

The Aftermath of a “Leave” Vote

Citizens of the United Kingdom voted last night in favor of their country leaving the European Union (E.U.). This outcome, to a large extent, rejects the status quo in world economic relations and may elevate market uncertainty over the near term investment horizon. It is important to note that while this transition will not be resolved quickly, as policymakers will need time to negotiate new agreements and regulations, it is not a global crisis event. As the markets adjust to new realities, investment opportunities will also arise. In the meantime, we continue to invest for the long-term, focusing our portfolios on prudent diversification with a measure of downside protection.

The vote on whether Britain should remain in the E.U. was caused by a combination of factors, some unique to Britain and some broader, including an anti-globalization sentiment that has taken hold in many parts of the developed world. Growing income inequality in developed countries may be a possible root cause of this, leading to a backlash against current policies and politicians. The trend has undeniably played some role in the rather interesting U.S. presidential primaries as well.

The market reaction to the “leave” vote news has been swift, and for now investors are remaining conservative and are bidding up safety assets as insurance against the uncertainty posed by possible complications from Britain’s exit from the E.U. Polling before the actual vote had been close, causing equities to move up in the early part of this week as a “leave” result seemed less likely. However, after the exit vote a “risk-off” sentiment took hold, causing a still modest selloff in equities, while traditional safe haven assets such as gold and government bonds are trading higher.

In situations like this, we are often reminded that while the equity markets may be volatile in periods of uncertainty, they tend to recover over time as the focus returns to fundamentals. The chart below shows equities reaction to similar events, and to the extent that history repeats, there is a chance of a stock market recovery over the near term.

Shock	First Day Decline	Full Decline	Time to Recover Losses
Japan earthquake 3/11/11	-6%	-16%	4 months
U.S. debt ceiling debacle 8/1/11	-3%	-14%	3 months
European debt crisis 3/27/12	-3%	-11%	3 months

Source: Charles Schwab, Bloomberg; Data as of 6/23/2016

With the “Brexit” headline in the rearview mirror, we are starting to shift attention back to fundamentals and to central bank actions. On the fundamentals side we see a U.S. or global recession as unlikely, with tepid economic growth continuing. The secular bull market is likely to extend, albeit with more measured gains. Central banks remain accommodative, and the monetary stimulus should provide a floor to valuations and a measure of protection from bear market downside. If there is a silver lining in last night’s vote, it looks like the Federal Reserve is on hold and not likely to raise interest rates anytime soon. However, as possible unconventional monetary policies are introduced, their effects may contribute to market volatility. The resulting increased dispersion in returns may offer opportunities for active managers to differentiate themselves, and the use of a mix of active and passive strategies remains prudent.

We view the possibility of any meaningful equity market sell-offs this summer as an opportunity to deploy sidelined capital. There may also be good risk/reward opportunities in high yield bonds given a potential for credit spread contraction and in dividend-paying equities as cash flow becomes an increasingly important part of total return in the slower growth global economy that we currently anticipate.

Again, the elevated global uncertainty may likely cause the Federal Reserve to hold from its tightening stance, which reinforces our view that interest rates will be lower for longer. However, given sub-1.6% 10-year Treasury rates in the short-term, the risk is now greater that rates may increase from here, so some caution is warranted regarding interest rate sensitivity. There also is an

indication of some inflation pressure building, which could provide a compelling opportunity within commodities and/or inflation-protected securities. Stabilizing energy prices and a steady U.S. dollar should provide opportunities in emerging markets, given their lengthy period of underperformance.

We believe that the markets may be range-bound, and there may still be upside left, as result of which we do not recommend drastic deviations from long-term stock/bond targets. Within stocks, we still favor domestic equities; however, opportunities in international developed markets have increased. Within fixed income, we continue to maintain a somewhat defensive position; although, we favor an allocation toward the long end of the duration spectrum as longer term rates are likely to be more stable. Lastly, to mitigate unforeseen volatility in an increasingly uncertain environment, we believe it prudent to retain an allocation to alternative investments that have low correlations to traditional investments. Case in point, the positive reaction of gold prices to the Brexit news shows how low correlated investments potentially offer diversification benefits in times of market stress.

Last night's news is still evolving as investors determine the short-term and long-term impacts to the global economy and world financial markets. You can expect additional updates as the ramifications become clearer.

This report is created by Tower Square Investment Management LLC

About Tower Square Investment Management®

Tower Square Investment Management LLC is an SEC registered investment adviser owned by Cetera Financial Group. It provides investment research, portfolio and model management, and investment advice to its affiliated broker-dealers, dually-registered broker-dealers and registered investment advisers.

About Cetera Financial Group®

Cetera Financial Group is a leading network of independent retail broker-dealers empowering the delivery of objective financial advice to investors across the country through trusted financial advisors and financial institutions. The network is comprised of ten firms: four legacy Cetera®-branded firms (Cetera Advisors, Cetera Advisor Networks, Cetera Investment Services, marketed as Cetera Financial Institutions, and Cetera Financial Specialists) along with First Allied Securities, Investors Capital Corporation, Legend Equities Corporation, Summit Brokerage, VSR Financial Services and Girard Securities.

Cetera Financial Group is the second-largest independent financial advisor network in the nation by number of advisors, as well as a leading provider of retail services to the investment programs of banks and credit unions. Cetera Financial Group delivers award-winning wealth management and advisory platforms, comprehensive broker-dealer and registered investment adviser services, and innovative technology to over 9,000 independent financial professionals and over 500 financial institutions nationwide. Through its distinct firms, Cetera Financial Group offers the benefits of a large, established broker-dealer and registered investment adviser, while serving independent and institutions-based financial advisors in a way that is customized to their needs and aspirations. Cetera Financial Group is committed to helping advisors grow their businesses and strengthen their relationships with clients. For more information, visit ceterafinancialgroup.com.

Disclosures

The material contained in this document was authored by and is the property of Tower Square Investment Management LLC. Tower Square Investment Management provides investment management and advisory services to a number of programs sponsored by affiliated and non-affiliated registered investment advisers. Your registered representative or investment adviser representative is not registered with Tower Square Investment Management and did not take part in the creation of this material. He or she may not be able to offer Tower Square Investment Management portfolio management services.

Nothing in this presentation should be construed as offering or disseminating specific investment, tax, or legal advice to any individual without the benefit of direct and specific consultation with an investment adviser representative authorized to offer Tower Square Investment Management services. Information contained herein shall not constitute an offer or a solicitation of any services. Past performance is not a guarantee of future results.

For more information about Tower Square Investment Management strategies and available advisory programs, please reference the Tower Square Investment Management LLC Form ADV disclosure brochure and the disclosure brochure for the registered investment adviser your adviser is registered with. Please consult with your adviser for his or her specific firm registrations and programs available.

No independent analysis has been performed and the material should not be construed as investment advice. Investment decisions should not be based on this material since the information contained here is a singular update, and prudent investment decisions require the analysis of a much broader collection of facts and context. All information is believed to be from reliable sources; however, we make no representation as to its completeness or accuracy. The opinions expressed are as of the date published and may change without notice. Any forward-looking statements are based on assumptions, may not materialize, and are subject to revision.

All economic and performance information is historical and not indicative of future results. The market indices discussed are unmanaged. Investors cannot directly invest in unmanaged indices. Please consult your financial advisor for more information.

Additional risks are associated with international investing, such as currency fluctuations, political and economic instability, and differences in accounting standards.

While diversification may help reduce volatility and risk, it does not guarantee future performance.

Investors should consider the investment objectives, risks and charges, and expenses of the fund carefully before investing. The prospectus contains this and other important information about the fund. Contact your registered representative or the issuing company to obtain a prospectus, which should be read carefully before investing or sending money.