There’s no shortage of news coverage and commentary regarding the June 2016 decision for the United Kingdom (UK) to leave the European Union (EU). While some industry experts believe it could take up to 10 years for the UK to fully exit the EU, short-term developments will impact overall market sentiment.

To help keep you informed of changes in industry perspectives, in November 2016, we launched the State Street Brexometer, our quarterly survey that tracks investor sentiment around Brexit developments. In conjunction with PollRight*, we’ve conducted a survey of 103 professional institutional and alternative investors, such as hedge funds, real estate and private equity**. The current research was conducted between 30 October and 8 November 2018.

Results from this latest survey provide a benchmark view of the change of sentiment around Brexit.

“Q4 Brexometer was conducted when hopes of a deal were rising. Given that context, it is telling that there was little shift in investor attitudes toward UK asset holdings. In fact, fewer investors expect to increase holdings, and those expecting to reduce were steady. Such caution has been vindicated and while some hurdles have been cleared, the UK parliamentary vote looms large.”

MICHAEL METCALFE
Head of Global Macro Strategy at State Street Global Markets

* PollRight is a market research agency specialising in business-to-business research.

**Countries covered by survey included UK, US, Europe, Central and South America, Middle East, Asia, Africa and Oceania.
Summary of Findings

There has been failure to agree a Brexit deal so far, with the UK scheduled to leave the EU on 29 March 2019. After appetite for increased holdings of UK assets rose to record levels in Q3, Q4 brought a slightly more muted response from investors, with those intending to increase their holdings falling to 14.6%. This is still the second highest score since Q3 2017. The proportion of investors looking to decrease their holdings of UK assets also rose slightly, from 19.8% in Q3 to 20.4% in Q4.

The positive view for the medium-term global economic outlook remains strong at 38% — a slight fall from 43% in Q3. However, the number of those holding a negative outlook doubled, from 15% to 30%. This is the highest negative reading since the study began — and is more than 7% higher than the previous record (set in Q2 2018 at 23%).

Q4 saw the number of investors anticipating Brexit having an impact on their business operating model fall slightly, from 83% to 80%. The proportion of those expecting it to have a significant impact fell more sharply, from 26% in Q3 to 18%.

The investment services that investors envisage their business needing greater support with following Brexit continue to be regulatory reporting support (28%), fund restructuring (20%) and transition management (14%). The proportion of investors stating that they would not need any support rose sharply in Q4, from 28% to 39%.

The number of investors who expect to increase their level of investment risk over the coming three to five years increased to 28%. This follows a sharp dip in Q3, when figures fell to a record low of 24%. The number anticipating a decrease in risk appetite rose too, however, to 43% — the highest proportion since the survey began.

What are your expectations of medium-term (three to five years) prospects for global economic growth?

<table>
<thead>
<tr>
<th>Category</th>
<th>Positive</th>
<th>Neutral</th>
<th>Negative</th>
<th>Don’t know</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Institutional, Q4 2018</strong></td>
<td>38.0%</td>
<td>32.0%</td>
<td>26.0%</td>
<td>4.0%</td>
</tr>
<tr>
<td><strong>Alternative, Q4 2018</strong></td>
<td>38.5%</td>
<td>25.0%</td>
<td>34.6%</td>
<td>1.9%</td>
</tr>
</tbody>
</table>
Despite the political theatre and the potential tail risk of a disruptive Brexit, we believe that the UK will enter a multi-year transition period in 2019. Approving the current draft agreement has its advantages, given the absence of a plausible alternative. Agreement on the withdrawal should deliver a sentiment boost to UK assets and free up investment in the real economy that is currently held back by uncertainty.

BILL STREET
Head of Investments for EMEA at State Street Global Advisors

Other Highlights

Ireland overtook Luxembourg as the most attractive location for managers looking to expand their cross-border fund businesses — despite a fall of nearly 9% in mentions. It topped the list with 45%, followed by Luxembourg (38%) and Germany (24%). The UK rose to fourth in the rankings with 22% — up from 10% in Q3.

Over the last quarter there has been a slight increase in the number of investors expecting to utilise cross-border fund locations, with 38% saying they will do so in the coming three to five years. This is up slightly from 37% in Q3.

The proportion of those expecting to use them less remained constant at 2%.

State Street continues to work closely with regulators and clients to prepare for the post-Brexit world. With our strong presence in Europe and across the globe, and strength in pan-European structures, we’re ready to partner with clients to help them navigate complexity and address change.

For more State Street commentary on Brexit, please visit www.statestreet.com.
Important Information

Marketing Communication

All results come from the PoliRight survey. PoliRight and State Street are not affiliated.

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