

## Britain Stuns Markets with Brexit Vote

**June 27, 2016** — Equities sold off globally last Friday, giving back most of the gains of the prior week, on news that the U.K. referendum on European Union (E.U.) membership ended with a vote to leave the union. The Dow Jones Industrial Average retreated by over 600 points (-3.39%) from Thursday's highs and the S&P 500 lost 75 points (-3.59%), erasing most of the year's gains for the U.S. equity gauges. European and Japanese stocks fared worse, falling by over 7% on the day, while Hong-Kong equities lost 2.92%. We should note that much of the losses appear oversized because of the rally that had occurred in the early part of the week, and on a week-to-date basis, declines were in the 1.5% to 2% range with international stocks lagging slightly. There is still much that is not known on how Britain's situation will resolve itself, and while we may see some additional volatility, on Friday the markets were largely back to levels of about a week ago, suggesting this is a reaction to a localized negative event rather than a global crisis.

Turning our attention domestically, key economic data on housing showed continuing improvement, with 5.53 million existing home sales on a seasonally adjusted annual basis, the highest since February 2007, and with the highest median home price on record. New home sales weakened by 9,000 from the pace of April to a 551,000 annual rate, but the level of activity remains higher than in 2015. Weekly Jobless claims declined to an 8-week low of 259,000, and manufacturing sentiment, as measured by the Markit PMI, rose to a three month high of 51.7 suggesting that more purchasing managers are planning to increase output. This positive news continues to suggest that the U.S. economy is improving and outweighed, to a large extent, the slightly lower readings in leading indicators, which were -0.2% lower, and consumer sentiment, which declined from 94.7 to 93.5.

For the week, the S&P 500 declined by -1.62%; the Dow Jones Industrial Average fell -1.55% and the NASDAQ Composite lost -1.92%. Nine of the ten major sectors posted declines last week, led by Materials (-2.55%), Financials (-2.43%), Industrials (-2.39%), and Consumer Discretionary (-2.23%), while Utilities (+1.36%) outperformed. The U.S. Dollar Index strengthened by 2.24% to 96.32, and gold rallied by 2.13%. Crude oil spot prices declined by -1.89%. Treasuries prices extended gains, dropping the yield on 10-year Treasury notes by another 5 basis points to 1.55%.

### What We're Reading

[U.K. PM Cameron: No Do-Over Brexit Vote ↗](#)

[Treasury Secretary Lew Sees No Financial Crisis from Brexit ↗](#)

[Moody's Lowers U.K. Outlook to Negative, Retains AA+ Rating ↗](#)

*These links to outside web sites are provided as a courtesy and are not under the control of Tower Square Investment Management LLC. For more details, please see the "Disclosures" section.*

### Week's Economic Calendar

**Monday, June 27:** U.S. Trade Deficit; Markit Flash PMI Services; Dallas Fed Manufacturing Survey;

**Tuesday, June 28:** Final 1Q gross domestic product (GDP), S&P/Case-Shiller Home Prices, Consumer Confidence;

**Wednesday, June 29:** Personal Income and Outlays, Pending Home Sales;

**Thursday, June 30:** Weekly Jobless Claims, Chicago PMI;

**Friday, July 1:** Markit PMI Manufacturing, ISM Manufacturing, Construction Spending.

## Market Watch

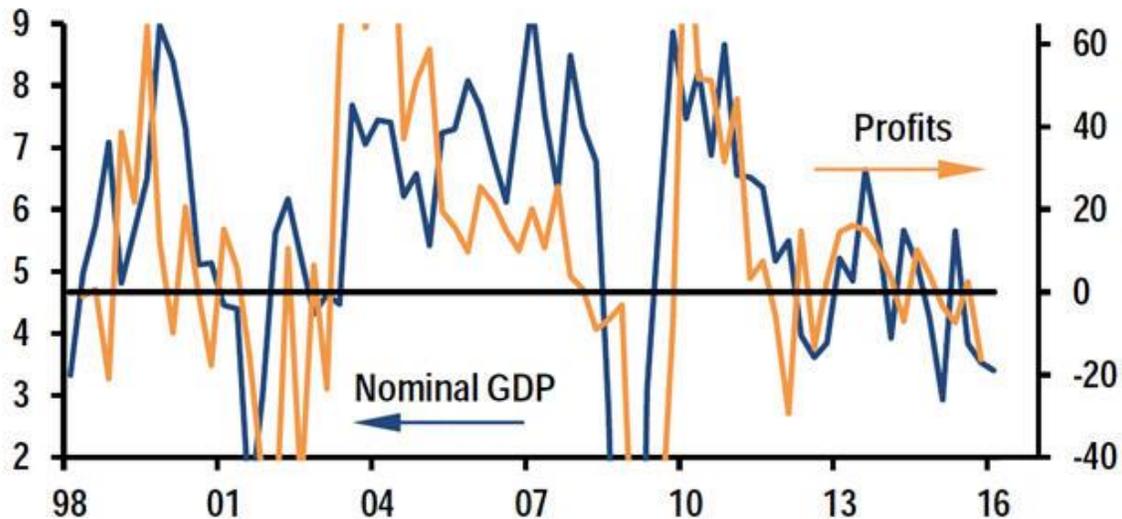
Stocks	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Dow Jones Industrial Avg.	-1.55	-2.17	-0.66	-0.14	-3.14	5.88
S&P 500	-1.62	-2.71	0.62	0.76	-1.22	11.33
NASDAQ Composite	-1.92	-4.80	-1.05	-5.38	-6.92	13.72
Russell 3000	-1.62	-2.67	1.14	0.65	-2.89	10.90
MSCI EAFE	-1.73	-5.89	-1.91	-6.93	-15.70	2.02
MSCI Emerging Markets	0.11	0.19	-0.24	2.52	-16.83	-0.71
Bonds	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Barclays Agg Bond	0.19	1.24	2.29	4.74	5.56	4.07
Barclays Municipal	0.35	1.48	2.95	4.21	7.70	5.99
Barclays US Corp High Yield	0.53	0.75	5.70	8.87	0.76	4.46
Commodities	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Bloomberg Commodity	-1.98	1.91	9.80	10.84	-13.26	-11.65
S&P GSCI Crude Oil	-1.89	-2.97	20.73	28.62	-20.92	-20.60
S&P GSCI Gold	2.13	8.62	8.08	24.73	12.72	1.17

Source: Morningstar

## Chart of the Week: You Picked a Fine Time to Leave, U.K. - Global GDP and Corporate Profits are Under Stress

### Global nominal GDP and corporate profits

%q/q, saar; both scales



Source: J.P. Morgan; MSCI earnings

While the global economy has delivered disappointing growth in recent years, it has remained bounded close to its trend pace, highlighting its resiliency in the face of a number of global

shocks. However, JPMorgan has forecast that global growth could decline by roughly 0.2% as a result of Brexit, and it should be viewed as a continuation of this disappointing but resilient performance. That said, financial market and sentiment spillovers from this policy-induced drag on European growth comes at a time in which there are important vulnerabilities. As seen in the chart above, global corporate profits are contracting.

In developed markets, the U.S. corporate sector is under particular pressure, as external drags from an elevated dollar and low oil prices combine with weak productivity gains. This drag has produced a contraction in investment and slowing in job growth. Our forecast assumes the profit drag will fade, due to a stable dollar and higher commodity price, and that solid gains in consumer spending will buoy corporate confidence. The risk is that Brexit magnifies the pullback through a stronger U.S. dollar and rising global uncertainty. In response, JPMorgan lowered its second half 2016 U.S. GDP growth forecast from 2.3% to 2%.

---

*This report is created by Tower Square Investment Management LLC*

## **About Tower Square Investment Management®**

Tower Square Investment Management LLC is an SEC registered investment adviser owned by Cetera Financial Group®. It provides investment research, portfolio and model management, and investment advice to its affiliated broker-dealers, dually-registered broker-dealers and registered investment advisers.

## **Disclosures**

*The material contained in this document was authored by and is the property of Tower Square Investment Management LLC. Tower Square Investment Management provides investment management and advisory services to a number of programs sponsored by affiliated and non-affiliated registered investment advisers. Your registered representative or investment adviser representative is not registered with Tower Square Investment Management and did not take part in the creation of this material. He or she may not be able to offer Tower Square Investment Management portfolio management services.*

*Nothing in this presentation should be construed as offering or disseminating specific investment, tax, or legal advice to any individual without the benefit of direct and specific consultation with an investment adviser representative authorized to offer Tower Square Investment Management services. Information contained herein shall not constitute an offer or a solicitation of any services. Past performance is not a guarantee of future results.*

*For more information about Tower Square Investment Management strategies and available advisory programs, please reference the Tower Square Investment Management LLC Form ADV disclosure brochure and the disclosure brochure for the registered investment adviser your adviser is registered with. Please consult with your adviser for his or her specific firm registrations and programs available.*

*No independent analysis has been performed and the material should not be construed as investment advice. Investment decisions should not be based on this material since the information contained here is a singular update, and prudent investment decisions require the analysis of a much broader collection of facts and context. All information is believed to be from reliable sources; however, we make no representation as to its completeness or accuracy. The opinions expressed are as of the date published and may change without notice. Any forward-looking statements are based on assumptions, may not materialize, and are subject to revision.*

*All economic and performance information is historical and not indicative of future results. The market indices discussed are unmanaged. Investors cannot directly invest in unmanaged indices. Please consult your financial advisor for more information.*

*The return and principal value of bonds fluctuate with changes in market conditions. If bonds are not held to maturity, they may be worth more or less than their original value.*

*The yield on high yield bonds is due, in part, to the volatility and risk of the high securities market. High yield bonds are also known as “junk bonds”.*

*Additional risks are associated with international investing, such as currency fluctuations, political and economic instability, and differences in accounting standards.*

*Affiliates and subsidiaries and/or officers and employees of Cetera Financial Group or Cetera firms may from time to time acquire, hold or sell a position in the securities mentioned herein.*

*While diversification may help reduce volatility and risk, it does not guarantee future performance.*

*Links to outside web sites are provided as a courtesy and are not under the control of Cetera Financial Group or its affiliated firms. We make no representation as to the completeness or accuracy of information provided at these web sites. Nor is the company liable for any direct or*

indirect technical or system issues or any consequences arising out of your access to or your use of third-party technologies, web sites, information and programs made available through this web site. When you access one of these web sites, you assume total responsibility and risk for your use of the linked web sites.

## **Glossary**

The **Barclays U.S. Aggregate Bond Index** is an unmanaged index composed of Barclays Credit government bond index, mortgage backed securities index, and asset backed securities index and is generally representative of the US Bond market.

The **Barclays U.S. Corporate High Yield Index** measures the market of USD-denominated, non-investment grade, fixed-rate, taxable corporate bonds. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below, excluding emerging market debt.

The **Barclays U.S. Municipal Bond Index** is an unmanaged, market-value-weighted index of investment-grade municipal bonds with maturities of one year or more.

The **Bloomberg Commodity Index** is a broadly diversified index that allows investors to track commodity futures through a single, simple measure. It is composed of futures contracts on physical commodities and is designed to minimize concentration in any one commodity or sector. It currently includes 19 commodity futures in five groups. No one commodity can comprise less than 2% or more than 15% of the index, and no group can represent more than 33% of the index (as of the annual reweightings of the components).

The **CBOE Volatility Index® (VIX®)** is a key measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices. Since its introduction in 1993, VIX has been considered by many to be the world's premier barometer of investor sentiment and market volatility.

The **Consumer Price Index (CPI)** is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services.

The **CRB Index** is a pricing index that measures changes in the price of 22 commodities that are believed to be among the first to react to changes in economic conditions.

The **Dow Jones Industrial Average** is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ.

The **MSCI EAFE Index** (Europe, Australasia, Far East) is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada.

**MSCI Emerging Markets** is designed to measure equity market performance in global emerging markets. It is a float-adjusted market capitalization index.

The **NASDAQ Composite Index** includes all domestic and international based common type stocks listed on The NASDAQ Stock Market. The NASDAQ Composite Index is a broad based index.

The **Producer Price Index** is a family of indexes that measures the average change over time in the selling prices received by domestic producers of goods and services. PPIs measure price change from the perspective of the seller. This contrasts with other measures, such as the Consumer Price Index (CPI), that measure price change from the purchaser's perspective.

The **Russell 1000 Index** comprises the 1,000 largest companies in the U.S. equity market, and is a subset of the Russell 3000 Index. The Russell 1000 is a market capitalization-weighted index, meaning that the largest companies constitute the largest percentages in the index, affecting performance more than the smallest index members. The inception date for the Russell 1000 and 3000 indices was January 1, 1984.

The **Russell 3000 Index** measures the performance of the largest 3,000 U.S. companies representing approximately 98% of the investable U.S. equity market.

The **S&P 500** is an index of 500 stocks chosen for market size, liquidity and industry grouping (among other factors) designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe.

*The **S&P GSCI Gold Index**, a sub-index of the S&P GSCI, provides investors with a reliable and publicly available benchmark tracking the COMEX gold future.*

*The **S&P GSCI Crude Oil Index** is a sub-index of the S&P GSCI and provides investors with a publicly available benchmark for investment performance in the crude oil market.*

*The **U.S. Dollar Index** is a weighted geometric mean that provides a value measure of the United States dollar relative to a basket of major foreign currencies. The index, often carrying a USD<sub>X</sub> or DXY moniker, started in March 1973, beginning with a value of the U.S. Dollar Index at 100.000. It has since reached a February 1985 high of 164.720, and has been as low as 70.698 in March 2008.*

***West Texas Intermediate (WTI)** is a crude oil stream produced in Texas and southern Oklahoma which serves as a reference or "marker" for pricing a number of other crude streams. WTI is the underlying commodity of the New York Mercantile Exchange's oil futures contracts.*