



MARKS ON THE MARKET

BREXIT and the Markets – Take a Breath-xit

Before I read Jeff Saut's (Raymond James Chief Market Strategist) commentary this morning, I wrote over the weekend the above title "Brexit and the Markets - Take a Breath-xit". So, you can imagine my surprise (a good surprise) when I opened his morning comments and saw his header "Take a Breath".

On Thursday, the United Kingdom (U.K.) voted to leave the European Union (EU), in a somewhat surprising move. The markets' immediate reaction was less surprising. Markets seemingly anticipated a "stay" decision and had rallied in the days prior to the referendum, but started to decline after the 52% to 48% vote went the other way. Given the unanticipated decision, it is not astonishing that the British pound fell sharply – briefly to a 30+ year low against the U.S. dollar – and the U.K. equity market followed suit. American equity markets were down about 3% on Friday, while international equity (e.g., Germany and France) and currency markets declined more. The markets continue to be under pressure today on this news.

There is little question that this decision will affect the near-term economy and currency in the U.K., since the European Union allows for easy flow of goods, services, capital and people across members' borders. Questions remain how it will affect greater Europe, as other countries could look to follow suit, and it will take time to see changes in policy, currency and economic reforms. Will the British referendum stick, despite the push-back from its people? Who will be next to hold referendum? And the larger question remains – Will it eventually affect the global economy enough to cause a wide-spread recession?

While we believe the risks in Europe are more evident and serious than the present risk of economic weakness here in the U.S., we do see how continued turmoil in Europe could affect the overall global economy and therefore make its way into the U.S. economy. We caution, however, that trying to compare this to the financial crisis of 2008 is not realistic. This fallout is more political in our view....and maybe in the long run this will prove to be a positive thing for the global economy and not a negative? (More about this in next month's Marks on the Market.)

Still, the reaction of the markets is not surprising. This news is unprecedented and a surprise, and it creates a pool of uncertainty about European support of the EU, liquidity and economic growth in the U.K., changes in the breadth of globalization, and the health of the overall global economy. We expect the market to "over-react"

Amie E. Marks
Registered Principal/Financial Advisor
800.452.9519/708.524.0200
amie.marks@raymondjames.com

Edward T. Behrend
Registered Principal
800.452.9510/708.524.0400
ed.baehrend@raymondjames.com



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to surprise and uncertainty in the shorter term, and will remain diligent and steadfast in our longer term views.

We are hopeful that once the markets digest this news, indexes will once again turn the focus to fundamentals and the fact that the U.S. economy has proved very resilient after the 2008 financial crisis. The de-leveraging that needed to occur as a part of that recovery is well on its way, and we do not believe this is a repeat of that crisis. We believe the effects of the U.K. decision on the U.S. will have more to do with uncertainty than on actual fundamentals, and we believe, as we usually do, that weakness due to uncertainty creates buying opportunities. We do however continue to believe that in these volatile markets, that active management will outperform passive, sector weightings remain important, and bottoms-up research will prevail. We are content with our continued underweight in financial services, with our commitment to energy, and continue to see weakness in healthcare as a buying opportunity.

So we reiterate, as did Jeff Saut, “take a breath” – let’s get through this week. We are committed to you and to following this as closely, and we will continue to monitor the news and market reactions to make well-educated and thought-out decisions for the short and long term. In the meantime, feel free to contact us to talk about any of this.

Have a great week and a wonderful 4th of July weekend!

All our best,

Amie and Ed

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Amie E. Marks
Registered Principal/Financial Advisor
800.452.9519/708.524.0200
amie.marks@raymondjames.com

Edward T. Behrend
Registered Principal
800.452.9510/708.524.0400
ed.baehrend@raymondjames.com

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