

Brexit Market Commentary

June 29, 2016

Dear Investor

England's decision to abandon the European Union will rank among the most seismic geopolitical events of our time. While we were surprised that the "Leave" faction prevailed in Friday's referendum we were nonetheless prepared for it. While we would not underestimate Brexit's significance as a rejection of the very neo-liberal free market capitalism order that we support, we do not believe that the dire reactions and predictions that followed the rejection are entirely justified given the vast uncertainty that now confronts us.

The triumph of "Brexit" was only the first step in what will be a long and complex journey, the consequences of which will reveal themselves slowly and perhaps even subtly over time. We will consider this process as it unfolds just as we do other matters of concern in both developed and emerging markets but we will not leverage for short-term gain an issue that is driven more by political impulses than economic ones. For now we will watch and wait and we would advise others to do the same.

In anticipation of further market turmoil – London's 10-year borrowing cost fell below 1% on Monday for the first time and sterling tumbled to a 31-year low against the dollar - the International Monetary Fund smartly assured it would support the Bank of England if such assistance was needed. A period of instability following a disengagement of this scale was to be expected. Certainly we anticipated the worst back in February; concerned about a host of global developments including "eurozone political concerns [that] may negatively affect growth," and we built up a cash reserve, as applicable by model, by downsizing positions in Europe and Asia. We've been underweight ever since and that's where we intend to stay as we sift through a thicket of trends and indicators, including:

- Whether England's large current account deficit, now at its highest level since 1948, will hobble the pound's recovery. If so, will London be forced to cut spending in what could be sustained and painful inflation?
- What will be the impact of the decision by Moody's and Standard & Poor's to downgrade England's credit rating?
- To sustain their lifeline to EU markets, will the major investment banks realize their contingency plans to move parts of their operations – particularly those that trade euro-denominated assets - to continental Europe?
- Will labor mobility, a defining EU principal, become a victim of Britain's withdrawal? Will multinationals need to provide visas for their non-English employees?

- Will immigrants flood Britain before withdrawal is finalized and the country effectively locks its doors to those seeking asylum or better working condition? If so could this cause political instability?
- How long will the divorce take? Outgoing British Prime Minister David Cameron signaled last week that he was in no hurry to begin a process that could take years. Though former London mayor and Brexit enthusiast Boris Johnson would certainly demand a compressed timeline, should he succeed Cameron as many observers anticipate.
- Will the leaders of Germany and France, the heart and soul of united Europe, outmaneuver Brexit copycat movements throughout the continent by insisting that the UE become more democratic and responsive, reduce red tape and create a eurozone finance minister?

This is only a short list of the “known” unknowns that now bedevil the world’s political and economic elites; no doubt other tactical and strategic crises will present themselves as Europe picks its way through the rubble left by last week’s events. Rest assured we will evaluate their significance as closely as we will other worrisome trends - China’s vertiginous debt, for example, or the Federal Reserve’s meandering monetary policy. Given such an abundance of potential flashpoints there can surely be no more valuable a set of commodities than restraint, patience and perspective.

Sincerely,



David Young, CFA
Chief Investment Officer

Partnervest Advisory Services, LLC (Partnervest) is a registered investment advisor with the U.S. Securities and Exchange Commission. This communication is intended to provide general information, opinion, and outlook. All references to potential future developments or outcomes are strictly the views and opinions of Partnervest and Anfield Capital and in no way promise, guarantee, or seek to predict with any certainty what may or may not occur in global economies and investment markets.

Past performance is not indicative of future returns and when investing there is always a risk of loss of principal as well as gain. Partnervest does not predict or guarantee that an investor will achieve any expected return. All information contained herein is for informational purposes only. This is not a solicitation to offer investment advice or services in any state where to do so would be unlawful. Analysis and research are provided for informational purposes only, not for trading or investing purposes. Partnervest and its affiliates are not liable for the accuracy, usefulness or availability of any such information or liable for any trading or investing based on such information. There is no assurance that Partnervest’s investment programs will produce profitable returns or that any account will have similar results. You may lose money. Past results are no guarantee of future results and no representation is made that a client will or is likely to achieve results that are similar to those shown. Factors impacting client returns include individual client risk tolerance, restrictions a client may place on the account, investment objectives, choice of broker/dealers or custodians, as well as other factors. Any particular client’s account performance may differ from the program results due to, among other things, commission, timing of order entry, or the manner in which the trades are executed. The investment return and principal value of an investment will fluctuate and an investor’s equity, when liquidated, may be worth more or less than the original cost. Moreover, investments are Not FDIC insured – May Lose Value – and Have No Financial Institutional Guarantee. This material is not intended as tax, legal or accounting advice. This commentary does not constitute a solicitation for the purchase or sale of securities.

Investment management services are provided through Partnervest Advisory Services, LLC, a Registered Investment Advisor. A more detailed description of the Investment Advisor and information regarding fees, risks, and services can be found in the Advisor’s Form ADV Part 2A, available by contacting Partnervest Advisory Services LLC Attn: Compliance Dept. 1216 State Street, 3rd Floor Santa Barbara, CA 93101. (805) 966-1266 or at www.partnervest.com. Contact your Investment Advisor Representative for advice concerning your specific circumstances. Subadvisory services and research provided by Anfield Capital Management, LLC.