MONTHLY
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June in Review

British voters surprised the markets in June by choosing to leave the European Union, causing market volatility to spike. While international equities fell over the month as a result, Canadian equities actually ended the month 0.34% higher.

British voters choose to leave the EU. In a historic and surprising result, 52% British voters chose to exit the European Union (EU) in the much anticipated referendum in June. Global equity markets reacted swiftly, led lower by the financial sector, as investors tried to determine the longer-term implications for Europe and more broadly. Central bankers globally pledged to support the market as it adjusts to what's been dubbed the 'Brexit'. As a result, European equities declined -5.6% for the month. Turn to page two for more context on Brexit.

Canadian economy grew in the first quarter. The Canadian economy expanded 2.4% in the first quarter, which was slightly less than analysts were expecting. Goods and services rose at their fastest pace since the end of 2014, while exports were strengthened by increased shipments of vehicles, auto parts and building materials. Business spending dipped for the fifth consecutive quarter. "The data are volatile," but "the economy isn't as volatile as the data, that much we know," said Bank of Canada (BoC) Governor Stephen Poloz. The BoC is confident that economic data will pick up as the Federal government's stimulus spending, although slow to have an effect, will begin to work its way through the economy.

Federal Finance Minister Bill Morneau acknowledged that the Brexit result would be generally negative for Canada, but that it was not his biggest economic concern. "Although global issues are important to our economy," he said, Canada has "had other, more obvious, issues." These include the collapse in oil prices and the devastating wildfires in Alberta. He also expects market volatility to continue while the economy continues to adjust.

U.S. decides to hold rates steady and steps back on rate hike talk. Chair Janet Yellen announced that the U.S. Federal Reserve (Fed) would not raise interest rates, citing economic concerns and slowing job growth. She also clarified that the Fed is less committed to two more rate hikes this year, and may raise rates only once more. The Brexit vote influenced the Fed's decision, as it "could have consequences in turn for the U.S. economic outlook." It turned out that even U.S. equities were impacted by the vote, having declined -0.65%.

Did you know?

Something as simple as staying invested during the ups and downs in the markets can be an important strategy to help you benefit from the best performing days in the markets. This approach provides the potential for better overall portfolio performance over the long term. Watch ***Staying Invested*** to learn more.

INDEX (C$)†	1 Mth	YTD	1 Yr	Index Level
Treasury Bill (FTSE TMX Canada 60 Day T-Bill)	0.05	0.26	0.50	158.62
Bonds (FTSE TMX Canada Universe Bond)	1.77	4.05	5.22	1035.11
Canadian Equities (S&P/TSX Composite)	0.34	9.84	-0.21	14,064.54
U.S. Equities (S&P 500)	-0.65	-2.54	8.12	2,724.11
Global Equities (MSCI World)	-1.97	-5.19	1.73	2,145.73
Emerging Markets (MSCI Emerging Markets)	3.14	-0.02	-8.24	1,082.58

CURRENCIES†	Change (%) 1 Mth	YTD	1 Yr	Exchange Rate
C$/US$	1.30	7.06	-3.32	0.7737
C$/Euro	1.55	4.69	-3.05	0.6967
C$/Pound	10.22	18.54	14.09	0.5813
C$/Yen	-5.57	-8.07	-18.56	79.8500

COMMODITIES (US$)†	Change (%) 1 Mth	YTD	1 Yr	Price
Gold Spot ($/oz)	8.47	24.30	12.02	1,320.60
Oil WTI ($/barrel)	-2.42	15.40	-22.14	48.33
Natural Gas ($/MMBtu)	22.70	15.89	-6.97	2.92

†As at June 30, 2016. Source: Bloomberg

Breaking down the 'Brexit'

The British public voted on whether or not to exit the European Union (EU) – dubbed 'Brexit' – and shocked the world with a 52% vote to leave on June 23, 2016. The near universal certainty that the Remain camp would prevail added to the scale of the initial adverse market reaction.

'Brexit' explained.
For more than 40 years, Britain has been a member of the European Union (previously called the European Community), which has evolved over time to include a total of 27 countries, and a broader focus, such as foreign policy co-operation and adoption of a single currency, the euro, for many of its members. In January 2013, British Prime Minister David Cameron committed to holding a referendum on whether or not Britain should remain in the EU, and opinions were charged on both sides:

Remain: Pulling out of the EU could negatively impact the British economy. Led by Prime Minister David Cameron and many business leaders, this Remain camp believed that leaving would cause slower economic growth, job losses, higher prices and a potential recession.

Leave: Proponents contended that leaving the EU would give the UK greater control over its borders and reduce bureaucracy. In addition, cutting payments from the EU would save the British government billions of dollars and allow that spending to be allocated to things like health care and other priorities.

While the British public voted for Brexit, there is no timeline at present for the 'divorce proceedings'. Theresa May, the UK's newly named Prime Minister, will engage all of the First Ministers before re-engaging and brokering a deal with the EU.

Inevitably, Brexit will create a period of political and economic uncertainty for the UK that will also shift to the rest of Europe, and send ripples across global financial markets over the short term.

Global markets reacted – and rebounded – quickly.
Immediately following the vote's surprising result, global financial markets experienced 33% more volatility according to the CBOE Volatility (VIX) Index. A week later, volatility declined to a lower level than it was before the vote and many markets have already bounced back. This is why it's so important to stay focused on the big picture, and stick to your long-term plan.

"As with all instances of market volatility, it is important to keep a level head and a long-term perspective in mind. An optimally diversified portfolio should provide investors with peace of mind amidst this uncertainty," says Judith Chan, Portfolio Manager of Scotia Portfolio Solutions.

"We take great care to ensure that we are not overexposed to a single risk factor, and direct exposures to UK in the Scotia Portfolio Solutions are minimal...Unlike in passive investment strategies, indiscriminate selling creates opportunities for our active managers to pick up high-quality companies at a discount, which potentially helps investors profit over the long term. In a diversified portfolio, the overall impact is expected to be low, as negative impact across equity markets is, to a certain extent, lessened by the upside in fixed income."

What should you do?
Global political and economic events like Brexit have happened before, and they'll happen again.

The best course of action is to keep calm and carry on. Research has shown that investors feel a financial loss about 2.5 times more than a gain of the same magnitude.* Understandably, many of us experience a roller coaster of emotions when investing, which can translate into poor buy and sell decisions. Being aware of these emotions during times of volatility will help you stay on track, and away from the cycle of market emotions.

Speaking with your Scotiabank Advisor to seek advice can also help. Together, you can review your financial plan to ensure that it remains aligned to your long-term goals, and make small adjustments to account for life changes as they arise.

In the end, managing your future when events like Brexit happen needn't be difficult. In fact, it should always be the same: make a plan, stick to it, and seek advice when you need it.

For more perspective, read our **5 Timeless Tips on Managing Market Ups and Downs**.

* Daniel Kahneman and Amos Tversky, "Prospect Theory: An Analysis of Decisions Under Risk", Econometrica, 47,2, pp. 263–91.

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