The second quarter exhibited many of the characteristics we have come to expect from the global investment markets. There were periods of relative calm and investor complacency, followed by sudden shifts in sentiment resulting in equity declines and even lower global bond yields. The general behavior of the investment markets may have been best exemplified by the final week of the quarter during which the United Kingdom's (U.K.) vote to exit the European Union (EU). The results caught the global markets off-guard triggering a two-day sell-off that resulted in a global equity benchmark decline of more than seven percent. However, this decline was largely erased over the following few days leaving most major equity and fixed income indexes slightly positive for the quarter. We used our commentary last quarter to reiterate our expectation of increased volatility for the remainder of the year. The U.K. referendum or "Brexit" as it came to be known, served to reinforce that opinion.

The week after the U.K. results, global investment professionals remain just as uncertain about what the vote ultimately means for the region as many of the U.K. voters who voted to exit. Several news outlets have highlighted anecdotal evidence that those voting to leave may have been simply trying to express their displeasure and not truly anticipating that a "leave vote" would win. Other news organizations picked up that "what happens if we leave the EU" was one of the top Google searches shortly after the initial results were released. While these stories are comical in a macabre kind of way, Wall Street commentary hasn't been much better. Many Wall Street strategists are trying to forecast how it all plays out and their opinions vary from "*a de minimis probability*" the UK remains in the EU to "*our best bet is that Brexit will not happen*." We noted in our special report on the UK referendum published June 24th, that in advance of the referendum we felt "*the vote was ultimately too close to call, the outcome too binary in nature, and the ripple effects too uncertain in the near-term preventing us from leaning one way or the other*." Rather than claim to understand all of the global political and economic ramifications of this complicated and unprecedented situation, we continue to monitor the news flow. At this time we are not recommending any significant changes to our clients' portfolios solely as a result of the Brexit vote.

Looking back at the quarter, many U.S. and global economic reports were weaker than Wall Street economists had expected. Much of the disappointment was blamed on the market turmoil that occurred earlier this year. While other negative data points were attributed to the ever-elusive "seasonality" and "one-off" situations. Slowing economic fundamentals are rarely a positive for the equity markets. Yet we believe the relative weakness experienced over the last quarter and more broadly over the past twelve months may be setting the foundation for a possible move higher into year-end. The primary factors that have weighed on equity performance may be leveling-off or in some cases actually reversing. Questions surrounding weak oil prices, the fear of multiple Fed rate hikes and the strong U.S. dollar, the outcome of the Brexit vote, and the pending U.S. presidential election are all approaching some level of resolution. The clarity this provides to the markets could trigger the return of what we believe to be are large amounts of cash from the investment sidelines back into the market.

Based on the metrics we follow equity valuations remain fair. Yet any improvement in corporate earnings could make current levels look more attractive. With historically low interest rates and persistently low inflation around the world, stocks should remain an attractive investment opportunity over the intermediate term. With Fed Fund Futures showing no expectation of U.S. interest rate increases between now and year-end, bonds should be able to maintain a reasonable amount of their gains. Uncertainty and volatility are here for the foreseeable future. However, we remain focused on navigating these challenging markets on behalf of our clients.