<u>What's Going On In Britain? – By Sandi Weaver</u>

June brought us a surprise twist when 52% of the folks in Britain decided to leave the European Union (EU). The 48% of Brits who wanted to stay in the EU weren't too happy. Many attribute the possible loss of jobs to fresh immigrants as a chief factor swaying the vote. People can move about fairly freely among the EU countries. The mass immigration from the Middle East (Syria, etc.) has consequently raised fears among EU residents. Those working in Britain wanted to ensure no one else came to take their jobs.

Britain's Prime Minister Cameron resigned, and they have a new Prime Minister, Theresa May. EU's leaders have met in Brussels, with Cameron, to start initial steps on the road to England's divorce over the next couple years. Already the EU leadership is warning Britain that they must accommodate free movement of people if Britain wants to keep any remnants of free trade with the remaining countries of the EU.

What's next? Britain needs to invoke Article 50 to formally start the EU extrication process. Some have speculated that day may never come. There seems to be confusion on which British politicians will step up to lead the country out, now that Brexit has passed. The economic price, now increasingly visible, may alter people's perceptions. They will lose easy access to 500 million EU customers. Some politicos and strategists say that leadership may drag their feet and never actually invoke Article 50.

So what happened in the markets as a result of this drama?

Britain's stock market, when viewed through their FTSE 100 Index of big global companies, fell 6% and then actually recovered 10% higher the next week! But Europe's Stoxx 600 Index plunged 11% that Friday and Monday, and only recovered 7% the following week, reflecting concerns that further fallout may ensue if other countries contemplate leaving.

The British pound dropped about 10%, to its lowest level in 30 years. That will help Britain's large global companies export more. Overall, Britain's GDP projections have been lowered from 1.9% to .9% for 2017 policies typically dampens economic growth. Britain's economy is the 5th largest in the world.

The U.S. stock market dropped 6% on the surprise the following Friday and Monday, then moved on to regain that ground. Investors piled into US Treasuries as a safe haven, dropping the yield on the 10-year U.S. Treasury Note from 1.9% to 1.4%. The Brexit vote has diminished the likelihood of a second interest rate cut from our Federal Reserve System. Markets initially showed only a slight possibility late in the year. Now many see that as delayed until 2017.

What are we at PWFS expecting next for you? We may have volatile markets each time a step is taken towards exit. We may have rocky markets if an EU country makes headlines about leaving. We expect the central banks - our Federal Reserve, the ECB, Bank of Japan - to attempt to stimulate or maintain growth.

Our American companies get 70% of revenues from the U.S and 30% from overseas. Europe on the other hand is far more dependent on exports and international trade, getting 50% of revenues among themselves.

Corporate earnings for large companies in the U.S. for 2Q are projected to be down -4%, compared to last year's 2Q. Most economic indicators have been steady or improving; even consumer spending has been on the move. There are a very small handful of indicators that portend a break in this pattern, jobs created for instance. Most economists are sanguine.

In our diversified portfolios, where your money is invested, we've gotten good returns from U.S. stocks and bonds but not from overseas investments so far this year. We're pleased with overall portfolio returns compared to the markets themselves. We are still not expecting double-digit returns from portfolios at this stage in the business cycle.

As we've covered in your meetings, this is year 7 of the current bull market, the second longest we've had. The double-digit returns, back in 2012 and 2013, are likely behind us until the next cycle. As long-term investors, we know that garnering solid returns requires patience, and realistic investing strategies that work. It's important to know what you know and what you don't know, and invest accordingly.