Shift Commentary: June 20, 2016 – "Brexit or Bremain?"

Nearly every market move over the last two weeks has been attributed to jitters over tomorrow's British referendum on whether the United Kingdom should remain with or leave the European Union. As could be expected, the primary stance of EU politicians is that the U.K. should stay within the bloc, but nations and expert groups across the world have also expressed their preference for a stay victory.

Why are we concerned about a possible Brexit? Important British trading partners, including India and China, have indicated that an exit may create regulatory and political volatility that could harm the economies of everyone involved. The U.K.'s Treasury itself reported that its analysis shows the nation "would be permanently poorer" if it left the EU and adopted any of a number of likely alternatives. Keep in mind that in the less likely event that the leave camp wins, some estimates say the negotiations to complete the process could take more than two years.

Regardless of the vote, we have built our portfolios around broad diversification that can weather this type of noise. That being said, based on the latest poles we expect the UK to stay in the EU, which should produce a modest bounce for the world's equity markets. In the short term, we have modestly increased our allocation to international markets as we continue to feel that equity valuations are more attractive relative to the domestic market. On the fixed income side of our allocation, we increased our exposure to commercial mortgage backed securities, as their fundamentals remain more favorable over credit bonds; the sector also carries less refinancing risk than traditional agency MBS.

As always, we thank you all for your continued support and look forward to discussing any or all of our thoughts at your convenience.

Best regards,

Richard A. Funk, CFP®
Senior Vice President, Investments

Jenny G. Davis, CFA®
Senior Investment Portfolio Specialist