



Brexit Starting to Bite: What Should Canadian Investors Do?

Description

Mark Carney just put to rest any beliefs that the Brexit vote wasn't going to be a big deal for the U.K. economy and possibly the world at large.

The former Bank of Canada head and current governor of the Bank of England (BoE) rolled out a series of measures August 4 to combat the negative impact of the U.K.'s vote to leave the European Union.

Carney cut the BoE's benchmark lending rate in half from 0.50% to 0.25% and indicated more easing could be on the way. The move is the first BoE cut since the Great Recession and sends a strong signal that things are getting ugly.

He also unleashed a new round of quantitative easing in the form of a £170 billion stimulus effort, including £60 billion directed at the purchase of U.K. bonds and £10 billion allocated to buy corporate debt.

The BoE is also planning to loan private banks £100 billion to ensure the U.K.'s financial institutions have the necessary liquidity to keep their doors open.

How bad is it?

"Indicators have all fallen sharply, in most cases to levels last seen in the financial crisis, and in some cases, to all-time lows," Carney said.

Meanwhile, U.S. stocks continue to bump along at near-record levels, pretty much oblivious to the announcement.

What does this mean for Canadian investors? As we have seen by the muted reaction in North American equity markets, apparently not much. If you are invested in high-quality companies with strong balance sheets, you probably don't have to worry too much about your portfolio.

Opportunities

The BoE decision could have an impact on the current rally in precious metals.

Gold and silver have surged this year on the back of reduced expectations for rate hikes in the United States.

Pundits came into the year looking for four Fed moves to the upside. Weak U.S. data early in the year put the Fed on its heels and took the wind out of the sails of the U.S. dollar. That put a tailwind behind gold and silver that has led to the oversized gains in the miners and streaming companies.

The recent market consensus had been for a single Fed rate hike in 2016, but the BoE move has probably pushed that off the table for this year. At the moment, the next Fed move probably isn't coming until sometime in 2017.

As a result, gold and silver could find extra support in the coming months, especially if the economic situation in the U.K. continues to deteriorate and analysts begin to worry that the pain could spill over into other markets.

If that's the line of thinking you are leaning toward, a way to play it would be through **Silver Wheaton Corp.** (TSX:SLW)(NYSE:SLW) or **Barrick Gold Corp.** ([TSX:ABX](#))(NYSE:ABX).

Silver Wheaton is a streaming company, not a miner, so it gives investors a shot at riding the upside in both gold and silver without the direct risks attached to pulling the stuff out of the ground.

Barrick is the world's largest gold miner and the one with the lowest all-in sustaining costs. Production for 2016 is expected to be 5-5.5 million ounces, so there is a lot of upside torque if gold prices continue to move higher.

Both of these names have already enjoyed massive gains in 2016, so I wouldn't back up the truck, but the BoE decision could result in support for an extended precious metals rally.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

1. NYSE:B (Barrick Mining)
2. TSX:ABX (Barrick Mining)
3. TSX:WPM (Wheaton Precious Metals Corp.)

Category

1. Investing
2. Metals and Mining Stocks

Date

2025/08/03

Date Created

2016/08/05

Author

aswalker

default watermark

default watermark