State of the Economy June 2016

The U.S. stock market was on a tear and matched all time highs until Brexit became a household name last week. The U.K. citizens voted to leave the Euro Zone through a close vote of 52% to 48%. Many economists and politicians did not take the results lightly. For example, former Fed Chairman Alan Greenspan stated, "This is the worst period, I recall since I've been in public service." As the news broke, markets spiraled downward with a 7% drop in the European market and over a 3% reduction in the U.S. market in one day. The panic continued over the weekend but the stock market rebounded over the last few days with the world continuing to digest U.K.'s decision.

The Brexit decision is leaving a dark cloud of uncertainty over the global economy with many issues needing to be resolved. For one, the exit from the European Union could take some time and may weigh on investment confidence in the region. Many international companies invest in U.K. operations partly because it provides them the ability to access the freetrade corridors the U.K. enjoys with the rest of the EU. Future uncertainty may put these investments in limbo, which would lead to a freezing effect on the region and potentially increased unemployment. Additionally, the exit by the U.K. could also induce other countries to follow in their footsteps.
Nationalist groups across Europe will be watching the fall out closely to see if they can use the results to their advantage. If other countries follow the U.K.'s example, there may be a threat to disintegrate the EU impacting the long trend of globalism and free trade. Finally, investors will most likely continue to move away from the British pound and possibly the Euro into other currencies and safe havens. This could be the first step towards a currency war. All in all, uncertainty surrounds this situation which will most likely bring volatility to the stock market in the near future.

Here in the U.S., the stock market held strong over the prior three months as the Federal Reserve continues to stay cautious with potential interest rate hikes. Nevertheless, the jobs report reflected a slowdown in growth of payrolls. Thankfully, the housing market regained strength after home prices climbed back to near-record highs across the United States. Also, as the U.S. generates 70% of their revenues domestically, the U.S. economy may be somewhat insulated against global events. Even with moderate growth in the economy the last few years, the stock market's fundamentals are still strong and are not overvalued. The stock market is currently benefitting from low interest rates and the Federal Reserve stated they don't intend to raise rates for the remainder of 2016 due to Brexit.

We believe in the U.S. economy as well as U.S. stocks. U.S. treasuries and bonds are currently seen as a safe haven globally to invest in. In the days after U.K.'s decision, investors from all over the world poured their assets into treasuries. The situation in Europe will only lead to more contributions and investments in the U.S. particularly as other countries around the world are
currently executing a negative interest rate strategy. The U.S. stock market will look more enticing for investors that are searching for a higher yield for their investments.

The initial reactions of Brexit reflect that it may have a significant impact globally. However, only time will tell if the consequences of Brexit are overblown. In times like these we suggest reassessing your risk tolerance before jumping to conclusions and making emotional decisions. When you are set up for a long-term strategy, the portfolio should already be designed to handle the volatility of the market. Too many investors make mistakes through impulsive decisions resulting from negative news, lack of experience, or even just the feeling of restlessness. More often than not, it is better to sit back and simply ride the wave.

In the long run, we stress a solid strategy that fits your individual situation will do the work for you. Don't fall victim to jumping on or off the bandwagon.

Sincerely,
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