UNDERSTANDING INVESTOR SENTIMENT IN THE WAKE OF BREXIT

Understanding Investor Sentiment in the Wake of Brexit

On 23 June 2016 Britain voted on whether the country should remain within the European Union (EU). More than 33 million adults – 72.2% of the UK electorate – cast their vote in what was described by departing Prime Minister David Cameron as "a giant democratic exercise, perhaps the biggest in our history". The weeks and months preceding the EU referendum indicated that the Remain and Leave camps would only be divided by a narrow margin; when the votes were counted, Leave emerged victorious with 51.9% of the votes.

After an extended period of fierce campaigning, followed by numerous high-profile political manoeuvrings in the immediate aftermath of the result – including David Cameron stepping down and a complete Cabinet reshuffle – Britain is now preparing for a future outside of the European Union. When the new Prime Minister Theresa May invokes Article 50 – thereby officially commencing the separation process – there will be two years of negotiations to determine what relationship the UK will hold with the EU. As with any political event of such significant impact, the subsequent shift from the structures and laws laid down by Brussels has prompted a degree of economic and political uncertainty.

Beyond the socio-economic implications to a nation establishing its new profile as an independent entity, understanding the sentiments of the UK's private investor community is crucial in gauging a future-outlook of economic progression. To that end, IW Capital has commissioned independent research titled 'Understanding Investor Sentiment in the Wake of Brexit'; a nationally representative report that analyses the sentiments of 2,000 UK adults and investors in the aftermath of the EU referendum.

The study explores whether or not Britons fully understand the implications of Brexit on economic markets, and moreover, their personal finance. Furthermore, with a view to establishing investor sentiment towards private sector growth capabilities post Brexit, the research also reveals investor attitude towards the nation's small and medium sized enterprises (SMEs) as viable investment opportunities outside of the Single Market.

The key findings from IW Capital's 'Understanding Investor Sentiment in the Wake of Brexit' report include:

- The majority of British investors (52%, or 12.9 million investors) would consider supporting the UK's SMEs through private investment despite uncertainty in the wake of Brexit
- There is uncertainty surrounding financial markets, with 55% of UK adults (28 million people) saying they are not confident they understand the implications of Brexit on the long-term prospects of the FTSE – similar numbers said the same about the property market (52%) and the future value of the pound (49%)
- People are also unsure about how leaving the EU will impact their personal finance – the majority of UK adults said they do not fully understand the implications of Brexit on their investment strategy (58%), pension plan (56%) and tax bill (52%)

IWCAPITAL
INVESTED INTEREST

We asked investors: would you consider supporting SMEs through private investment channels in the aftermath of Brexit?

18 - 34

52%
of all the investors said they would

70%
of investors aged 18 to 34 said they would

68%
of investors in London said they would
(the highest proportion of any region)

58%
of male investors said they would
(versus 44% of female investors)

We asked British adults: are you confident you understand the implications of Brexit on the following financial markets?

The long-term prospects of the FTSE
55% said no

The property market
52% said no

The future value of the pound
49% said no

They were also asked: are you confident you understand the implications of Brexit on these personal finance issues?

Your investment strategy
58% said no

Your pension plan
52% said no

Your tax bill
55% said no

** Based on an independent, nationally representative survey of 2,000 UK adults and 1,000 British investors*

A Climate of Uncertainty

In the weeks that followed the EU referendum result – announced on the morning of 24 June – financial markets have fluctuated notably. In early July, the pound hit a 31-year low against the dollar, only to show signs of recovery upon the appointment of Theresa May as the country's new leader. Nevertheless, Britain's currency remains below pre-Brexit levels.

The stock markets, meanwhile, responded positively to the news that Britain was to leave the EU. The FTSE 100 share index hit 11-month highs in mid-July, although economists were quick to warn that investment into stocks and shares had likely increased due to the falling value of the pound.

Elsewhere, property prices declined in the wake of Brexit; a survey by the Royal Institution of Chartered Surveyors suggested that house prices are expected to fall across the UK between July and October, with buyer enquiries in the weeks after the vote reaching their lowest levels since 2008. The commercial property market has also been hit – seven commercial property funds were frozen in the fortnight following Brexit.

It is clear that the result of the EU referendum has triggered a period of turbulence in a range of financial markets. This turbulence is evidently damaging investor sentiment towards many asset classes, with the Lloyds Bank Investor Sentiment Index showing substantial falls in the month following the EU referendum. According to Lloyds Bank, investor confidence towards property dropped by 35.36 percentage points between June and July 2016, while perceptions in relation to UK shares (-21.75%) and government bonds (-15.58%) also fell sharply in this period. By mid-July 2016, the Index had hit its lowest level since it was launched in March 2013.

Amidst this change and uncertainty, the Bank of England issued a timely response in an attempt to ease concerns, with the Governor of the Bank of England, Mark Carney, announcing the rate of interest was to remain at 0.50%. That said, City analysts expect rates to be lowered to 0.25% later in the year – marking the first cut in more than seven years. Other measures, such as quantitative easing, have also been introduced to help allay fears of the UK's long-term economic prospects.

Britons Left in the Dark

When asked whether or not they are confident in fully understanding the implications of the UK's departure from the EU on various financial issues, including their own personal finances, a resounding number of UK adults stated they did not.

With regard to the long-term prospects of the FTSE, 55% of respondents – equating to 28 million people across the UK – said they were not confident that they understood what the consequences of Brexit would be on the stock market. A similar number (52%) said the same about property prices, while 49% of Britons are not confident that they know what Brexit would mean for the value of the pound. The findings mirror the movement noted in the aforementioned Lloyds Bank Investor Sentiment Index, with investors turning their back on traditional investment classes such as shares, bonds and property in the wake of the EU referendum.

Matters of personal finance revealed a concerning lack of awareness amongst Britain's adult population, with almost three fifths (58%) of respondents admitting they do not know what Brexit will mean for their investment strategy – equating to over 29 million people. Furthermore, 56% stated that they are unsure of the implications of leaving the EU on their pension plan, and a further 52% did not know how Brexit would affect their tax bill.

Confidence in SMEs Remains High

SMEs account for 99.9% of Britain's private sector, employing 60% of the sector's workforce and contributing £1.8 trillion to the country's turnover. In February 2016, the former Chancellor George Osborne acknowledged that the UK's small businesses "are leading the charge in rebuilding the country's economy", adding that "these companies are the backbone of the British economy".

Given the vital role Britain's SMEs play in the development of the nation's economy, IW Capital's research delivered a series of welcome results. The study was conclusive in its findings, highlighting that despite the levels of uncertainty created by Brexit, resoundingly positive sentiments remain among British investors towards the UK's small to medium sized businesses. When asked whether or not they would consider supporting the country's SMEs through private investment in the current climate, the majority of investors (52%) said they would. This equates to 13 million investors across the UK who are interested in providing small businesses with much-needed growth finance.

Last year, 608,110 new businesses were launched in Britain – this is a substantial increase on 2011, when just 440,600 start-ups were created. In order for this exponentially expanding group of small businesses to mature and 'scale up' into a collection of established, mid-sized enterprises over the coming years, there will be a significant demand for private investment and subsequent growth finance to continue for the long-term. In support of this, when looking to the UK's future generation of enterprise investors, IW Capital's research revealed a promising outlook. The study highlighted an even greater level of support among the millennial population with an astounding 70% of those aged between 18 and 34 willing to invest in SMEs in a post Brexit climate, supported by a further 52% of the 35 to 54 age bracket.

Optimism amidst Uncertainty

Amidst the imminent steps the economy has taken since its momentous shift away from the EU, IW Capital's study has revealed a series of valuable insights for a nation of 5.4 million SMEs. When considered within the wider context of the UK's private sector, the high levels of investor confidence unveiled in the IW Capital research are equally matched by the attitudes of British SMEs themselves. According to July's Business Growth Fund's Growth Climate Index, 74% of UK SMEs still believe that Britain is a great place to start and grow a business, regardless of the EU referendum result. Together with IW Capital's research, the data from Business Growth Fund provides valuable insight into the wider infrastructure supporting British business outside of the Single Market, painting a promising outlook for an economy supported by £1.8 trillion in SME turnover yearly.

With a view to preservation and growth post the UK's departure from the EU, the progression of the early-stage findings in the IW Capital report are heavily dependent on the sentiments of a nation divided in opinion. In the month since the decision to leave, overall consumer confidence fell as a result of market uncertainty, a shift that can often lead to reduced spending and subsequent economic stagnation if not tackled swiftly. While market and subsequent consumer sensitivity towards the unknown is expected in the imminent aftermath of Brexit, there remains a significant responsibility for industry bodies and the Government to inform and inspire both consumer and investor communities across the nation.

IW Capital's study has uncovered a noteworthy cause for optimism. It has shown that the overall majority of the UK's private investors have signalled considerable confidence towards SMEs as a viable investment opportunity in the post-Brexit climate – despite a fall in all other comparative asset classes. It is now of paramount importance that investors are educated and equipped to act on their positive sentiment, ensuring it translates into formative action for Britain's small businesses. Doing so will bolster the private sector and help drive the long-term growth of the nation's economy as the UK prepares to part from the European Union.

To discover how to conduct private investment into SMEs, including through the tax-efficient Enterprise Investment Scheme, contact a member of the IW Capital team on: +44 (0)20 7015 2250 or info@iwcapital.co.uk

IW CAPITAL
INVESTED INTEREST

IW CAPITAL LTD
42 Bruton Place
London
W1J 6PA

Phone: +44(0)20 7015 2250
Email: info@iwcapital.co.uk