SILVERCREST
ASSET MANAGEMENT GROUP

OUR THINKING ON BREXIT

When a big event happens, investors instinctively feel like they should react. While we were quite aware by mid-June that a "leave" vote would result in much apprehension and a global market decline, we were certain that the actual impact would be unknowable for a period of time. We prefer to take a long-term view and leave short-term speculating to others. Similarly, it is only over the long term that changes from a British exit will be implemented. While European and other global markets have declined in the face of this uncertainty, US equities are near their highest levels for the year.

Markets treated Brexit as an unmitigated negative, but the sharp rebound highlights the reasons for our conviction that investors should remain focused on the long-term, and not try to chase the latest volatile swing in market sentiment. Brexit is an important event, particularly for European focused investors and for those focused on the political impact on the European Union. If Brexit prompts Britain and the EU take a hard look at what they've been doing—and not doing—that could be a good thing. The opportunity is what they make of it. While the airwaves filled with overheated rhetoric, it was important to maintain perspective regarding the significance for investors. The vote was non-binding and it will probably take a few months for Britain's new leadership to take office and decide how to proceed. Negotiations for a new relationship will take years and leaders are already commenting that little of substance will change in Britain's new relationship with the EU. Other countries dissatisfied with the EU will likely wait to see how Britain's situation shakes out, before making any big moves. As this process moves forward, the markets' attention—now focused on Brexit—will likely shift to other matters.

There are some real economic impacts from the Brexit vote. The steep drop in the pound (and to a lesser extent, the Euro) has put upward pressure on the US Dollar, renewing some of the economic headwinds the US economy experienced last year. It is also putting upward pressure on the Japan's Yen and China's Yuan, potentially forcing their policy hands. It's unclear, however, whether this immediate reaction in currency markets will last. Another potential concern is that the regulatory uncertainty created by the Brexit process will dampen the appetite of businesses to invest in the UK or in many parts of Europe, possibly for several years. Nonetheless, our economic outlook remains unchanged, as the ongoing concerns about sluggish growth in Europe have been part of our long-term outlook for some time.

Our advice is to not get swept up in the tide of volatile sentiment. Markets will reward those who stay calm and who do not forget what the other data is telling them. The U.S. economy isn't firing on all cylinders, but it isn't poised at the edge of recession either, ready to be blown over by the slightest breeze from Europe. Weakness in Europe has been a chronic factor in this long recovery, and Brexit doesn't change that.

We do <u>not</u> believe a short-term reaction to change our current investment allocation is warranted. Within our asset allocation work, we remain slightly above the midpoint of our long-term range for equity allocations. We continue to hold relatively modest allocations to international equities and believe that there are long-term opportunities and diversification benefits from doing so. We believe this posture reflects the opportunities and risks associated with equities, relative to other asset classes.

June 30, 2016

Patrick Chovanec
Managing Director, Chief Strategist

Robert Teeter
Managing Director, Chairman of
Investment Policy and Strategy Group