



## The Brexit Breakup Brings New Opportunities

**The Brexit referendum result sparked market volatility, upending the status quo, but it is not all doom and gloom.**

After taking a dive in the aftermath of the Brexit vote, the global markets have steadied and refocused on other news as businesses assess the damage, and opportunities, ahead. Although US\$2 trillion was knocked off the global markets in the aftermath of the referendum, I believe this initial strong reaction was very much due to the shock factor of a voting result not anticipated by most investors. Many big names in the investing world were caught wrong footed, creating a great deal of volatility and downward pressure on international markets.

While globally the focus has moved on to other news, such as the job situation in the U.S., Fed policy, and the U.S. election, British and European firms may feel the instability for some time to come. But this is not all bad news. There will be winners as well as losers.

In the long-run, I think the full impact of Brexit on the market will be more muted than many might expect for two reasons. First, markets are forward looking. The immediate, sharp drop priced in most, if not all, the downsides and subsequent moves should reflect incremental, new information. Even though it will take years for the details of Brexit to be carried out, the financial market will not take that long to figure out the impact and my sense is that this impact has already been priced in.

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Second, the Brexit vote could be a crisis as well as an opportunity; in fact, it can be both at the same time – for different firms. Because the pound will weaken, British exporters (Scotch makers among others) will benefit while British importers and those that export to the U.K. – European car makers, for instance – will suffer. Whether Brexit is a long-term plus or minus will be sector-specific.

Taking into account that the pluses are neutralised with the minuses, as well as the fact that there are other major issues weighing on the market such as the resilience of the U.S. recovery and the slowdown in China, the overall impact of Brexit could well be less than many people thought.

### **Who stands to gain?**

As well as the British exporters mentioned above, consumers travelling to the U.K. and those buying British goods will benefit from Brexit as the relative price becomes cheaper. Many emerging markets will be affected by Brexit through the currency markets and trade. China, for instance, will feel the impact on its currency which is linked to a basket of major currencies, including the pound. Some of these effects will be positive and others negative.

More broadly, Brexit in the long term allows Britain to have its own policies and trade arrangements

rather than being constrained by the EU, and this may well be a great opportunity. Brexit is an unprecedented event; but unprecedented just means that it changes the status quo. People may feel anxious because we are going into the unknown but, if executed well, Brexit will bring good opportunities alongside the challenges.

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### **What happens to the finance crown?**

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One industry that has been the subject of much

national and international attention is the financial centre  
of the world, New York as the  
capital of the world. Brexit could challenge  
its position as the most important financial centre if firms – banks,  
insurance companies – move staff and  
resources away from the U.K. This has many people  
worried and was something big banks warned of  
before the referendum. But I think the likelihood of a  
finance exodus from London is less likely than many  
people fear, for the simple reason that Continental  
Europe has no financial centre that can yet compete  
with London in terms of the depth, liquidity, human  
capital, and the quality of oversight. Some of the  
same big banks that had warned of staff movement  
before the vote have reversed course and are now  
urging calm.

The fact is, even as many people contemplate  
moving out of London or the U.K., there are not  
many compelling places to move into in Europe.  
New York and Asian financial centres may  
marginally benefit – mostly for the global business –  
but London will remain the top financial centre in  
Europe for European transactions and deals.

In addition, as the pound weakens, global investors  
will find great opportunities to invest in U.K. assets  
and M&As, etc. Thus once again, Brexit is creating  
opportunities as well as challenges.

**Long-term advantage**

### **Long-term advantage**

Now that the U.K. does not belong to the single  
market, it is on its own and smaller, but if British  
regulators, lawmakers, and dare I say, politicians,  
seize this opportunity to make London and the U.K.  
truly competitive and attractive as a financial centre  
and investment destination, I can see that its  
advantage can be extended in the long run. This will  
be especially true if its European counterparts  
continue to lag behind in reform and innovation.

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