Stirling Bridge
Wealth Partners, LLC

MARKET COMMENTARY – JULY 1, 2016

Brextrapolation!
Brexit Balderdash!

George Soros, this week, told the European Parliament that Brexit has unleashed a crisis similar to that of 2008. He added that existing deflationary pressures will increase and the European financial system will be severely tested. Given that Mr. Soros made his quickest billion by shorting the British Pound in the currency markets and crudely bludgeoning it in the press some 21 years ago, we fear he may be trying to catch lightning in a bottle – twice over. Furthermore, since his long bet on American coal stocks in the past year ended with each company declaring bankruptcy, we further fear that he has lost his touch, if not his faculties.

Recently, we were fortunate to hear an interview with one of Britain's longest-standing (26 years and counting) proponents of exiting the European Union. If his opinion is at all indicative of the rest of his country's sentiment, we are certain that the widespread fears recently permeating the marketplace will prove to be utter flummery. He desires to remove direct political ties. On the other hand, he hopes to retain all favorable tax, trade, and defense alliances with his Continental peers. As we stated in a previous note, the exit process could take two years. Governments, companies, consumers, and employees will have ample time to adjust with some local, not global, hiccups along the way.

So why all the rigmarole, poppycock, and twaddle about a nation of sixty million souls returning sovereignty to its own representatives when the world population numbers in the billions? From our headline above you can see we've attempted to coin a brand new term to explain it. We doubt our compound word will catch on anywhere beyond the walls of our office, but here it goes. *Brextrapolation* is the phenomenon which finds investors nervously extrapolating Britain's exit to a dozen other European nations. In a world of dominoes or perhaps a Biblical genealogy, Brexit begets Frexit (France's exit) which begets Gexit (Germany's) which begets – well you get the picture. In this Chicken Little realm, the European Union disintegrates.

We have a rather direct response of, "So what?" to this prediction which many consider dire. First, it is entirely too early to even begin to say that the narrow vote for Britain to

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exit will turn into a sweeping referendum in other European countries. Certainly, the mass immigration of the past year has brought issues to a head, but we stress again that what lies ahead is a process. Leaders in other countries will want to see how Britain fares before plugging their noses and jumping into the chilly ocean of freedom themselves. Second, even if the domino theory proves true, there is no reason to think that a break-up of a union that is only a couple decades old means anything other than a return to local control, local representation, and a few more currencies (things we had in Europe in the early 1990s). Commerce still occurs. Products are still made, services still rendered. In the event of a full break-up, we do acknowledge a prolonged slowdown in growth for Europe while the process works itself out.

Turning to more germane points and less malarkey, we believe that the Brexit and even the Puerto Rican debt situation will put the Federal Reserve on hold longer than we had initially anticipated. It is not completely impossible to see the committee raising rates one more time this year, but with each week drawing us closer to the election, the chances dwindle further. Bonds rallied substantially during the initial Brexit news with rates again testing lows. Last month we made a strong case for investors to hold bonds and the scenario we just endured, proves us correct.

Looking into the beginning of the third quarter, we will receive 2Q earnings reports. Throughout most of the second quarter, healing occurred. Oil steadied. Compared with the previous year, currencies held mostly range-bound. Therefore, we expect earnings to be quite good. However, we will be watching closely the projections for the rest of the year made by managements in light of the Brexit. If European consumers and companies have allowed sentiment to spiral to the depths, the resumption of earnings growth we expected to see in the second half of 2016 may have to be tempered.

Stirling Bridge Wealth Partners, LLC remains committed to providing customized investment solutions and robust financial planning wrapped in an exceptional service package for our high net worth clients throughout the country. We thank each of you for your dedication to us, for your trust, and for the referrals you've sent our way.

Sincerely
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