



Friday, June 24, 2016

## Brexit!!!

The UK referendum on whether to remain or leave the EU (European Union) was decided yesterday: UK voters surprised pundits, polls and bookmakers (but probably not your average citizen) by opting to leave the EU. In general investors do not like surprises and yesterday's vote was no exception. UK markets retreated, but EU markets lost more (probably another surprise to the pundits). The pound and euro weakened versus the dollar. Gold rallied.

Dana believes the longer term ramifications will take time to unfold. In other EU countries, the pendulum is also swinging back in the direction of increased sovereignty, inflamed by the refugee influx, but based on fiscal and trade issues. Negotiation of the terms of the exit will be a multi-year process. The UK will still trade with the EU, and London will remain the financial hub of Europe. Lending and investment between the UK and the EU will continue. It is interesting that the 'smart' money was wrong, and their push to remain was over covered in the media, relative to the average voter. This is always the case in populist movements.

- **Interest Rates:** We were expecting interest rates to remain low given recent US economic releases and Fed views. The most recent Fed projections expect real GDP growth to remain around 2%. The flight to quality driven by the Brexit vote drove the 10 year Treasury from 1.75% to 1.50%, and pushed down rates across the curve. The FOMC had been trending towards a more dovish posture, led by the St. Louis Fed. James Bullard, President of the St. Louis Fed, expects the Fed Funds rate to remain below 1% for a multi-year period. US Treasuries remain a safe haven allocation for global investors.
- **Equity Markets:** As we write this, the S&P 500 is down about 3% on the afternoon of June 24th. This may just represent the surprise factor of the vote, and not any long term repercussions for the US. On a relative basis, the US remains in a stronger economic position versus other regions of the world. We expect uncertainty in Europe to persist.
- **Dana's Fixed Income and Equity Strategies:** Our Limited Volatility and Intermediate Bond Strategies are conservatively positioned in higher credit quality bonds and moderate durations. Our investors know that we do not swing for the fences, but rather look to add incremental value over time. We remain committed to this process. Our Equity Strategies remain focused on bottom up stock selection and sector neutrality. Our stock selection process emphasizes cash flow, earnings growth and balance sheet strength. We are closely monitoring changes in relative valuations with this increase in volatility and will seek opportunities to add value.