SPOTLIGHT

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BREXIT WATCH: THE CALM BEFORE THE STORM?

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“We need capitulation to pick up our best ideas but so far UK market have rebounded very sharply since the immediate post Brexit lows, part of the reason being surprisingly resilient data.”

Data has been coming at us thick and fast during the recent results season. Alongside the usual corporate strategic updates and earnings numbers, investors have been searching for the first signs of the impact of the landmark British referendum vote in late June with the aim of gauging whether the UK is about to plunge into a self-inflicted recession or not.

At SYZ Asset Management, we have been examining the UK market with a different angle. We have been searching the domestic market for interesting, high quality businesses that may become cheap as a result of investor fear around Brexit. So far no opportunities emerged, not because there are any shortage of high quality businesses in Britain but rather because share prices (at least in domestic currency) have rebounded very sharply since the immediate post Brexit lows.

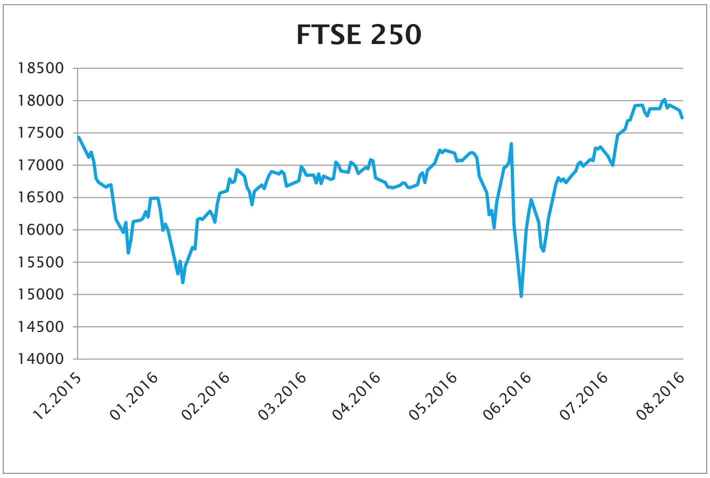

Figure 1: FTSE 250 index
Source: Bloomberg

Apart from the recent actions of central bankers, part of the reason for the rebound has been some surprisingly resilient data. There were a couple of interesting snippets relating to companies that caught my eye in the recent weeks.

The first came from Persimmon, the UK housebuilder which reported its H1 results recently. Results were good with first half profits strong thanks to increasing volumes and house prices. However, the figure that made me sit up was that since 1st July i.e. post Brexit, visitor numbers were up 20% year-on-year and reservation rates were +17% year-on-year. Clearly Persimmon customers are not worried about a UK recession at the moment!

The second interesting data point came from Global Blue who monitor duty free spending around the globe. They highlighted that in July duty free sales in the UK increased by 7% year-on-year. This was in stark contrast to the rest of Europe which saw double digit declines. This is a story on the one hand about tourists being scared to travel to France and Germany because of the recent terrorist attacks but also about the renewed attractiveness of the UK following the weakness of sterling.

Data like this has helped the FTSE 250 index to regain all of its post Brexit losses and more. We shall see if this optimism persists over time but for now we will continue our search for long term value.

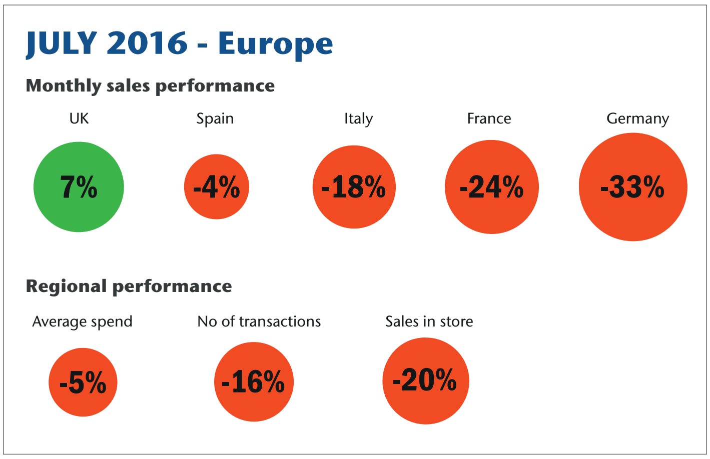

Figure 2: Duty Free Sales Performance July 2016 – Europe
Source: Global Blue

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