Boutique chief warns UK financial firms over 'hard Brexit'

By Terri-Ann Williams / 04 Nov, 2016

We are living in uncertain times, the UK and particularly London has a risk of losing its financial passport if a 'hard Brexit' comes to pass.

That is the view of Finlabo's Alessandro Guzzini, who is chief executive of the Italian boutique group and runs the Finlabo Investments Sicav – Dynamic Equity fund.

Speaking to *Citywire Selector* Guzzini, who has 9.17% allocated to the UK, said a 'hard' Brexit, meaning a departure without compromise on trade terms, would leave UK financial services out in the cold.

His comments were made prior to November 3, where a legal challenge indicated the Prime Minister would need ministerial approval before triggering Article 50 to execute an exit from the EU.

'From what we are hearing from Theresa May, there will be a hard Brexit. If this happens the UK could end up outside the common market for financial services, if this happens the pound will certainly go lower.

'In 2011 and 2012 we were quite euro-sceptic, we thought the euro might break up but at the time there was political will keeping it together.

'We think that the political situation is changing and there is the real risk of having an euro-sceptic government in some eurozone countries in the next few years that could follow the example of Brexit.'

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Alessandro Guzzini

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Guzzini said the rise of populist parties in France and Italy could help change the political landscape of the eurozone, and that the region must take steps to give the economy more stimulus.

'In the short term, I think the eurozone will stay together, the impact of breaking the eurozone would be too severe on the economy.'

'The mid-term view is that the eurozone must take important steps towards political union if it wants to succeed. In order to give stimulus to the economy, you need to have the capacity to spend and this won't happen until there is a eurozone common treasury.'

Spanish success

In 2012, Spain's unemployment rate was above 20% and its stock market hit its lowest point in more than a decade, as the country continues its three-year recovery from recession, Guzzini said Spain looks extremely attractive, especially within its financial institutions.

'Spain is one of the best performing economies in Europe, its GDP growth has been the strongest in the eurozone in the past few quarters and the political situation has improved there since they managed to create a minority government.'

Guzzini currently has 7.85% allocated to Spain, while four companies in the top ten positions of the portfolio are Spanish. These include food processing company Ebro Foods (1.01%) and oil company Repsol Sa (1.01%).

However, Guzzini looks to financials in Spain where he currently has allocations to insurance company Mapfre SA (1.06%) and Spanish banking group, Banco Santander SA (1.01%).

'Even though it's not our biggest country allocation, we have a significant amount of the portfolio allocated to Spain, it is an overweight for us,' he said.

'The Spanish financial institutions are on average well capitalized, and if you look at the non-performing loans ratio in the Spanish vs the Italian banking sector, then Spain fairs much better.'

The Finlabo Investments Sicav – Dynamic Equity fund returned 18.8% over the three years to the end of September 2016, in the long/short equity category. This compares with a sector average of 6.6% over the same time period.

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