Market Update

June 2016 Review

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"Brexit Sends Shockwaves around the World"

June was a historic month for economic history as the United Kingdom became the first nation to leave the European Union. The vote sent shockwaves through the media and through world markets, as about $3 Trillion worth of global market value dissolved in a matter of two days. Along with the markets went the British pound, which lost 12% of its value over the same period. Although the exact terms for their departure and the longer term impact are unknown at this time, investors' fears appeared to subside at the end of the month and domestic markets recouped most of their losses. The U.S. became the obvious safe haven for startled investors.

The world witnessed history on June 23rd when British voters voted 52% to 48% in favor of leaving the European Union. Along with nearly $3 Trillion worth of global market value that was erased and a severe reduction in the British Pound's value in a matter of 48 hours, this vote opened the door to a variety of "what if" questions that were once thought to be abstract and intangible. What if the U.K. cannot come to favorable trade terms with the E.U? What if other countries try to leave as well? Similar to the Greek default crisis, we are in uncharted waters and the future consequences of these actions are unknown. Many people (experts included) assigned a very low probability to a "leave" vote, so when it actually happened, the shock and surprise had a stronger effect on markets than it may have had otherwise. Markets around the world experienced significant drops, including the S&P 500 Index that lost over 5% of its value in two trading days. However, many markets quickly recovered back to neutral levels. When looking at the month end standings of domestic indexes in comparison to where they started the month, it appears as though the Brexit didn't even happen: the Dow Jones Industrial Average (DJIA) gained 1.0% and the S&P 500 Index posted a modest gain of 0.3%. The technology heavy NASDAQ composite was down 2.1% for the month however it was already experiencing a negative trend for the year. Within domestic equity, larger companies and those with lower volatility did especially well, given investors' flight to quality at the end of the month.

	June 2016	YTD
DJIA	0.95%	4.31%
S&P 500	0.26%	3.84%
NASDAQ	-2.13%	-3.29%
MSCI EAFE	-3.36%	-4.42%
MSCI Emerging Markets	4.00%	6.41%
Barclays Aggregate	1.80%	5.31%
Barclays Corp High Yield	0.92%	9.06%
	6/30/2016	5/31/2016
US 10-Year Treasury Yield	1.49%	1.84%

Domestic economic releases were mixed for the month. On the negative side, personal incomes and spending slowed. Jobless claims also ticked up to a higher than expected level at the end of June. However on the positive side, the third revision of first quarter GDP growth increased to 1.1% and the second quarter is estimated to bring a number closer to 2.0%. This third revision was increased due to a higher level of exports than initially thought, which is a bit surprising given the strength of the U.S. dollar. Correspondingly, the ISM Manufacturing Index experienced significant acceleration as well this month. Finally, Janet Yellen and the Fed announced that interest rates will remain unchanged, as economic uncertainty across the globe and a less robust American economy continue.

Developed international markets experienced the most pain in June, which was an expected result of the Brexit. The MSCI EAFE lost 3.4% in June and is down 4.4% for the year. Most of this decrease was experienced in the two days around the vote. Emerging markets, as represented by the MSCI EM Index, were resilient and continued their very strong trend in June, posting a 4.0% return for the month. Year to date, this index has outperformed both domestic and international developed market indexes by a substantial margin.

Fixed income markets continue their rally as the Barclays Aggregate Index gained 1.8% this past month and the Barclays Corp High Yield Index was up 0.9% for the month. In addition, investors from around the world were seeking high quality investments as a refuge from the Brexit at the end of June. U.S. Treasuries became one of the vehicles of choice, as noticed by the plummeting yield across most maturities. Yields are at record lows for Treasuries now that extreme demand caused prices for these securities to increase substantially.

The Brexit was historic and scary for world markets and understandably took over news headlines in June. However, many markets corrected rather quickly and the pain of the vote appeared to be rather short lived. We will see if this is still the case at the beginning of the third quarter. In all reality, the true consequences and conclusions that come from the Brexit may take years to realize, as departure from the E.U. is a substantial process. Nobody knows at this point what level of integration the U.K. will seek with the E.U. going forward, as this has been one of the main debates since the vote. Only after we are able to see the relationship and economic deals the U.K. is able to strike with the E.U. can we truly assess the domestic, regional and global impact this vote to leave will ultimately have. One main lesson learned from this situation is that impulsive investment decisions could have locked in significant losses for investors this past week. The market will occasionally experience rough seas, but those who stay in the market with a longer term view will have the opportunity to sail out of the storm.

For previous market commentaries please click here.

An index is a measure of value changes in a representative grouping of stocks, bonds, or other securities. Indexes are used primarily for comparative performance measurement and as a gauge of movements in financial markets. You can not invest directly in an index and, for comparative purposes; they do not reflect the effect of the various fees inherent in actual investment vehicles.

The S&P 500 Index is a market value weighted index showing the change in the aggregate market value of 500 U.S. stocks. It is a commonly used measure of stock market total return performance.

The Dow Jones Industrial Average is a price weighted index comprised of 30 actively traded blue chip stocks; primarily industrial companies, but including some service oriented firms.

The NASDAQ Composite Index is a market-value weighted index that measures all domestic and non-U.S. based securities listed on the NASDAQ Stock Market.

Gross Domestic Product (GDP) is the market value of the goods and services produced by labor and property in the U.S. It is comprised of consumer and government purchases, net exports of goods and services, and private domestic investments. The Commerce Department releases figures for GDP on a quarterly basis. Inflation adjusted GDP (or real GDP) is used to measure growth of the U.S. economy.

The MSCI Europe and Australasia, Far East Equity Index (EAFE) is a market capitalization weighted unmanaged index developed by Morgan Stanley Capital International to measure approximately 1,100 securities in 21 major overseas stock markets. It is a commonly used measure for foreign stock market performance.

The Barclays Capital U.S. Aggregate Index covers the U.S. Dollar denominated investment grade, fixed-rate, taxable bond market of SEC-registered securities.

The Barclays Capital U.S. Corporate High Yield Index covers the U.S. Dollar denominated, non-investment grade, fixed income, taxable corporate bond market. Securities are classified as high-yield if the middle rating of Moody's Fitch, and S&P is Ba1/BB+/BB+ or below.

The MSCI Emerging Markets Index (EM) is a free-float-adjusted market-capitalization index developed by Morgan Stanley Capital International. It is designed to measure the equity market performance of 26 emerging market countries.

The 10 Year Treasury Yield is the interest rate the U.S. government pays to borrow money for a 10-year period. In addition to influencing how much the government pays to borrow over this timeframe, the 10-year Treasury Yields also determines how much investors earn by investing in this debt and it is a good indicator of investor sentiment. The higher the yield, the better the economic outlook.

G20: The Group of Twenty is an international forum that consists of the governments of 20 major economies.