Market Update

24 June 2016

The push for a referendum vote to leave or remain in the EU came after nearly two years of failed negotiations with Brussels on favorable trade agreements. Tension rang their highest at the beginning of this year when the European Commission re opened talks to ensure that Britain remains part of the EU. Unfortunately, for Prime Minister David Cameron the entire process back fired and he himself became collateral damage. What started out as an election promise to voters in 2015 for a referendum vote once he becomes prime minister has resulted in the Prime minister losing office along with the Tory's losing power. In fact, what the EU was looking for was to further integrate the United Kingdom inclusive of a single currency. However during the past few months, EU leadership has been sending dire warnings to the Prime Ministers Cameron's office that if the Britain votes to leave the Union, the EU will ask the UK to leave promptly and not allow a yes vote as a way to re open takes once more.

Leaders of the European Union's main institutions said Friday that there would be no renegotiation aimed at keeping Britain in the EU after the historic vote to leave. In a rare joint statement, the presidents of the European Commission, Parliament and Council stated "the British people have expressed their wish to leave the European Union. We regret this decision but respect it."In a press conference, Commission President Jean-Claude Juncker spoke for the other leaders, Council President Donald Tusk, Parliament President Martin Schulz and Dutch Prime Minister Mark Rutte, who chairs the rotating EU council presidency. Juncker said he was

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"very sad" about the outcome of the vote but Europe would "remain strong in its response." The leaders called on the United Kingdom government to put into effect the decision of the British people as soon as possible, however painful that process may be. Any delay would unnecessarily prolong uncertainty. They insisted the decision of U.K. voters was final, adding that package of reforms agreed by EU leaders in February aimed at keeping Britain in the bloc "will now not take effect and ceases to exist. There will be no renegotiation." Juncker said he hoped talks on the British exit from the Union would begin swiftly. He added that the leaders expected to continue to have the U.K. "as a close partner of the EU." The Commission president also said he expected "France and Germany to take a driving position" in moving the EU forward to "stabilize the situation." Britain's vote to leave the European Union has thrown financial markets into turmoil and means the American Federal Reserve's ambitions for two rate rises this year have been placed on hold.

The American Federal reserve on Friday sought to reassure markets that it would provide liquidity as needed using swap lines in place with other central banks, including the Bank of England as the pound touched a 1985 low against the dollar, world stocks lost more than $2 trillion of their value, and investors rushed for the safety of American treasuries, pushing the yield on the benchmark 10-year note to a four-year low. Analyst's are even pricing in a small chance the American Federal Reserve will cut interest rates with very little chance of a interest rate hike till next year.

The question now for the Fed and for central banks globally is how long the shock lasts and how far it spreads. Britain is now Europe's second largest economy over taking France. Britain is very EU dependant on key sectors such as financial services.

Few economists expect the America to tip into recession as a result of this week's vote and the British exit. As growth in employment, wages, inflation and overall economic output continues, the Fed will need to raise interest rates at some point, even though the full impact of Brexit won't be known for years. Such political and economic uncertainly will reinforce that "North

America” is the only safe haven for capital. Trading data right after the vote is pointing to sharp capital inflows to North American shores.

Next weeks market update will include an in depth analysis of the economic implications. Client portfolios have been reflective of shrinking exposure to the EU and a heavily concentrated positioning in North America with an above average holding of cash at present. EU and European exposure has been limited to multinationals and corporations with a concentrated customer list in North America. Not to sound like a broken record however, we have been focused on a North American centric strategy for clients since 2012 with sharp increase in North American content 2014 and forward.

There seems to be a global movement which as been labeled “burning down the house”. A significant percentage of votes in G8 nations are not happy with the political systems and the politicians that run them. Voters are looking for change at any cost and if you can’t get change then burn down the house. Prime Minister Dave Cameron’s sweeping election victory looked like his political machine had found a way to bridle this anger to victory. The angry mob has turned against their leader and ousted him out. Britain is a well oiled political machine and will find their way around this while keeping both economic and political stability in the United Kingdom.

In North America both Donald Trump and Bernie Sanders also have learned how to harness the power of the angry voters. It appears voters around the world are looking for change.