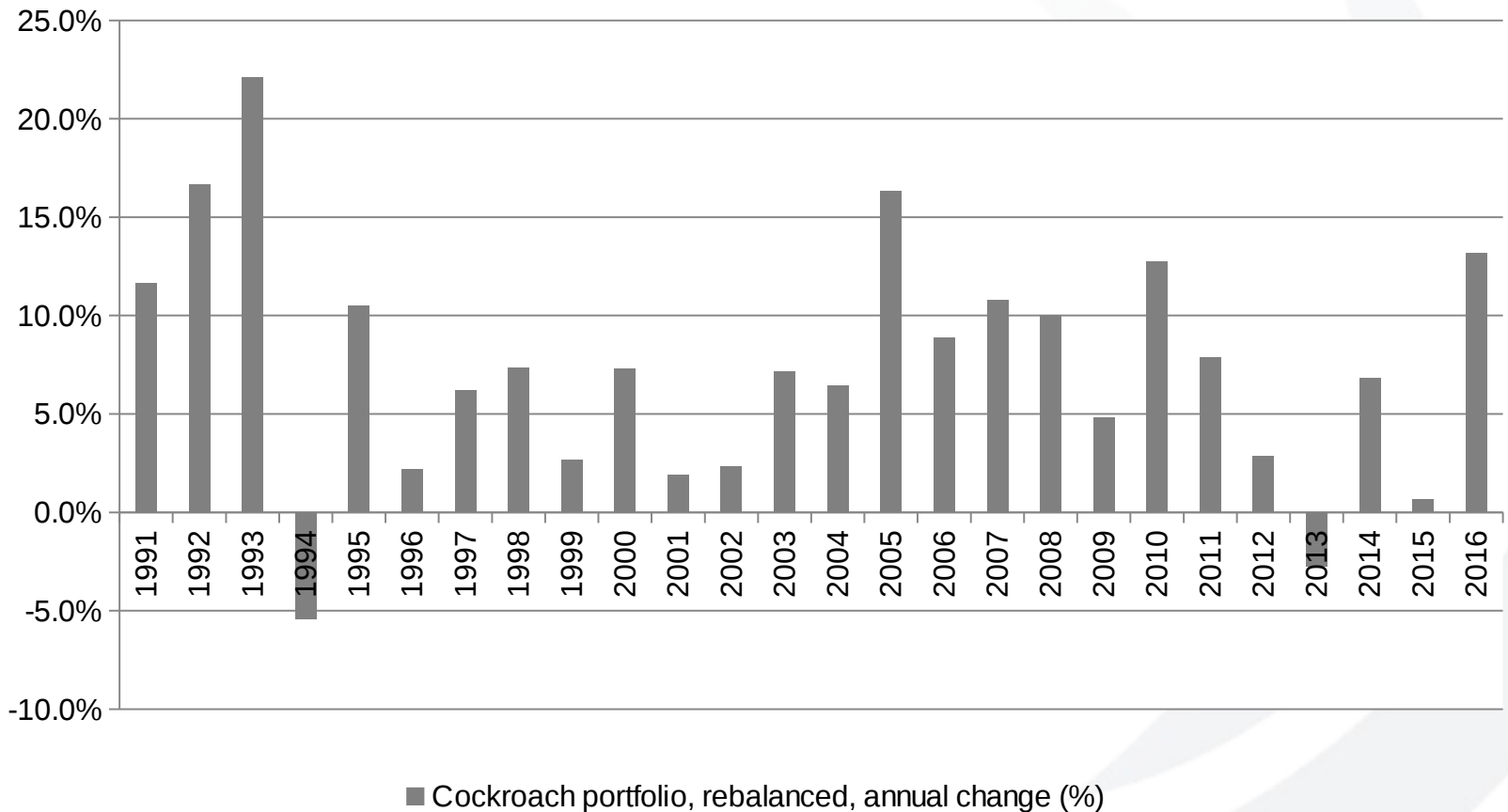
- Central banks will never rest until they succeed
- “Shock and awe” policy response of ZIRP / negative rates and more QE
- **Growth/cyclical equities, junk bonds, gold**

“Cockroach” portfolio since 1990



Source: Thomson Reuters Datastream, inspired by Dylan Grice's November 2012 piece for Societe Generale *The Last Popular Delusions*

“Cockroach” portfolio since 1990



Source: Thomson Reuters Datastream, inspired by Dylan Grice's November 2012 piece for Societe Generale *The Last Popular Delusions*

4. Conclusions

- No-one has a crystal ball – no-one knows – so portfolios need to be prepared for a range of eventualities, not just one
- Too early to tell macro effect of Brexit (and it hasn't happened yet)
- €-denominated assets could be affected alongside £-priced ones
- Other factors will still be important in the long run – and equities (and some bonds) are long-duration instruments: profits and cash flow ultimately dictate valuation
- Excitement and expenses are the ultimate enemies of the investor

Past performance is not a guide to future performance and some investments need to be held for the long term.

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