



Dear clients and friends,

July 2016

As a result of calendar events such as BREXIT and the conclusion of the party nomination process in the United States, markets were volatile during the second quarter. BREXIT in particular is a notable example of volatility around an event; the week leading up to the actual vote, the S&P 500 Index was up 1.7% as investors expected the “Remain” camp to win the majority. In the aftermath of the surprise victory for the “Leave” camp, US stocks were down 5.3%, only to then rebound by 5.0% to end the quarter. The highs and lows were much more exaggerated for European stocks (especially UK banks) and currencies. In the end, the S&P was up 1.3% for the quarter, while the EAFE Index was down just 0.5% in 2Q. Bonds were strong, with the municipal index up 4.5% in the second quarter.

Our balanced approach to managing portfolios, which typically includes exposure to bonds, helped to protect portfolios during the recent volatility. We also benefitted from exposure to dividend-paying stocks, which have performed well, particularly as interest rates have remained low. We have been underweight International, which has also been a positive. Lastly, overweights to risk-off sectors, such as Staples and Utilities, also helped through the volatility.

Going forward, we are watching Europe closely to see if signs of ripple effects emerge from the BREXIT vote. There have already been political effects, with David Cameron set to step down as Prime Minister by October. If this vote unleashes a wave of populist movements across Europe, there could be further political and social fallout in countries such as Scotland, Germany and Italy, to name a few. We are also concerned about the implications for the UK banking sector and the European economy overall during the separation process. As it stands, GDP growth in the Euro zone is expected to equal 1.6% in 2016, so the EU can ill afford any economic drag from the UK.

Turning to the United States, the underlying economy has exhibited mixed signals but remains on solid footing overall. In addition, the events in Europe have reduced the likelihood of rate increases by the Federal Reserve, which has been supportive of stocks in general and dividend-paying stocks in particular. In June, markets were projecting a 50% probability of a Fed rate hike in July; derivative markets are now implying rate increases may not come until 2018. The Fed is also cognizant of the upcoming election in the US, and we will look to Vice Presidential announcements in coming weeks to help frame our view of the likely election impact on sectors and markets. The quarterly earnings season kicks off this month, and we will be looking to company guidance to help frame our short-term view of the health of corporate America and what it means for the US economy. We are expecting overall earnings to be negative for the quarter, dragged down by a 70%+ drop in EPS for the Energy sector. It is worth noting that, while a 70% drop is substantial for energy earnings, it represents a significant improvement versus the near 100% drop in earnings experienced by the sector in the first quarter. As oil prices have ceased to decline in recent months, this could actually begin to show up in the CPI numbers, creating some concerns about inflation. To this end, our bond team is looking at CPI-linked corporate floaters as a possible way to capitalize on any inflationary pressures that may emerge towards the end of the year. Bottom-line, the global economy is growing but at a slower-than-normal pace, and BREXIT creates a risk to global growth going forward. That being said, we also see central banks across the globe as remaining accommodative to provide liquidity and support to the global banking system.

We are proud to announce that the June edition of Barron’s included Lee DeLorenzo, co-founder of United Asset, as one of the Top 100 Women Advisors in America for the seventh consecutive year.

**October is shredding month!** Back by popular demand we will bring in an extra “secure” trash bin and place it in the conference room corner to allow our clients access to dispose of their sensitive financial documents in a secure fashion.

*Respectfully submitted by the Professional Staff at United Asset Strategies, Inc.*