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Buckle Up: Markets poised for More Volatility

It is no secret that the markets have been on a wild ride year to date and particularly following Britain's vote to exit the European Union. In our previously released mid quarter commentary, we addressed the "Brexit" issue and shared our opinion as to what impact this would have on the markets. At the time of the release of that commentary, the S&P 500 index had just suffered two of its worst single-day losses of the year. If you recall, we identified the Brexit as "one event in a series of constant and ongoing global economic events and no reason to panic." Though we were right in our observation of the direct impact of this event, we were surprised to see the S&P 500 immediately reverse course and generate two of its largest single-day gains year to date within the proceeding 5 days of trading. This speaks to the volatility that is currently present in the market and why we believe volatility will continue to be a theme for the markets the rest of the year. We have identified a few of the likely causes below:

- **Brexit fallout:** The market's fixation on the Brexit isn't likely to end now that the vote has passed. Britain still needs to negotiate its withdrawal from the European Union (EU) and it is expected this could take up to a minimum of 2 years. The bigger question remains how the Brexit will affect the European and British economies and their political landscape. Markets could be volatile if Europe shows signs of falling into recession, or if movements to leave the EU gain momentum in other countries.

- **U.S. Elections:** This year's U.S. presidential election pits two relatively unpopular presidential candidates against each other, and political divisions are deep. "Typically the market doesn't pay a lot of attention to elections until the fall, but this is anything but a typical election year," says Liz Ann Sonders, Senior Vice President and Chief Investment Strategist at Charles Schwab. "We expect some increased election-related volatility, with rhetoric and passions running high."

- **Corporate Earnings:** U.S. Corporate earnings have been shrinking for three straight quarters. Stocks have held their ground because companies have lowered earnings expectations before announcing their results-and then beaten those lowered expectations. That trend can't last forever. "Investor patience will wear thin if earnings growth doesn't move into positive territory," Liz Ann says. She warns that a stronger dollar, which makes U.S. goods more expensive abroad and foreign earnings less valuable once repatriated, could be a challenge for many U.S. businesses in the coming months.

- **Central Bank Policies:** The Brexit could be another reason for the Federal Reserve to hold off on raising interest rates anytime soon, but we think a rate cut is very unlikely. That doesn't stop other central banks from taking actions to stimulate their economies or stabilize their currencies. Expect volatility if those central bank actions fall short of market expectations.

If volatility persists, how should you respond?

If markets continue to gyrate, don't panic. Market fluctuations are a part of investing that you need to accept to reach your longer-term investment goals. Volatility can also be a good friend of long term investors as it can present attractive buying opportunities. That being said, volatile markets can be a good time to get reacquainted with your goals and determine if your goals and objectives have changed. If we haven't done so recently, we encourage you to schedule a time to meet with our team to review your current portfolio and financial goal plan to ensure the two are in tune.

We continue to appreciate the opportunity to serve you and those most important to you. Again, we thank you for the valued partnerships we have with each and every one of you and look forward to continuing to provide the professional assistance you need and desire during these volatile times.

Respectfully,

Anthony L. Christensen
President