

NABE Brexit Webinar Notes

Big declines expected in UK GDP
EU will try to hold the union together
Financial firms may leave London
Nobody wants to trigger article 50, as soon as they do negotiations must start (probably in Fall)
What are immigrants' rights now?
Second referendum may come
Scotland may leave UK
Britain won't have any political influence in Europe anymore
Swiss option – smaller bilateral trade agreements
WTO option – just follow WTO rules
Minimum nine years of uncertainty and chaos
All trade agreements will have to be renegotiated
UK retains all EU rights until article 50 is triggered
Fed rate hikes now pushed to 2018
Next Fed move likely a cut instead of a hike
Treasury yields likely to fall further
Referendums in other countries to leave EU are possible
Inflation likely to rise in UK as pound falls
27% of UK Gilt market owned by foreigners
US and EU bonds rising after Brexit (yields falling)
Brexit is a step away from globalization and free trade
Some markets may not be as correlated as they have been
Bond markets may trade more on inflation than growth
UK already has current account deficit of 7% of GDP, may get worse if trade falters
Trade may falter even though pound has dropped
Brexit does not appear to be a Lehman event...yet (Lehman wasn't bad at first either)
Long history of European votes being adjusted
Good – so far this has not been a Lehman event, liquidity has not dried up
Bad – economic outlook for UK
 extensive economic damage
 recession in second half of 2016
 FDI likely to fall
 consumption likely to slow
 construction likely to weaken
 spike in inflation likely
 central bank accommodation likely
Ugly – political meltdown in UK, UK needs strong leadership right now
Immigration was major point of contention for British voters
Services trade is key for UK because services trade is in surplus while goods trade is in deficit
UK was already moving away from EU before vote
Vote will be harder to reverse than most people think
Don't know what UK wants
More questions now than before Brexit
Scotland and Ireland want to remain in EU, may need another referendum to leave UK and stay in EU
Breakup negotiations will be very difficult

Freedom of movement of people may be constrained, but immigration will continue
UK will lose financial passport (ability to operate and provide services in any EU country)
Funding costs will go up for UK based firms
There will be a large impact on London economy due to financial impacts
Short term impact on confidence, credit
Brexit will breathe new air into anti-EU sentiment in other countries
UK was pro-market champion in EU, so EU may become less pro-market and more interventionist
Impact on US may be a loss of 0.1-0.2% of GDP
Decline in US stock market will have a wealth impact
Headwinds will likely not be that big, US economy will muddle through
Uncertainty will weigh on US exports, investment will likely remain weak, consumption will remain the main driver of the US economy, leaving it vulnerable to additional shocks
Weak US growth was expected even before Brexit
US economic cycle is in the later stages
Do-over vote is possible but not likely, need vote of no confidence in government, many steps need to be taken
TTIP negotiations are likely stalled for now
It is possible that article 50 (initiating the leave) never gets triggered
Voter's remorse is setting in quickly (voters likely did not understand the consequences of leaving)
This may be a wakeup call to Brussels on how they have treated EU countries and their policies
EU bureaucracy has taken on a life of its own
Putin favored Brexit
China happy about EU breakup as it takes US focus off of Asia pivot
Other countries outside of EU may look at breaking away (Taiwan from China, Quebec from Canada)
Divisions between rural/urban and old/young in vote and views on globalization and immigration
Similarities in demographics in US in terms of views on globalization and immigration
UK likely will be right of center, nationalist and inward looking country going forth
London has strong human capital...there will be painful times ahead but it will survive
Uncertainty will linger for some time, will be good for bonds in the near term
Politicians need to adjust the way they communicate with the broader population

See charts on next page

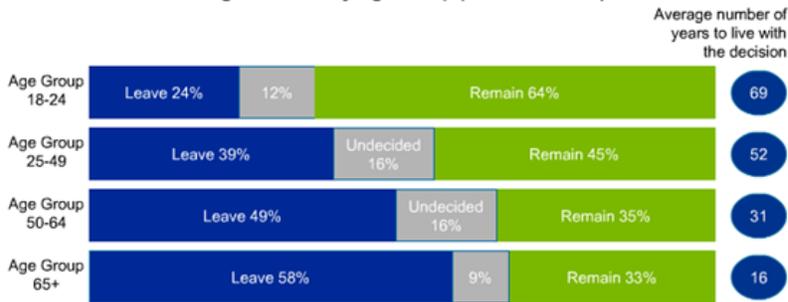
The Divided Kingdom – Scotland & Ireland prefer to remain

Voting Breakdown by Nation



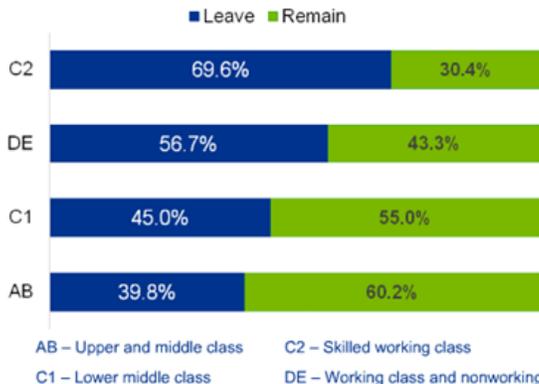
YouGov results show that age was a significant factor

Voting Intentions by Age Group (June 17-19 Poll)



Working classes in favor of leaving EU

Voting Intentions by UK Social Class



Source: KPMG Economics/YouGov



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