TDCAPITAL
EARNED TRUST

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"Brexit" and the Rest of the World

As many of you are aware by now, on Thursday June 23 U.K. voters made the decision to detach from the European Union. Britain's 1992 decision to opt-out of adopting the Euro as its currency illustrates the long-standing skepticism that this country has harbored toward becoming fully integrated in the EU. So maybe this should not have been such a shock, however most investment gurus anticipated a close vote that resulted in the UK remaining.

The decision to leave caused a negative reaction across global financial markets - the pound plummeted and the dollar soared, equities and oil swooned and gold rose. While dramatic in magnitude, it is important to put this in context – Friday's declines were essentially an unwinding of the market's gains over the previous 3 days. A few are starting to make comparisons to the Lehman Brothers bankruptcy in 2008. REALLY? It is our view that this suggestion is misplaced. Financial conditions today are very different. Yes, the world is continuing to deal with deflationary deleveraging issues and a British exit from the EU may compound those issues marginally; however this does not materially change things. Growth around the world has been and should remain modest, and global central bank policy support should remain in place with or without Brexit.

The Brexit vote triggers a 24-month clock for Britain to renegotiate trade terms and finalize their exit from the EU. The terms of such a negotiation will set an important precedent for the remaining EU members. This negotiation may hamper economic growth in Britain and there will undoubtedly be speculation on the stability of the EU for the next 1-2 years. But remember that financial markets tend to trade over the short-term on emotion and the market is clearly in a "shoot first, ask questions later" mode. If past is prologue, significant market disconnects of this nature have often provided attractive entry points for investors with a medium-to-long term time horizon.

Moments like this are exactly the reason why we continually recommend a diversified portfolio mix consisting of U.S. and non-U.S. stocks and bonds, alternative strategies and liquidity. Our outlook has been for low interest rates, modest investment returns, and elevated volatility, even before Brexit, and your portfolios are structured to reflect these views.

Market Commentary

Taking a step away from the U.K. (which represents ~ 4% of the world's GDP), let's look at what is going on in the rest of the world (in particular the United States). The U.S. economy is expected to continue growing steadily, outpacing many western countries. GDP in the second quarter is expected to be ~ +2% (in-line with the Fed's targeted growth rate). The strengthening jobs market has been at the core of the Federal Reserve's arguments for looking at raising interest rates - the recent unemployment rate in May was reported at 4.7%. As the economy approaches full employment, many officials believe wage growth will start to increase and inflation could potentially accelerate towards the Fed's targeted 2% inflation rate (the current core inflation rate seems to be floating around 1.6%). With the labor markets strengthening, so has U.S. consumer spending. The month of May reported the largest jump in spending by U.S. households in nearly six years. All of this information helps validate our decision to maintain a "heavy" allocation to U.S.-based companies within your portfolio.

Below is a summary of global market performance for 2016 ending 6/30:

INDEX	APR	MAY	JUN	QTR	YTD
S&P 500	0.39%	1.80%	0.26%	2.46%	3.85%
Russell 2000	1.57%	2.25%	-0.60%	3.23%	1.67%
MSCI EAFE	3.00%	-0.78%	-3.32%	-1.20%	-4.05%
MSCI EM	0.56%	-3.71%	4.10%	0.80%	6.61%
GSCI	10.14%	2.22%	0.08%	12.68%	9.86%
US Real Estate	-2.40%	2.38%	6.90%	6.82%	13.56%
Aggregate Bond	0.38%	0.03%	1.80%	2.22%	5.32%

We will continue our focus on the elements we can control – cash-flow planning, cost, taxes, and diversification. Please feel free to contact us if you would like to discuss the details of your plans or simply grasp a better understanding of your current allocation.

**The information above is not intended to be investment advice and does not guarantee any investment results.*