

### Brexit Fallout: Global Uncertainty to Weigh on Multiples



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- **Uncertainty Has Increased Materially in Key Regions of the World.** In the U.K., Brexit uncertainty could drag on for a few years. Globally, the next big uncertainty surrounds the U.S. presidential election, although that issue will be clarified in a few months.
- **Major Corporate Decisions Likely on Hold.** In the U.S., Europe and the U.K., uncertainty will likely mean that managements avoid making major decisions pertaining to hiring, expansion, capex, M&A, etc. This decision-making paralysis could ultimately weigh on global economic activity and corporate profits.
- **U.S. Stock Prices Flat, at Best, in 2016.** In equity markets, uncertainty has already taken a toll on stock prices by way of P/E compression. It's hard to construct a scenario where multiples in the U.S. expand, at least until a clear victor emerges in the U.S. presidential elections. The combination of compressed multiples, and earnings that are potentially under pressure, suggests that U.S. stock prices will be flat, at best, in 2016.
- **Some Grounds for Optimism.** Lower interest rates could support an uptick in consumer spending and business investment. A new U.S. president could initiate significant fiscal stimulus. Alternatively, a populist president could introduce a minimum national wage, which could spark consumer spending. Finally, despite uncertainty, technological innovation will continue, supporting new business models as well as creating new jobs.



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