2nd Quarter 2016 Steven F. Mosshart AIF® Chief Investment Strategist

*2016 Market Performance**

S&P 500
3.84%

Dow Jones
4.31%

NASDAQ
-2.66%

MSCI EAFE
-4.42%

Barclays US Aggregate Bond
5.31%

Morningstar Large Cap Core
4.11%

Morningstar Mid Cap Core
5.34%

Morningstar Small Cap Core
6.38%

**Market data is from Morningstar and is through 6/30/16. All returns are with dividends reinvested.*

The second quarter was shaping up to be a relatively quiet one, until this last week. The surprising results of the UK referendum sent global markets into a tailspin with a flight to quality. After a few days of panic however, markets have managed to reverse most of the losses. Outside of the "Brexit" (British exit) decision, we continue to forecast and manage to steady global growth. We believe stocks will remain volatile, but overall stay even, commodities and bonds being the winners.

Brexit: The citizens of the UK have voted to leave the European Union (EU) after 43 years of working together. Almost instantly there seemed to be a sense of remorse in the decision, but there is a small chance that it could be reversed. While the referendum is not technically legally binding, it would be difficult for the government to ignore the will of the people. We are hopeful that the ultimate effect is less economically impactful than anticipated. A brief review of both sides:

Pros and Cons for leaving the EU:
Pros – Gives back Britain's cultural and national identity along with its unique place in the world. Would reduce the perceived immigration problem by slowing the movement of Eastern European workers which has led to loss of jobs and perhaps a threat to Britain's economy. The EU is badly organized and dysfunctional and the cause for the pound being at its lowest valuation in 7 years.
Cons – Disastrous for their economy as Europe is Britain's most important export market and greatest source of foreign direct investment. London is Europe's global financial center and leaving EU will cause London to lose status and high paying jobs. Scotland would leave Britain and then rejoin the EU – which would alter the political character of Britain as Scotland is left leaning. Britain is one sixth of EU economy – akin to lopping off Florida and California in the US. Germany is considered to have too much power already and Brexit may make the imbalance more pronounced.

Assuming the UK does move forward with the decision, there will be a two year window where they will have to negotiate exiting deals with the EU as well as new contracts with other countries. From an economic standpoint trade deals will be a large focus. We will keep a close eye on how this vote affects our market positions as we won't start to know the real economic impacts of this decision until later this year at the earliest.

We have our own issues in the US and as the elections come closer we anticipate that the political battles will continue to cause investors to be cautious. A bright spot is that fixed income is doing well in this scenario as the EU vote has forced the Fed to hold rates for the foreseeable future. Globally both the European and Japanese central banks are engaged in monetary easing which is driving yields lower (lower yields = higher prices). Even though we expect bonds to do relatively well we are cautious of a big reversal if/when sentiment improves. Finally, our moves into natural resource equity funds where possible, over the last year or so, are starting to pay off. We've seen a steady rebound in many commodities, including oil which has nearly doubled from the February lows. We expect that prices will continue to gradually move higher over the next few years as the supply glut slowly turns to a shortage. We continue to favor the energy and material sectors that will benefit from improvements in commodity prices.

We don't plan on making any major changes to our allocations in the coming months, but will continue to monitor global developments. As we get later in the year we will have more clarity in regard to US elections and future of the EU/UK, which may allow for stocks to move higher and hopefully break to new highs. Please contact us (866) 401-5238 or info@straightline.com if you have any questions.