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Monthly Market Commentary

June 2016

ECONOMY: Global Economy At A Crossroads?

1ST QUARTER GDP

The third estimate of Q1 GDP was revised up to 1.1% annualized, more than double the original estimate. Strength in net exports and less weakness in nonresidential fixed investment gave a boost to the final estimate of Q1 GDP. Early estimates for second-quarter GDP are running at about 2%, a more respectable rate but still far from robust especially with the third-quarter outlook clouded by Brexit.

RATES LIKELY LOWER FOR LONGER

As recently as April, Fed officials were talking about rate hikes at the June or July meeting and 10-year Treasury yields were near 1.85%. The current economic uncertainty, amplified by the Brexit vote, is now likely to be enough to prevent the Fed from raising rates this summer. Assuming U.S. growth recovers in the second half and job growth continues, an increase in rates towards the end of the year is still possible.

STRONG U.S. JOBS REPORT

The U.S. economy added 287,000 jobs in June according to the Bureau of Labor Statistics. This represents the largest gain in eight months and was stronger than even the most optimistic forecasts among economists. The unemployment rate increased to 4.9% from 4.7% as more people came back into the workforce. Average hourly earnings rose to a post-recession high of 2.6% compared with those of the prior year.

CONSUMER CONFIDENCE REBOUNDS

The Conference Board ***Consumer Confidence Index***®, which had decreased in May, improved in June. *"Consumer confidence rebounded in June, after declining in May. Consumers were less negative about current business and labor market conditions, but only moderately more positive, suggesting no deterioration in economic conditions, but no strengthening either. Expectations regarding business and labor market conditions, as well as personal income prospects, improved moderately. Overall, consumers remain cautiously optimistic about economic growth in the short-term."*

ISM DATA POSITIVE

According to the Institute For Supply Management (ISM) economic activity in the manufacturing sector expanded in June for the fourth consecutive month, while the non-manufacturing sector (services) grew in June for the 77th consecutive month. The overall economy grew for the 85th consecutive month.

UK VOTES TO LEAVE

The European Union (EU) is an economic and political partnership involving 28 European countries, which was formed after WW II to foster economic cooperation. The UK voted to exit the EU in a referendum vote held on June 23rd, as the message of preserving national and cultural identity resonated with those voting to leave the EU. The outcome of the referendum took most market participants by surprise. The British pound fell to a three-decade low. The FTSE 250 Index of UK stocks hit a two-year low. Rating agency Standard & Poor's downgraded the UK's credit rating to AA from AAA. UK Prime Minister David Cameron resigned. It will likely be years before we know the true impact of leaving the EU, but it has certainly led to short term financial market volatility. (See previous memo – Voters Confirm Brexit).

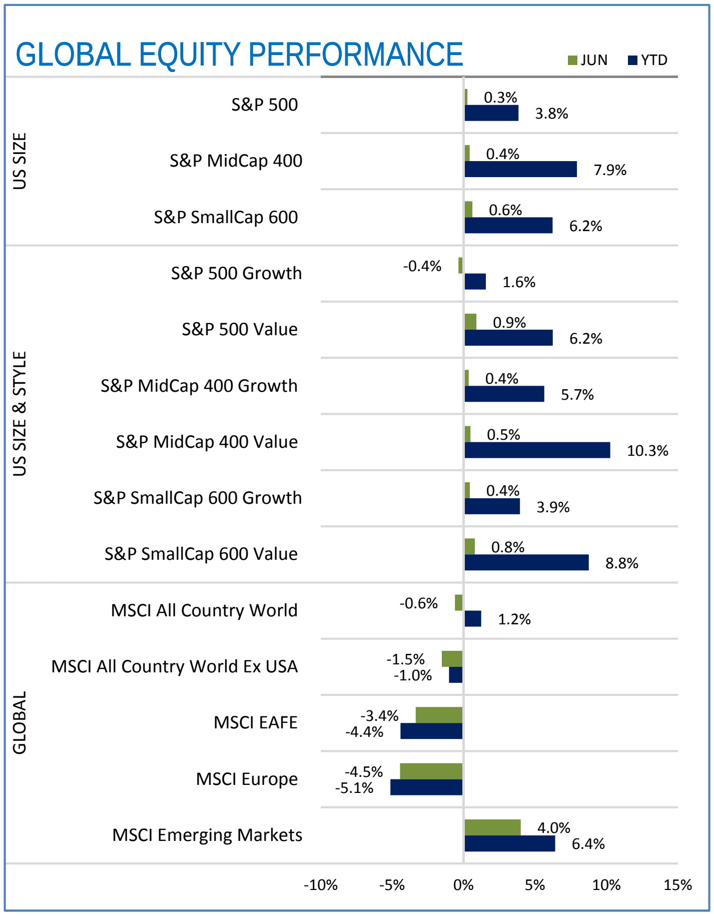
BREXIT AND TRADE

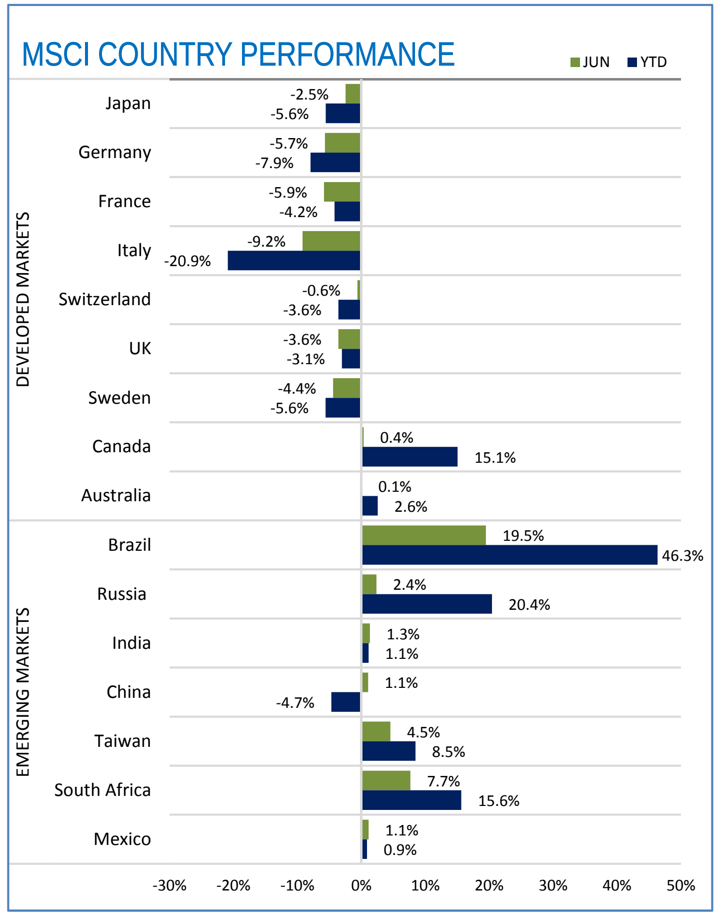
The UK economy likely will suffer most of the direct effects of Brexit in the near term. On average, countries in the EU send 7% of their exports to the UK. U.S. exports to the UK totaled $56 billion in 2015, but this amount accounts for only 4% of U.S. exports or only 0.4% of U.S. GDP. Even if the UK economy slips into a modest recession in coming quarters, the direct trade ties between the EU/UK and US/UK are unlikely to have a significant impact on these economies as well.

GLOBAL RECESSION UNLIKELY

JP Morgan noted that the UK only accounts for approximately 4% of global GDP. In their opinion, the Brexit vote is unlikely to cause a global recession.

GLOBAL EQUITIES: Stocks Survive Surprising Brexit Vote





A Wild Ride In U.S. Equities

U.S. stocks generally posted small gains in June following some extreme volatility at the close of the month. The S&P 500 Index reached its highest level in nearly a year on June 8th before giving up some gains, and closed June up 0.3%. Sector returns within the S&P 500 varied widely, with defensive consumer staples, utilities, and telecom recording strong gains. Conversely, financials, technology, and consumer discretionary segments recorded losses.

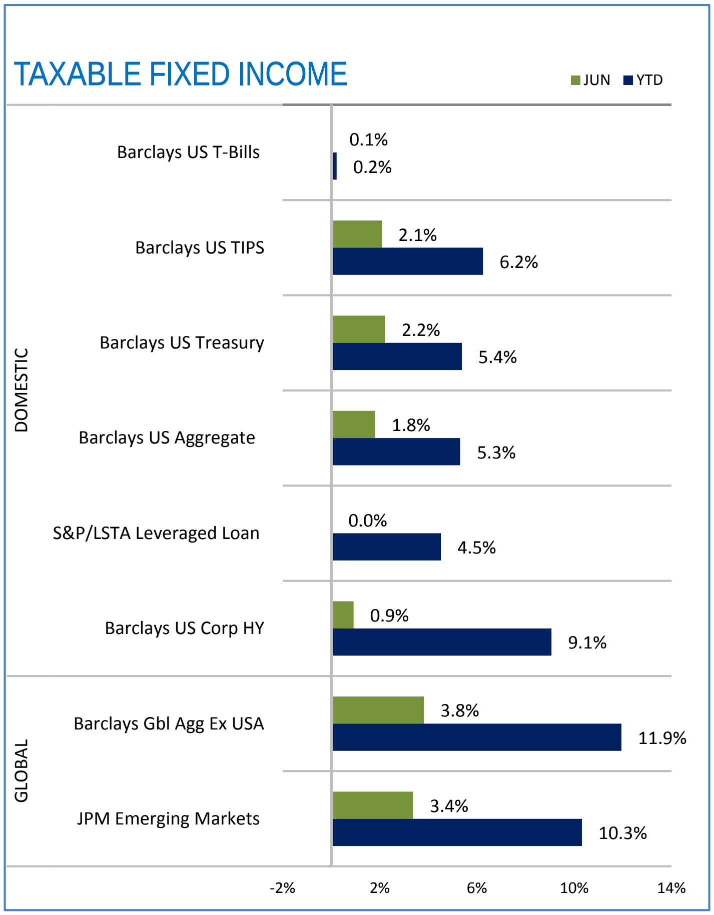
Europe Suffers From "Brexit" Vote

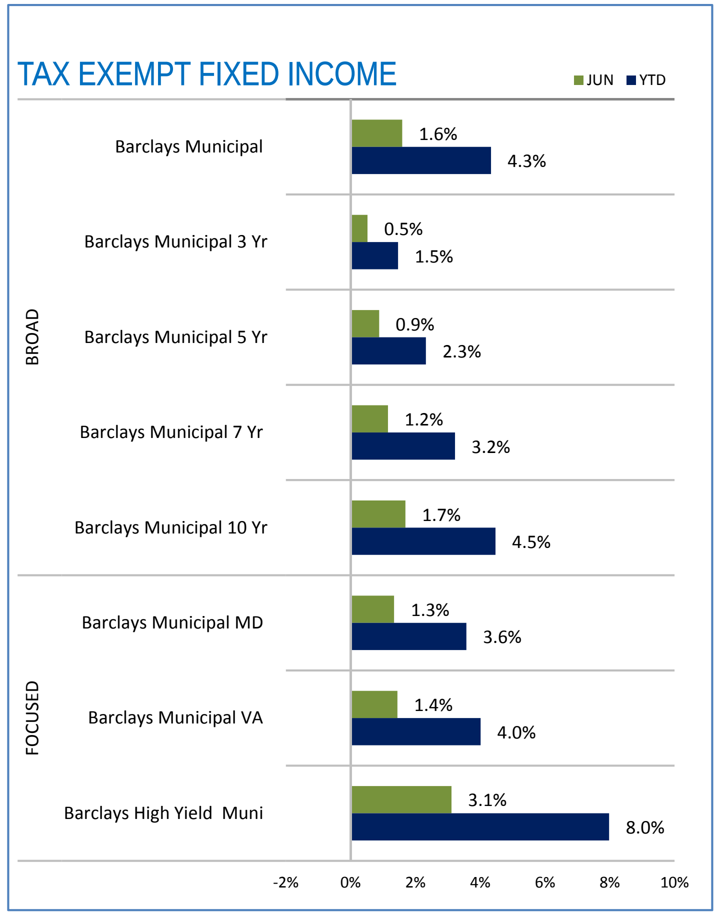
Most European markets posted negative returns in June, as they were stunned by the June 23rd referendum vote that ended with UK voters opting to leave the European Union (EU). After a steep sell-off following the vote, markets began to recover some of the losses as the month came to a close. The MSCI EAFE Index closed down 3.4% while the MSCI Europe Index fell 4.5%

Emerging Markets Rally

Emerging markets stocks rose in June as the Brexit vote raised expectations that the U.S. Federal Reserve would pause its monetary tightening cycle. Additionally, the Bank of England and the European Central Bank stated that they would loosen monetary policy as necessary to stabilize markets following the Brexit vote. By month's end 18 of the 24 countries in the MSCI Emerging Markets Index had posted positive returns. Not surprisingly, the MSCI Emerging Markets Europe Index was the only regional emerging market index to post a loss for the month.

FIXED INCOME: Brexit Benefits Safe Haven Assets





The Flight To Quality

The surprising Brexit vote pushed yields on U.S. Treasuries down sharply. The 10-year Treasury note rallied 20 basis points the day following the vote as investors scrambled for safety, and finished the month at 1.49%, its lowest level in almost four years. However, Treasury rates remained meaningfully higher than yields on other high-quality global sovereign debt, drawing more investors into the U.S. government bond market in search of yield.

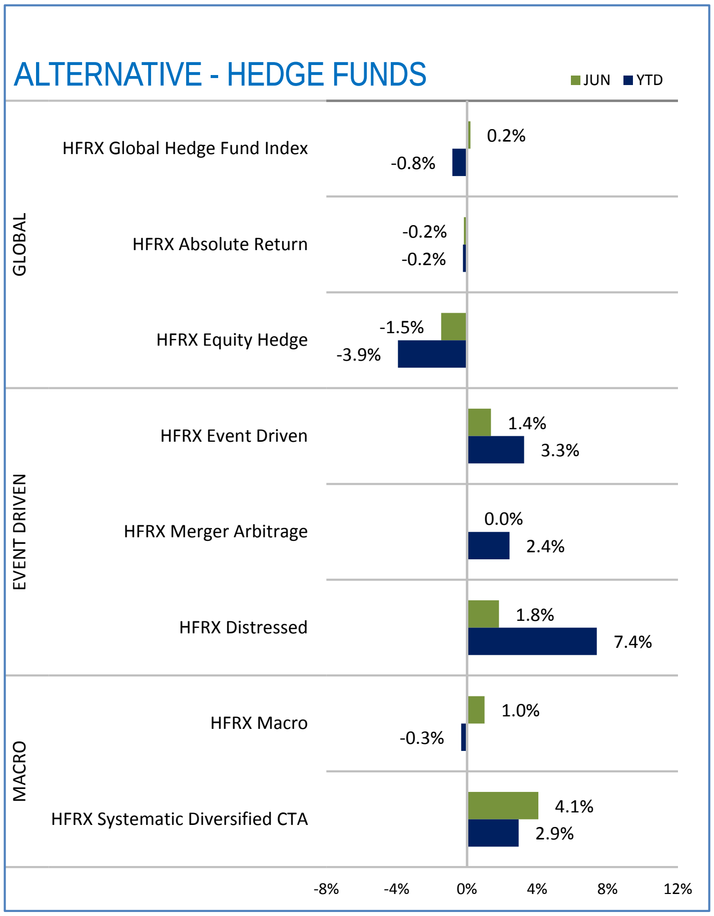
More Negative Yields

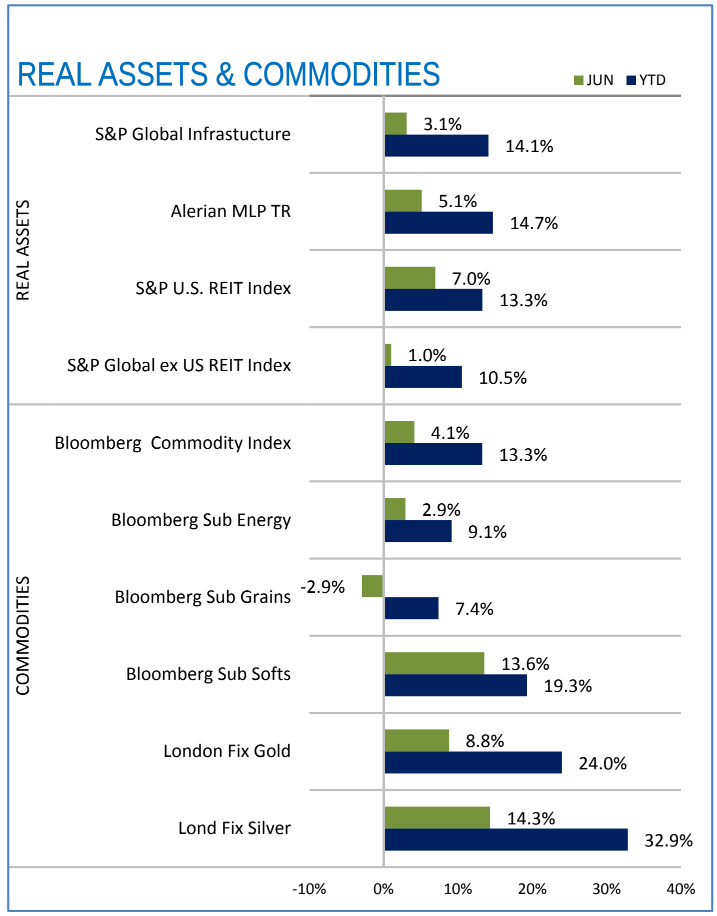
The UK's vote to leave the European Union took financial markets by surprise and triggered a strong rally in safe-haven government debt from developed markets, driving their already-low (or negative) yields even lower. In the days following the Brexit vote, the yield on 10-year UK sovereign notes fell below 1.0% for the first time ever. The German 10-year government note's yield also decreased into negative territory. According to estimates from JP Morgan, nearly 31% of global government debt carries a negative yield.

Oversight For Puerto Rico

At the end of the month, President Barack Obama signed legislation that will set up an oversight board to help Puerto Rico restructure its debt. The U.S. commonwealth has about $70 billion in overall debt and has been a significant issuer in the municipal bond market because its bonds are tax-free in all 50 states.

ALTERNATIVES: Real Asset Rally Continues





Brexit Benefits Macro Strategies

The HFRX Systematic Diversified Commodity Trading Advisors (CTA) Index gained 4.06% in June, its largest monthly performance since July 2015. Gains were seen as metals, natural gas, coffee and sugar surged. The U.S. Dollar also strengthened against the British Pound Sterling and the Euro as the British Pound fell to a 30 year low.

Be Wary Of The Silver Lining

Silver prices have leapt nearly 33% so far this year, reversing three years of losses, but history shows that buyers should beware. While gold is a traditional "safe haven" investment in times of turmoil, silver rarely plays this role due to its higher price volatility. Unlike gold, silver also has appeal as an industrial commodity -- more than half of demand comes from industrial users. However, the recent past demonstrates the volatility of silver. In September 2011, silver shed a third of its value in just three days. In May 2011, it slid by a similar magnitude in 10 days after reaching record highs near $50 an ounce. Currently, an ounce of gold now buys approximately 66 ounces of silver, close to its average over the last 30 years, and down from 83 ounces in February.