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The Brexit question: views from Liontrust managers

Stephen Bailey, Macro-Thematic team: Regardless of the Brexit vote's outcome, London will remain Europe's premier financial centre and English is firmly established as the global language for business. We expect sterling to bear the brunt of investor uncertainty prior to the vote but believe any slump in the currency should we opt to leave the EU would be relatively short lived. Given the current sterling situation, we maintain a long-standing preference for overseas earners in our portfolios and are taking full advantage of our capacity to hold 20% in non-sterling investments, primarily via US dollar exposure in US pharma names and telecom stocks such as AT&T and Verizon.

James Inglis-Jones, Cashflow Solution team: Overall we continue to expect volatility to remain high and markets to be vulnerable to further weakness. The uncertainty that will accompany the forthcoming referendum in the UK is a further factor that is likely to add significantly to volatility in the short term with the result of the vote either precipitating a relief rally in European equities if the UK votes to remain in the union or further potentially quite significant weakness if the UK votes to leave.

Matt Tonge, Economic Advantage team: The upcoming vote on the UK's membership of the EU is one of the biggest sources of uncertainty as investors look forward to the rest of 2016. Reactions to the possibility of Brexit have ranged from lack of concern to dire predictions of economic doom. In such an atmosphere, we believe it is more important than ever to focus on company fundamentals rather than macroeconomic noise. Investors concerned about Brexit would do well to think about the attributes they consider key to companies' success across the economic cycle. It is these which should provide the best opportunity for strong and sustainable returns, regardless of the outcome of the vote – and for us, these remain Economic Advantage factors such as intangible barriers to competition, which allow companies to maintain pricing power.

Smaller companies in particular face uncertainties in a Brexit scenario. On one hand, more problematic trade relationships, along with the threat of inflationary pressures associated with currency decline, could prove headwinds to growth – a scenario in which businesses lacking scale might be hit particularly hard. On the other, a weaker pound boosts the competitiveness of British exports, which would be a tailwind for many smaller companies selling goods and services around the world.

Again, when looking at smaller companies we believe the key to mitigating uncertainty is to pick investments for the long term. A style favouring high quality, dependable businesses should provide downside protection when markets are in a state of flux or outright panic.

John Husselbee, Head of Multi-Asset: Sterling has weakened not only because of the uncertainty of the Brexit referendum, but also as lift-off of UK base rates has been further delayed. We prefer to invest in global equities on an unhedged basis while the trend remains towards sterling weakness. This is under constant review particularly with regard to euro and yen, where central bank monetary policy is travelling in the opposite direction.

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