

Brexit creates chasm between FTSE's winners and losers

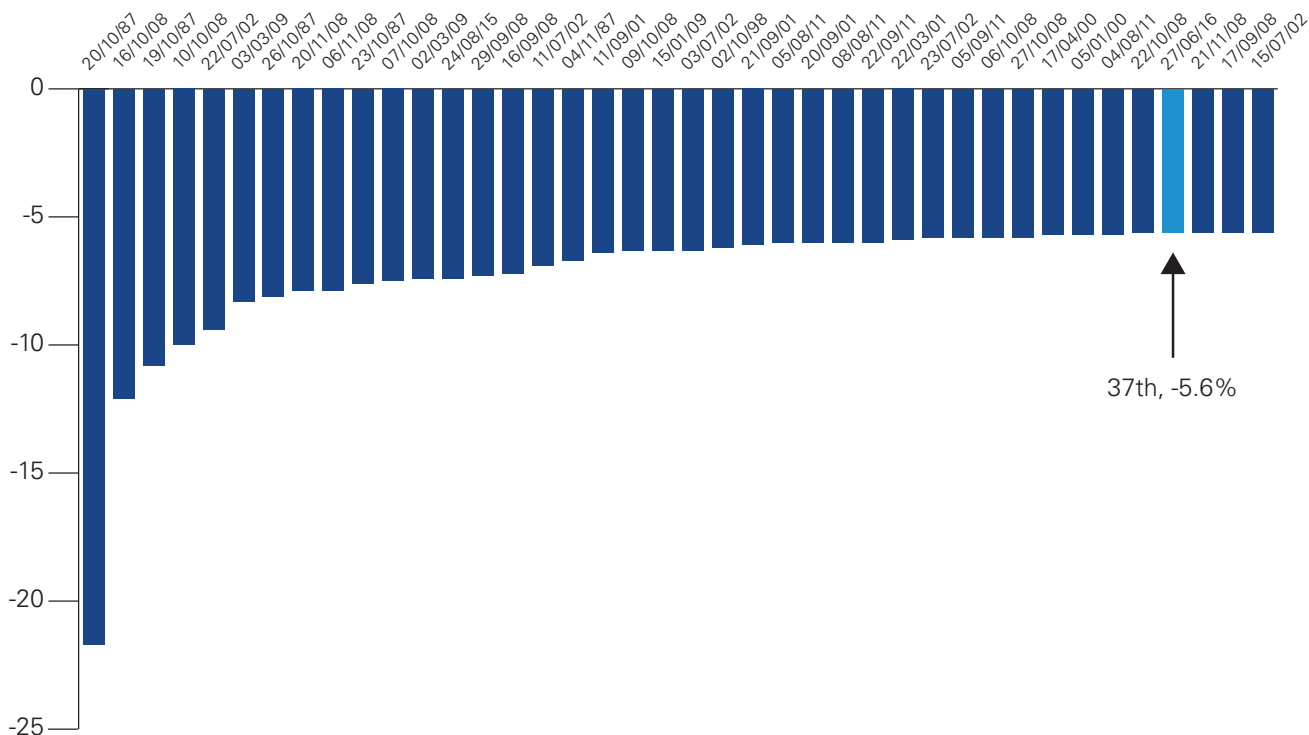
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We have heard a lot about the relative resilience of the FTSE 100 since the referendum result on Friday. The index of leading companies fell **5.6%** in the first two days of trading: a sizeable fall yes, but less than the pound, or the domestically-focused FTSE 250 suffered. Indeed, the FTSE 100's decline was only its **37th** worst in a two day period since the index was created back in 1984.

- Sterling weakness and prospect of slower UK economy drive sentiment
- Dramatic polarisation between domestic and international names
- Greater weighting of overseas-focused firms softens FTSE 100 index decline

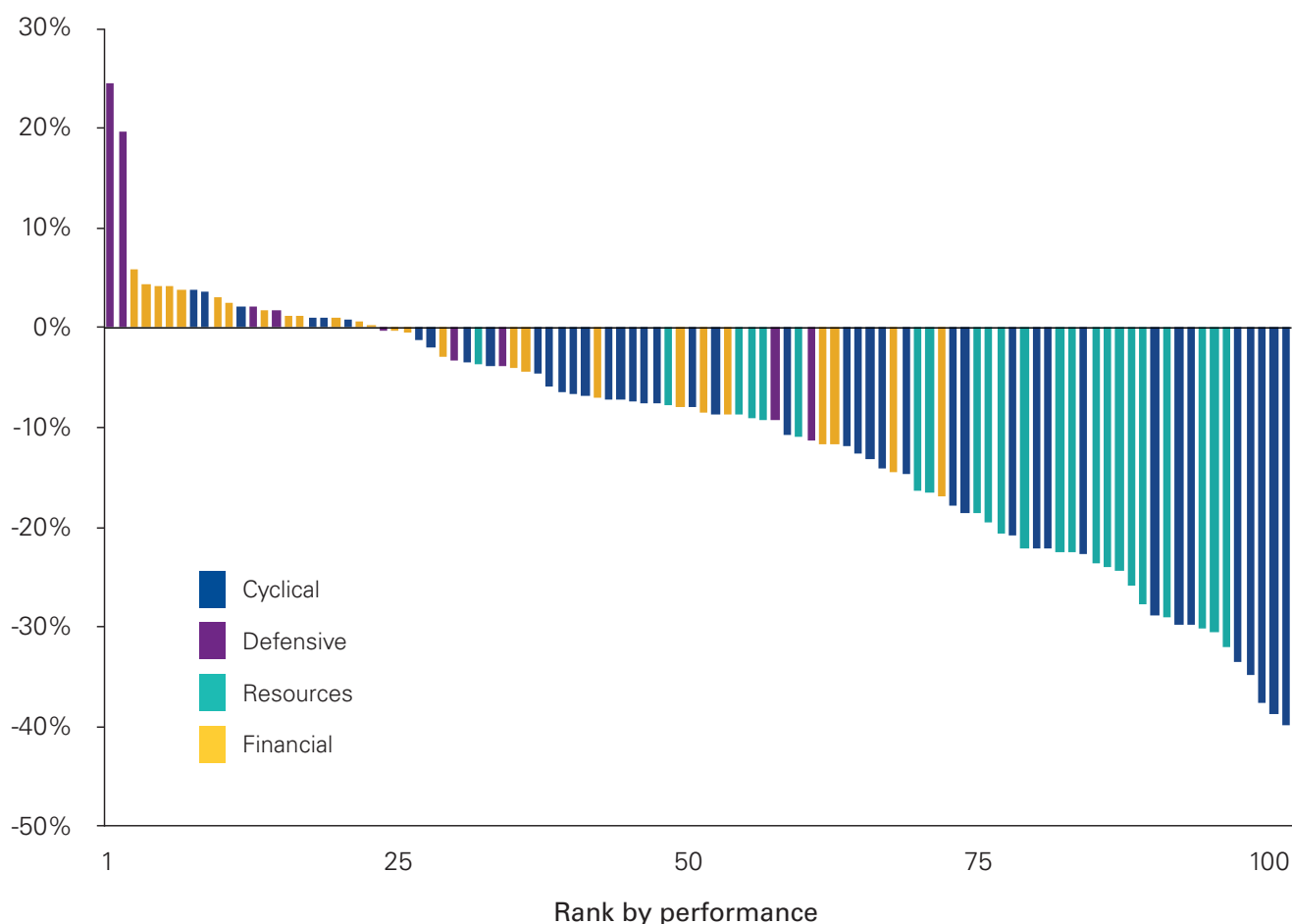
Largest 2-day fall in the FTSE 100 since inception



What is a more interesting – and less appreciated – story has been the divergence between the biggest gainers and fallers. I have not seen such a dramatic polarisation in my 40 years watching the markets. At one end, miners of that ultimate safe haven,

gold, were up **20%**. At the other end, some domestically-focused banks and property shares were down by more the 30%. As the chart below shows the prices of 77 FTSE 100 companies fell over the two trading days.

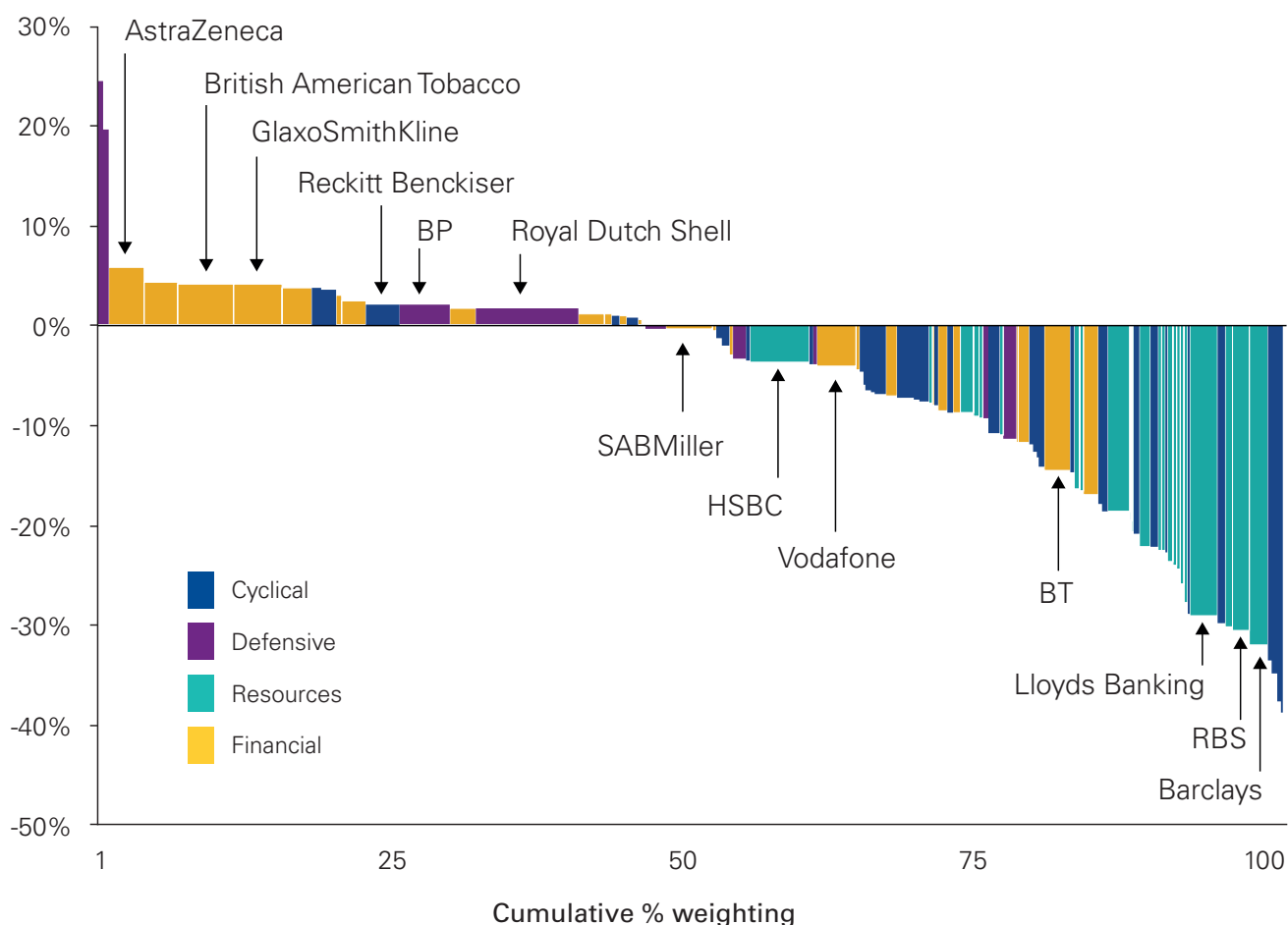
Unweighted FTSE 100 price performance by company 23/6/16 – 27/6/16



Again, it is the exposure of a sizeable proportion of our leading companies to business beyond the UK that explains both the overall modest decline for the index as well as the polarisation. Thanks to sterling weakness, global companies in sectors such as pharma, energy and tobacco will see reported sterling earnings boosted and, perhaps more importantly, 40% of the market's dividends are declared in dollars. These companies were the winners, and though they make up less than a quarter of FTSE-100 names, when weighted by market capitalisation they represent around half the index (see next page).



Weighted FTSE 100 price performance by company 23/6/16 – 27/6/16



Conversely, domestically oriented sectors such as house builders, property and some banks were marked down sharply, along with airlines now facing the combination of lower activity and higher fuel prices. The domestic companies are likely to remain under pressure until there is better understanding of the implications of Brexit for the UK economy.

The consequence of all of this for institutional and retail investors will be a significant divergence in fund managers' performance. Some will have probably seen a greater weekly portfolio performance variation than at any time in living memory.

So much for share price movements. As far as trading activity is concerned, when we get to see the movements on client share registers, we expect institutional activity levels to be minimal. These share prices were not driven by weight of buying or selling but by market makers moving prices to levels that generated two way business so as not to accumulate inventory. Those funds that suffered will not have wanted to compound their problems and miss the bounce too.



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