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Banor’s moves under the Brexit sword of Damocles

by Diana Bin

The United Kingdom’s divorce from the European Union could have significant consequences for the economies of the two regions and for the business of foreign operators across the Channel. But the process still has a long way to go and visibility right now is very low. Nor have the financial markets been showing signs of nerves, apart from some fluctuations in the wake of last June’s referendum. To tell the truth, it looks as though the stock markets have happily ignored all the political risks that affected Europe in 2016 and are remaining fairly calm, even with the prospect of the divorce between the United Kingdom and the European Union actually taking shape. And as we’ve also seen in recent days in the run-up to the French elections, the Emmanuel Macron-Marine Le Pen duo have emerged as winners of the first round.

“We saw some signs of nerves last year before the Brexit vote, the Italian referendum and the US elections. But afterwards, in spite of the results, which in none of the three cases was the expected one, the market didn’t see any major change of course”, points out Giacomo Mergoni. Mergoni is CEO of Banor Capital, an independent UK-based asset management firm specialising in value-based long/short strategies. Even today we’re not seeing particular signs of tension; I hope, however, that investors aren’t under any illusion that the markets will rise no matter what. If Marine Le Pen were to win, the tension in the markets would probably be high”. However, according to the polls Macron will win at the second round of voting on 7 May. Right now, therefore, the prevailing mood is one of optimism, and we’re not seeing a high demand for protection from risk (as the VIX (volatility) Index, near its minimum levels, shows).

This optimism is down to a number of factors, explains Mergoni: “To start with, we’re witnessing, for the first time in many years, a synchronised growth in the world’s major economic regions (US, Europe, China). As regards Italy specifically, we’ve seen a further impetus since the start of the year, with the introduction of PIRs (individual savings plans)”.

As for the investment outlook, “Italian and European small and medium-sized businesses are looking somewhat expensive to us, as is the US stock market in general, which has seen its valuations triple since 2009”. Maybe Asia, and more specifically China, is the only region where it’s still possible to buy good-quality corporate stocks at reasonable prices, muses Mergoni. Notwithstanding the markets’ reaction (or lack of one), Great Britain’s actual exit from the EU will have a very direct impact on a firm like Banor Capital. The firm was founded in 2010 by a team of Italian origin which opted to set up in the UK, their aim being to have a broader vantage point.

“For us, as a company subject to English law and with a focus on the European and Italian markets, things could change a lot when Brexit actually happens. But to be honest, I think that’s unlikely and that taking measures at this stage would only send out misleading panic signals”, explains Mergoni. “Let’s take US and Asian asset management firms as an example. They’re able to operate in Europe as a result of the fact that the regulatory framework in their countries is deemed to be equivalent to the EU’s. I don’t see why the same couldn’t happen for firms operating under English law”.

That said, we do need a Plan B, continues Mergoni. “Before we knew about Brexit, three years ago we acquired a Luxembourg-based management company with all the authorisations needed to operate in Europe”. In event that the UK and EU don’t reach agreement, we could operate from London as advisors to the Luxembourg firm”.