
'BRITIN' OR 'BREXIT'? : "BRITIN" SEEN AS CONFIDENCE BOOST FOR EUROPEAN RISK ASSETS (PART 3)

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In our five-part series on Brexit, we look at the financial implications of 'Britin' and 'Brexit'. See ['In a nutshell'](#) and ['Pre- 23 June Referendum: 2015 Grexit episode suggests to stay hedged until 'B'-Day'](#) for first two weeks of analysis.

In our base case scenario, Britain will vote to stay in the EU ("Britin"), if only because few in the UK would want uncertainty to potentially undermine the hard fought return to economic stability. Consider the late recovery in UK's labour market, which meant that incomes only started to meaningfully improve since 2014. As a result, the tangible gains of the economic recovery for UK households have only recently emerged. As shown in Chart 2, following years of declines, the regular average pay of workers employed in the private sector has reversed and has begun to outpace inflation only *after* the unemployment rate has fallen back to pre-financial crisis levels.

In the case of the Scottish independence referendum held in 2014, when the elderly concerned about social security and the youth concerned about employment tilted to vote in favour of Scotland to remain part of the UK, the end result was that concerns over national identity were side-lined for securing broader economic prosperity. Given the hard fought economic gains by Britain in the last several years, coupled with the fact that the EU remains UK's largest trading block (a fact which is compelling UK businesses to overwhelmingly support "Britin"), similar voting behaviour looks likely.

In this context, British voters would vote with their pockets, preserving the status quo of that of an imperfect union with continental Europe. With political and economic uncertainty removed, the "Britin" result should restore confidence in sterling assets and also provide a boost in the euro. Credit conditions should continue to ease and in the process keep the domestic demand recovery of Europe alive.

So what? European small cap equities are seen as likely to benefit the most, alongside UK mid and small-cap equities that have a relative large exposure to Europe.

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