



630 Business Center Drive, Third Floor, King of Prussia, PA 19406 • www.tp-advisory.com
 Phone: 610-254-0451 Fax: 484-580-8482 email: thomaspadilla@comcast.net

Change is Here! Change is Coming!

Global Markets and Regions

	2nd QTR	2016 YTD
US	2.20%	3.80%
Developed Europe	0.30%	-3.70%
Asia	3.70%	-0.90%
Emerging Markets	2.70%	7.30%

US Markets

	2nd QTR	2016 YTD
Dow 30	1.60%	4.50%
Large Cap Cos.	0.56%	0.14%
Mid. Cap Cos.	3.80%	7.29%
Small Cap Cos.	6.28%	5.92%
Bonds	2.30%	4.73%

“The more things change, the more they stay the same.” A familiar quote from a not so familiar European novelist from the 19th century who wrote a number of books that only occasionally are read by graduate level Literature Majors. The guy could turn a phrase though, and he also was good at flower arranging. But it is a certainty that “The Times they Are a Changin’”, that from an American we’ve all heard of. I guess change getting started in Europe was what they were referring to. We’ve seen a lot of change lately, some gradual and some rapid. It appears we’re going to be seeing a lot more soon.

The United Kingdom’s vote to exit the European Union was a big deal for the markets, at least for a few days. The longer term implications are yet to be fully understood. We’ll just have to wait and see. The European Union has come to be seen as part of the permanent organization of things. It was founded on the ideal of avoiding destructive wars such as those that devastated the world in the last century. Economic integration and cooperation were to be the basis of shared peace and prosperity. The Romans were the first to introduce the concept of a united Europe, so Europe has been working at this for quite a long time. Clearly things change, but maybe not as much as we would like to think. We may just be witnessing the next chapter in a very long book.

The initial market shock from the British Exit vote (Brexit) has been attributed to fears of a potential global economic slowdown. The vast expansion of global trade has meant that events that occur anywhere in the world can disrupt everybody’s circumstances very quickly. Integration and cooperation have unintended consequences. Europe has not exactly been an economic dynamo in recent years but had begun to show some definite signs of improvement. Brexit is has been perceived as a threat to that

improvement, but maybe not. A lot of US multinational corporations depend on a healthy or at least stable Europe. That's not the kind of change markets thought was needed, at least in the short term. The long term may be different.

If the Brexit goes badly, it's a big deal. Markets generally respond badly to events that disrupt the status quo, particularly negative events. The policy making authorities have been working overtime to maintain that status quo of integration and cooperation that have held the European Union together and clearly were not pleased with the vote and the uncertainty it has, or may still generate. The markets responded accordingly, at least initially. On the other hand, the Brexit introduces the potential for change of a different kind, the revival of more Free Market Capitalism and its wealth generating capabilities. With Capitalism, change is a feature not a bug. It seems appropriate that Britain, the birthplace of Capitalism, is taking the lead.

The avoidance of uncertainty has been the objective of policy makers at least since the Great Recession. Central banks have been the primary agents of the policies of sovereign bailouts, increased regulation of financial institutions, the manipulations of interest rates and asset purchases all with the purpose of "stimulating" economies to restore sustainable growth and general peace and prosperity. Interest rates are being held at historic lows and in many cases rates are negative with the depositor paying the bank to hold their money. The policy makers have begun to acknowledge the meager results. In general, the European Union is faltering in delivering on its stated objectives. From the lack of growth to increased turmoil from immigration and terrorism to increased tensions with Russia, the public has noticed and registered their displeasure in the Brexit vote.

While the drama continues to play out in Europe, at least the economy on this side of the ocean continues to improve. The recovery we have been in has been the weakest in modern history, but we are still slowly recovering. We are well below our potential for growth. It goes a long way toward explaining slow job and wage growth, the tepid improvement in real estate prices and well below historic average investment returns. The US is the largest economy in the world. The European Union collectively is very close in size, though they appear to be about to get smaller. We're not facing an Exit situation here, even though some people wish we were.

In many respects the same European Union economic policies have and are being applied here in the US and can be blamed or credited, depending on your point of view with why things are the way they are. We are dealing with many of the same economic issues as well as immigration and terrorism. Our Central Bank Chairperson Janet Yellen has begun acknowledging the limitations of monetary policy in promoting growth. Her comments have provoked market gyrations. The volatility has increased significantly. Law makers have been debating fiscal policy changes. We are on the cusp of one of the most consequential Presidential elections in quite a long time. The conversation is not always civil. The markets are paying close attention. Change is coming. Let's hope it's for the better.