

## **BANOR CAPITAL: BREXIT IS A BOOST FOR STERLING - MARKET MUSINGS**

by Francesco Castelli \* (Il Sole 24 Ore Radiocor Plus) - Milan, 19 Feb - We believe that the United Kingdom offers an interesting opportunity for investors to diversify, both in terms of shares (particularly domestic securities) and currency. Private investors can easily access investment opportunities in sterling through bank and government bonds, which are often traded on Italian bond markets. Alternatively, they could turn to ETFs that replicate investments in the British currency market.

Returns on sterling bonds are around one point higher than bonds of equivalent value in euro, consistent with the higher official rates, which have never fallen into negative figures. However, we are not attracted by the level of returns so much as the absolute value of sterling. The British currency continues to trade at very low levels, looking over a horizon of thirty years. This undervaluation has a clear explanation: Brexit. Since 2016 to the present day, we have witnessed the progressive disengagement of international investors, scared off by the uncertainty and the possibility of a political shift which may have given rise to a government with a statist approach not welcomed by the market. In the last three years, the UK economy has underperformed compared to the rest of Europe. Brexit has closed factories and blocked investments as the market waited for the British government to clarify its position.

However, the December elections were revealing in this regard, with a large majority afforded to Boris Johnson. Brexit will now move forward (with a gradual, economically painful withdrawal from Europe); the transition period towards definitive exit from the EU began on 31 January. The Johnson government will have a majority for five years and will focus on a recovery programme, supporting growth—where necessary—with an increase in public spending. This will be a welcome boost for UK businesses and the currency, whose risk premium is set to fall gradually.

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