



# THE FINANCEMENT NEWSLETTER

Volume IIII | October 17, 2020

## About the Research Study

Title: Impact of Brexit vote on the London stock exchange: A sectoral analysis of its volatility and efficiency

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## Introduction

**A few things before we dive in**

- The uncertainty related to the Brexit vote and changes in the direction of policy rendered immense volatility in the London Stock Exchange.
- Studies have been completed on the holistic effect of the Brexit vote on the markets.
- This study seeks to analyze the impact of the Brexit vote on volatility in the short and long-term, and how the event has impacted individual sectors.

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## Methodology

So here's what they did

- Daily stock prices were compiled for the London Stock Exchange from March 2015 to April 2018 for six sectors (oil and gas, industrial, REIT, financial, banks, and technology) based on FTSE indices.
- The period was partitioned into three segments: the period before the Brexit vote, the period during the Brexit vote, and the period

immediately following the Brexit vote.

- The authors employed Maximum Overlap Discrete Wavelet Transformation, a technique used to separate different data sets (i.e. different sectors) while maintaining the time series.

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## Key Takeaways

So what does all of this mean?



### Volatility

There was higher volatility before the Brexit vote, compared to its volatility during and after.



### Sector Specific Volatility

Volatility tended to increase in the banking, REIT, and technology sectors, by virtue of the effect severed ties with the EU would have on these sectors.



### Political Uncertainty

During political uncertainty similar to that faced before a major policy decision (e.g. Brexit) or an election, short-term volatility should not be taken as a signal for a long-term market failure.



### Elections VS. Economies

Throughout our votes on major referendums or major election cycles, including the current one in the U.S., understanding how the referendum or policies of each candidate will affect individual sectors is more important than the immediate short-term volatility.

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