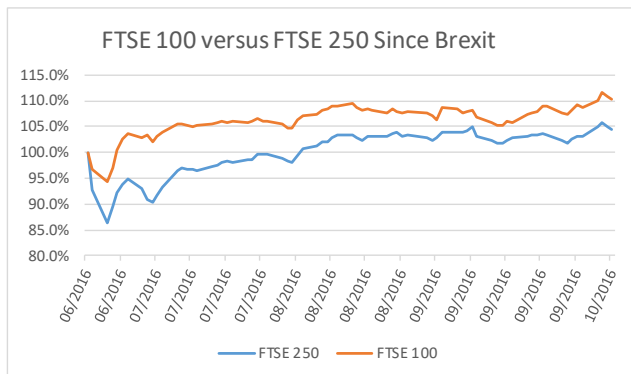


## Brexit Investments – FTSE 100 vs FTSE 250 Index

This week we present a relatively simple outperformance idea. As the chart below illustrates, the FTSE 250, arguably companies with much greater exposure to the UK economy has rallied more than 21% since its post Brexit lows. Compare and contrast this to the performance of the FTSE 100, up 17% over the same period.



Following on from the PM's announcement at the weekend that she'll trigger Article 50 by the end of March next year, what is the outlook for the two indices? Prior to May's announcement, recent economic data, consumer sentiment and indeed the Bank of England itself had become more bullish on the shorter and medium term outlook for the UK economy. Perhaps the driver of the FTSE 250 recovery?

However, and without wishing to dive into the political commentary thereof, following the apparent tougher stance the UK government will seemingly take, will the journey to full Brexit really be so smooth for the UK economy centric stocks? Having far greater exposure to the UK economy (FTSE 250 is 2.3 times more exposed to UK revenues than the FTSE 100, *source Morgan Stanley*), it would seem a UK economic contraction could impact FTSE 250 stocks more. In addition, intuitively, should Sterling continue to weaken, (many FX strategists have GBP USD weakening towards the low \$1.2's), that too could have a more detrimental impact on UK economy centric companies as their operating costs go up. Conversely for the larger FTSE 100 constituents and international companies exporting goods and/ or deriving foreign profits, a weakening of Sterling will clearly boost GBP performance and profitability.

The below investment ideas therefore allow investors to implement the view that over the next 1-2 years, due to Brexit, UK economy centric companies will underperform their internationally focused counterparts.

Long FTSE 100/ Short FTSE 250 Note	
Format	EIS Note (CGT)
Maturity	2 years
Underlying	FTSE 100 / FTSE 250
Payoff	Long FTSE 100 / Short FTSE 250 Denom * [(FTSE <sub>final</sub> /FTSE <sub>initial</sub> - 1) - (FTSE <sub>250initial</sub> / FTSE 250 <sub>final</sub> - 1)]

1 Year GBP Outperformance Note	
Format	EIS Note (CGT)
Maturity	1 year
Underlying	FTSE 100 / FTSE 250
Contingent Capital Preservation	Triggered if at maturity only if FTSE 100 is below 85% of initial strike.
Payoff	8.5% return, if the FTSE 100 has outperformed the FTSE 250 during the period

### Contact:

General: T 020 8050 2900 E enquiries@fortemcapital.com  
Sales: T 020 8050 2903 E sales@fortemcapital.com

Trading: T 020 8050 2901 E trading@fortemcapital.com  
Research: T 020 8050 2902 E research@fortemcapital.com

## 7<sup>th</sup> October 2016

Indicative Levels	Pay of f
FTSE 100 outperformance of FTSE 250 Note (1yr)	8.5%
Long FTSE 100/ Short FTSE 250 Note (2yr)	1for1

Rates (bps)		
	Current	Week Chge
GBP 1yr	51.20	2.80
GBP 3yr	51.90	7.40
GBP 5yr	62.40	11.40

Equity Indices (%)		
FTSE 100	7040.91	2.05%
S&P 500	2151.13	-0.79%
Nikkei 225	16860.09	2.49%
Eurostoxx 50	3016.84	0.49%

Currencies (%)		
GBPUSD	1.2426	-4.21%

5yr Credit Spreads (bps)		
Citigroup	83.70	-3.63
Credit Suisse	139.86	-3.15
Deutsche	221.43	-7.01
GS	98.85	-4.01
HSBC	76.94	1.99
JPM	65.57	-3.22
MS	94.98	-3.91

Commodities (%)		
Gold	1255.40	-4.60%
Oil	50.62	4.93%

3m Implied (vol pts)		
FTSE 100	14.29%	0.39%
S&P 500	13.86%	0.41%
Nikkei 225	19.29%	-0.70%
Eurostoxx 50	21.50%	1.62%

5yr Implied (vol pts)		
FTSE 100	19.44%	0.15%
S&P 500	20.94%	-0.20%
Nikkei 225	19.59%	0.05%
Eurostoxx 50	20.08%	0.26%

Source Bloomberg / Partner Banks  
Data as at 07<sup>th</sup> October, 10.15am

Upcoming events	
11 <sup>th</sup> Oct	EU Finance Ministers Meet
12 <sup>th</sup> Oct	OPEC monthly Oil report
12 <sup>th</sup> Oct	FED FOMC minutes
13 <sup>th</sup> Oct	China's trade balance announced
14 <sup>th</sup> Oct	Russia's sovereign debt rated



## FRIDAY NIGHT 'LIGHTS

### Disclaimer

This factsheet has been issued as a financial promotion by Fortem Capital Limited having been approved for issue by Blackheath Capital Management LLP for the purpose of section 21 of the Financial Services and Markets Acts 2000. Fortem Capital Limited is an appointed representative of Blackheath Capital Management Limited which is authorised and regulated by the Financial Conduct Authority. This factsheet is intended for Professional Investors and Institutional Clients and advisors and should not be communicated to any other person. The information has been prepared solely for information purposes only and is not an offer or solicitation of an offer to buy or sell the product. All information, including prices, analytical data and opinions contained within this factsheet are believed to be correct, accurate and derived from reliable sources as at the date of the factsheet. However, no representation or warranty, expressed or implied is made as to the correctness, accuracy or validity of such information. Fortem Capital Limited assumes no responsibility or liability for any errors, omissions or inaccuracies with respect to the information contained within this factsheet. All price and analytical data included in this factsheet is intended for indicative purposes only and is as at the date of the factsheet. The value of investments and the income from them can go down as well as up and the investor may not get back the amount originally invested. Past performance is not necessarily a guide for the future. The information within this document does not take into account the specific investment objective or financial situation of any person. Investors should refer to the final documentation and any prospectus to ascertain all of the risks and terms associated with these securities and seek independent advice, where necessary, before making any decision to buy or sell. The product may not be offered, sold, transferred or delivered directly or indirectly in the United States to, or for the account or benefit of, any U.S. Person.

#### Contact:

General: T 020 8050 2900 E [enquiries@fortemcapital.com](mailto:enquiries@fortemcapital.com)

Sales: T 020 8050 2903 E [sales@fortemcapital.com](mailto:sales@fortemcapital.com)

Trading: T 020 8050 2901 E [trading@fortemcapital.com](mailto:trading@fortemcapital.com)

Research: T 020 8050 2902 E [research@fortemcapital.com](mailto:research@fortemcapital.com)