Lloyds Chambers
1 Portsoken Street
London E1 8HZ
Tel: 020 7702 0888 Fax: 020 7702 9452
www.hermes-investment.com

COMMENTARY

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Hermes: Neil Williams, Group Chief Economist, reacts to Scotland's referendum vote

"Scotland's vote to stay part of the Union removes a potential 'curve ball' for financial markets, and will hopefully now allow much of the uncertainty to ebb away. Details about the extent of any new devolved powers need to be thrashed out, of course, but the short-term rally in sterling, and other UK assets suggests a modicum of relief.

"Had a 'yes' been delivered, the threat of the UK 'losing' 8% of its GDP (*circa* £129bn), together with Scotland's top-heavy bank-assets-to-GDP ratio, the risk of capital flight, the need to divvy out the oil, and 12-18 months of political uncertainty would have jolted the pound.

"But, even that should not have caused crisis, given the UK's economic fundamentals have been strengthening, and becoming broader based.

"Gilts in the event of a 'yes' vote may have underperformed other bond markets in the short term, though with the Debt Management Office (DMO) helpfully guaranteeing all gilts payments, any risk of default or restructuring always looked next to zero.

"The spotlight may now shift onto the policy-making powers of the regions, and the extent into next May's general election of any perceived fiscal slippage. The tensions arising from a monetary union bereft of sufficient fiscal union are still being suffered in the euro-zone. These need to be avoided in the UK.

"Bank of England (BoE) monetary policy will be unhindered by today's developments. With UK GDP growing around 'potential' and about to be revised up, inflation probably troughing, and the MPC mindful of bubbling house prices, the first, 25bp rate hike could yet come as early as November, though BoE caution means next spring is looking increasingly likely."

For more, please see Neil's Economic outlook quarterly for Q4, *The missing jigsaw piece*, to be published next week.

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Follow Neil Williams on Twitter: @HermesChiefEcon
Website: www.hermes-investment.com

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For further information, please contact:

Hermes Investment Management

Jeannie Dumas
+44 (0)20 7680 2152
jeannie.dumas@hermes-investment.com

Melanie Bradley
+44 (0)20 7680 2118
melanie.bradley@hermes-investment.com

Notes to Editors:

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