



MARKET MUSINGS & DATA DECIPHERING

Breakfast with Dave

IN THIS ISSUE

While you were sleeping

- Yields are continuing their rapid descent here in the early going
- I must reiterate that so long as Article 50 is not triggered, the U.K. remains an EU member

Brexit with Dave

- What exactly was U.K. Prime Minister David Cameron thinking when he indicated that world history could be so radically altered by a 52% to 48% razor-thin vote, not to mention one with a 72% turnout?

Click to read on ...

Gift certificates available, email research@gluskinsheff.com for more information

Gluskin Sheff + Associates Inc. is one of Canada's pre-eminent wealth management firms.

Founded in 1984 and serving high net worth private clients and institutional investors, we are dedicated to providing our clients with strong risk-adjusted returns together with the highest level of personalized client service.

For more information or to subscribe to Gluskin Sheff economic reports, visit www.gluskinsheff.com.



WHILE YOU WERE SLEEPING

Next time there is a referendum anywhere, there should be a stipulation that voters have a basic understanding of what it is they are voting for or against.

One can only wonder what the outcome would have been if a plethora of U.K. voters understood what the EU actually was responsible for and what wasn't responsible for (barely more than a one million gap between the 'leave' and the 'stay' camp cost the global equity market \$2.5 trillion of lost value on Friday alone in that 5% plunge – worst session in five years – an amount that exceeds the entire GDP of Canada).

There are constitutional moves afoot, especially in Scotland, to prevent the vote from becoming reality (indeed, why wouldn't Scotland's leader, Nicola Sturgeon, not try to block the U.K.'s exit from the 28-nation EU when every single region in Scotland voted to stay).

There also are a numerous petitions going around Britain in a classic sign of buyer's remorse – clearly the turnout of 72% was as low as it was because the millennial crowd did not come (just 36% of those under 24... they actually have to work) as much as the 65+ group did (on the way to the polls after receiving their pension checks, no doubt) and they may want another kick at the can (after all, how many times did the Greeks get to vote over their bailout plan?).

And guess what? Parliament is obligated to respond to any petition with more than 100,000 signatures (so far there are now 3.3 million and counting!) – this carries no legal weight but neither did the Brexit vote.

I saw this joker on CNBC this morning claim that the turnout was impressively high – no the 85% turnout in the Scottish referendum last year was high; 72% for a referendum with this importance is rather low (this means that many did not take it very seriously or did not entertain the notion that an Brexit was going to happen, notwithstanding what the polls were saying ... polls that have in the past been off the mark).

As an aside, today's FT reports that former Prime Minister Tony Blair has said that a second referendum is possible. After all, 62% of Scots and over 70% of the youth voted overwhelmingly to stay.

So a second vote may happen; we could end up with pro-Remain Theresa May, the Home Secretary, run and win the Conservative leadership campaign.

The 'leave' camp has said openly that it is in no hurry to get involved in exit talks with the EU (maybe because it has no plan at all and managed to campaign without one, as hard as that might be to believe).

One can only wonder what the outcome would have been if a plethora of U.K. voters understood what the EU actually was

A second referendum is possible

This report is prepared for the exclusive use of the individual Gluskin Sheff Research subscriber to whom it was delivered. Sharing, redistributing, retransmitting or disclosing this report in whole or in part, or in any form or manner, without the express written consent of Gluskin Sheff + Associates Inc. is a violation of our Terms of Use and will be prosecuted to the fullest extent permitted by law.



Moreover, it is not even clear that Boris Johnson wants to run for leadership considering that he was one of the 84 MP's who wrote and open letter for David Cameron to stay on.

It is not even clear that Boris Johnson would want to run for leadership

This is now a classic case of buyer's remorse because the pro-exit leadership is now acknowledging that the claim that Britain would "take back control" on the immigration issue and at the same time be able to divert £350 million annually to health care from Brussels was "a mistake".

How convenient to acknowledge this days after the vote — for more have a look at *Some Brexit Backers Hedge on Promises* on page A6 of the NYT.

We have not seen the last word on this issue ... in the next few months, we could see the Conservative Party led by a pro-EU leader who can then call a new election that will pit its plan for EU reform against the Brexit plan (there is no plan).

So do not discount the odds that we see a pro-EU government emerge from all this, and the June 23rd vote becomes every bit a relic of the past as last year's anti-bailout referendum last year in Greece. I say all this because it is Parliament, and not pensioners, that will make the final decision, and two of three MP's that may have to vote on this issue, are pro-EU ... will they truly vote against their conscious?

While the EU leadership is pressing the U.K. parliament to quickly invoke Article 50 and get the ball rolling for negotiations — at that point, it will be next to impossible to turn back — Prime Minister Cameron, who intends to stay on until October, has said repeatedly that there will not be any move before then to pull that trigger.

I must reiterate that one, so long as Article 50 is not triggered, the U.K. remains an EU member and two, the Brexit vote itself was not a legally binding referendum (one reason why Scotland is moving to have it revoked).

I must reiterate so long as Article 50 is not triggered, the U.K. remains an EU member

Who would in their right mind vote for job destruction willingly unless your name is Sid Viscous (of 'Anarchy in the U.K.' fame ... then again, when he was belting out songs for the Sex Pistols back in the 1970's, the retiree crowd who spun the dial for the Brexit result were avid fans in their 30's)?

But Sid hasn't been with us for 37 years, but if he was, he would be in the classic age group that supported the rupture last Thursday ... that is what is amazing after looking at a demographic breakdown of the vote is the wide divide between the older cohorts who are suspicious of anything international in nature and the younger (and more well-read and well-rounded than their parents and grandparents) folks who love

This report is prepared for the exclusive use of the individual Gluskin Sheff Research subscriber to whom it was delivered. Sharing, redistributing, retransmitting or disclosing this report in whole or in part, or in any form or manner, without the express written consent of Gluskin Sheff + Associates Inc. is a violation of our Terms of Use and will be prosecuted to the fullest extent permitted by law.



the free travel access to the rest of Europe, not to mention the opportunity to work across the continent without the bureaucratic delays in obtaining a work permit or visa.

Unless you are retired and don't have to worry about getting fired, Brexit is just a-okay.

I have to say, that this view (espoused by the likes of Donald Trump) that Britain won its country back and has now reclaimed its sovereignty is positively the stupidest thing in the world.

Britain has its own currency, its own army, its own seat at the U.N. Security Council, its own relationship with the U.S. (as in the largest foreign direct investment partnership), and its own nuclear capability.

With respect to the issue of 'borders' it cuts both ways because there are one-and-a-half million Brits gainfully employed in the rest of the EU and three million EU citizens living in the U.K. (one-third of that in London where they contribute to the 10% of the British economy otherwise known as the Financial sector).

With respect to the issue of 'borders' it cuts both ways

In any event, the post-Brexit uncertainty lingers, with Sterling down a further 3% today to \$1.33 following the 8% plunge on Friday.

So global investors, at a minimum, are pricing in a U.K. recession and the next question is whether this morphs into a general European recession and from there the implications for the global economy.

The U.K.'s FTSE 100 is down 1.7% so far with the Banks getting clobbered (some down as much as 10%) and there is substantial room for additional downside pressure. The Euro Stoxx 600 is off by about the same.

Japan's Nikkei managed to recoup a fraction of its sharp Friday slump — up 2.4% or 357 points to 15,309 — even though the yen has firmed to ¥101.6 (the DXY U.S. dollar index stronger by 70 pips here).

Japan's Nikkei managed to recoup a fraction of its sharp Friday slump

In fact, what is interesting is how there has been marginal spillover to Asia — China's Shanghai rallied 1.5% but this may have reflected what the rest of the world would otherwise not see which is a much weaker yuan to fresh six-year lows as the PBOC set the reference rate 0.9% lower at \$6.6375 (interesting to see in this flight to quality move that steel and copper prices in China both firmed up today; WTI has stabilized near \$47 per barrel too).

Korea's Kospi edged up 0.1%, ditto for India's Sensex. Thailand rallied 0.7%.

This report is prepared for the exclusive use of the individual Gluskin Sheff Research subscriber to whom it was delivered. Sharing, redistributing, retransmitting or disclosing this report in whole or in part, or in any form or manner, without the express written consent of Gluskin Sheff + Associates Inc. is a violation of our Terms of Use and will be prosecuted to the fullest extent permitted by law.



Hong Kong's Hang Seng and Singapore Straits were the outliers but even here the losses were held to just 0.2%.

All in, Asia-Pac equities advanced 0.5% today — perhaps this is some early proof of a region that is somewhat isolated from all the angst spreading across Europe at the current time.

There also, at least thus far, no sign of any spillover towards anti-establishment in the Australian election polls (the ASX advanced 0.5% today) and Spain where the big concern that Unidos Podemos would emerge with big gains did not materialize in yesterday's national vote.

Prime Minister Mariano Rajoy solidified his position which was a pleasant surprise even if he fell short of a majority ... winning 137 seats in the 350 seat chamber, an improvement from his 123 seat showing in December's election and the anti-establishment Podemos was stuck at 71.

Prime Minister Mariano Rajoy solidified his position

So here the polls were wrong too but in the opposite direction as they were in Britain as they hinted that it would surge to 93 seats and become the official opposition.

Rajoy still has to find a coalition partner but the worst outcome was definitely avoided here.

It should be noted that investors rewarded Spain with a flattish market performance so far today as the IBEX 35 has outperformed the regional benchmark by 80 basis points (consider that this is the first time in at least two decades that the Spanish stock market did not sell off in the immediate aftermath of a national election which typically results in a radical party political force gaining significant ground).

Spain looks interesting here trading at 12x forward earnings

Spain looks interesting here — the economy is expanding 2.8%, the stock market trades at 12x forward earnings, the country is underowned and unloved (a contrarian's dream) as it has suffered net outflows each and every month since September, and the market has been clobbered 18% so far this year (versus -16% for the Euro Stoxx 600 and -3% for the U.K.'s FTSE 100), and the a dire political outcome was just avoided.

With Sterling, the euro (\$1.1035) and Emerging Market currencies all softer, even with a firmer yen and a the Canadian dollar hanging in near \$1.30, the DXY U.S. dollar index has spiked more than 70 pips to 96.27 and about to face a critical test of the 200-day moving average.

This has not stopped gold from rising a further ten dollars per ounce this morning to \$1,325 and a break of the nearby high of \$1,359 would set the stage for further gains ahead.

This report is prepared for the exclusive use of the individual Gluskin Sheff Research subscriber to whom it was delivered. Sharing, redistributing, retransmitting or disclosing this report in whole or in part, or in any form or manner, without the express written consent of Gluskin Sheff + Associates Inc. is a violation of our Terms of Use and will be prosecuted to the fullest extent permitted by law.



Gold in other currency terms is simply surging, but when the yellow metal rallies into a firm U.S. dollar environment you know that that this bull phase has legs.

It is all parcel of the proverbial “flight to safety” which includes precious metals, greenbacks, and high-quality bonds.

Indeed, yields are continuing their rapid descent here in the early going — 10-year yields have dropped five basis points apiece in Germany (-0.11%), France (0.31%), and Switzerland (-0.61%); by 12 basis points in the U.K. (0.94%); and courtesy of the stable election results, by 15 basis points in Spain (1.47%).

Spreads across the rest of the Club Med periphery have widened out a touch, which is what one would expect to see in this risk-off backdrop. Japan’s 10-year yields are down two basis points to -0.20%.

In the U.S., the 10-year Treasury note yield has sagged nine basis points to 1.46% and the stage is set for a further convergence move down and likely into a 1%-1.25% range at the very least.

For equity investors, the way to place this is with bond proxies like Utilities, Telecom and select REITS; while a more direct way would be through bond ETFs.

If I am anywhere in the ball park on the rates call, returns in could end up ranging between 15% and 30%.

In addition to the lack of follow-through from what can only be described an irrational xenophobia to Spain and Australia, it is fascinating to see Donald Trump also fail to benefit as he cheered the U.K. vote — I’m not sure that as investors see their pocketbooks get pinched, that they necessarily agree with his happy assessment.

The polls show that in the past month, Hillary Clinton has widened her lead to five points from three — 46% to 41% for The Donald (other polls have her ahead between six and 12 percentage points).

And while the Brexit vote, a stand-alone event, is a deflationary shock at the margin, it is interesting today to see hard asset ‘reflationary’ plays do better — copper is up 1% and nickel is up 0.4%.

And of course, the extended rally in gold.

We don’t operate in a vacuum and if it weren’t for Brexit, all the worrywarts would be talking about the Fed and now there is close to zero chance we see a rate hike this year.

Yields are continuing their rapid descent here in the early going

Hillary Clinton has widened her lead to five points from three

This report is prepared for the exclusive use of the individual Gluskin Sheff Research subscriber to whom it was delivered. Sharing, redistributing, retransmitting or disclosing this report in whole or in part, or in any form or manner, without the express written consent of Gluskin Sheff + Associates Inc. is a violation of our Terms of Use and will be prosecuted to the fullest extent permitted by law.



The U.S. economy was actually on fairly soft ground even before the Brexit vote, we were never convinced that another hike was even remotely on the radar screen — for a real world example, have a look at *Dining Out Falls Victim to Economy* on page B1 of the WSJ. Restaurant business growth has completely stalled out over the past three months and historically the sector has acted as a leading indicator for the rest of the retail industry.

So perhaps the lack of any monetary tightening in the U.S. and, in fact, the prospect of an easing which the futures market is now contemplating, is a source of support or at a minimum acting as an antidote for the 'hard asset' trade.

One would have expected more downward pressure on Sterling and European and U.K. equities today, and a sustained decline in core sovereign bond yields, but it is what didn't happen that actually caught my attention — commodities and Asian equities all bucked the negative trend.

One would have expected more downward pressure on Sterling and European and U.K. equities today

As a reminder this too shall pass: I see that Ned Davis Research went back into the history books and identified 51 major global crises in the past century and some did indeed top the uncertainty we are facing today — the losses up front are steep, but then recouped to the point where in a year's time, on average, the Dow Jones Industrial Average was 6.3% higher than at the point that the disaster started.

No doubt this Brexit file is different since it could involve a multi-year period of uncertainty, but then again, the markets typically overshoot at the onset and this is where the opportunities present themselves.

BREXIT WITH DAVE

This was hardly a landslide

I have to first start off with an editorial comment. More of a question, in fact.

What exactly was U.K. Prime Minister David Cameron thinking when he indicated that world history could be so radically altered by a 52% to 48% razor-thin vote, not to mention one with a 72% turnout?

Compare and contrast that 72% turnout to the 85% participation at last year's Scottish ballot.

So they say that "the people spoke". But which people?

Voters aged 24 and younger voted 75% to stay.

Those between 25 and 49? Well, 56% voted to stay too.

So they say that "the people spoke"... but which people?

This report is prepared for the exclusive use of the individual Gluskin Sheff Research subscriber to whom it was delivered. Sharing, redistributing, retransmitting or disclosing this report in whole or in part, or in any form or manner, without the express written consent of Gluskin Sheff + Associates Inc. is a violation of our Terms of Use and will be prosecuted to the fullest extent permitted by law.



The Brexit vote was carried by the 65 year olds and up, as they voted 60% for the Brexit (55 and up voted 57% for the exit).

This is surreal. The future of Britain voted to stay, the ones with decades of productive service ahead of them opted to remain within the European Union (EU) and work for change from within.

The ones collecting their pension cheques and won't suffer the job consequences — let me go one step further, the ones who won't even be around to bear the consequences of their decision — are the ones who took the "outs" to the winner's circle.

Yes, it was the retiree/pensioner crowd, the uneducated and those outside the large cities who carried the day.

Sorry, that is not overwhelming and broadly-based enough, in my view, to enact such a radical change that will affect the entire nation.

This is not some highway bill we're talking about here.

Now their votes count just as much as anybody else's, don't get me wrong, but this was not a case of the people speaking as much as a certain demographic speaking — an extremely concentrated outcome that is deserving of such a mandate as to rewrite history.

I mean, 52% to 48% ... come on.

The pension cheques of these 65 year olds are not going to be affected by the recession that is surely around the corner, but the jobs and incomes for the younger cohort are certainly going to be affected and in a material way.

Maybe London should have its own referendum because 60% of its residents were in the "remain" camp.

In fact, the Sunday NYT reports that there is already a "stay" petition going around London that thus far has more than 100,000 signatures; an online petition for the country as a whole to have a second go at a referendum on the issue has more than three million people signing on and that list is growing.

Surely David Cameron had to know that in the U.S., for example, it typically requires the support of 60% of the Senate before a bill is approved? And that is on the most mundane stuff, like a farm bill. For the big things, like Constitutional amendments, you need a two-thirds majority in the Senate and the House.

Who would ever agree to break a partnership on a highly skewed 50% vote?

This is not some highway bill we're talking about here

Who would ever agree to break a partnership on a highly skewed 50% vote?

This report is prepared for the exclusive use of the individual Gluskin Sheff Research subscriber to whom it was delivered. Sharing, redistributing, retransmitting or disclosing this report in whole or in part, or in any form or manner, without the express written consent of Gluskin Sheff + Associates Inc. is a violation of our Terms of Use and will be prosecuted to the fullest extent permitted by law.

And for all the talk of how the people spoke, no, sorry, the people who spoke are hardly representative of Britain as a whole — 52% of a 72% turnout hardly seems like an overwhelming case for something this big.

Apologies if I hit a certain sensitivity to the anti-Brussels crowd, but then again, it isn't their fault. It is Cameron's fault for establishing such a low threshold of success for the Brexit group, and for running (along with the leadership of the Labour Party) a very tepid campaign, and one that was filled with too much fear-mongering and not enough on the merits of maintain the existing relationship.

Nobody has ever been enamoured with the unelected technocrats and elites in Brussels, and how slow the processes to invoke change can be (since all 28 members have to agree on every item), but the EU in the post-WWII era had become an economic powerhouse with tremendous scale and clout to establish global trade deals on better terms than if each individual member negotiated these treaties on their own.

Nobody has ever been enamoured with the unelected technocrats and elites in Brussels

What makes Europe great has been its labour mobility, and the free-flow of labour within the EU absolutely assisted in whatever growth potential the region has — which makes this wave of anti-immigration sentiment so peculiar and yet a defining issue in this referendum.

No doubt the refugee issue is a sore spot (and not just in the U.K. either) and that is understandable. But the Brits are going to find out the hard way that this cuts both ways.

There are 1.5 million British citizens working in the rest of the EU right now who face an uncertain future. Will they be able to keep their jobs? Will they be forced to apply for work visas in the future?

And what about the one million EU citizens who work in London, who contribute to the same financial services industry that represents about 10% of the entire British economy.

Not just that, but one of the reasons why the City of London's future as a global financial centre is now being called into question (thanks to my old colleagues at the BMO Capital Markets economic department for this little ditty) is because one of London's most attractive features is what is called the EU "passport" (which is part and parcel of the flexible labour laws that come with EU membership).

This allows U.K.-regulated banks based in London to open branches easily in other EU countries, and to sell services across the EU, all under one set of rules. Without this, all of a sudden, U.K.-headquartered banks will lose this special advantage and confront a myriad of restrictions and regulation that it does not have to face with the current relationship.

Still a non-binding referendum

This report is prepared for the exclusive use of the individual Gluskin Sheff Research subscriber to whom it was delivered. Sharing, redistributing, retransmitting or disclosing this report in whole or in part, or in any form or manner, without the express written consent of Gluskin Sheff + Associates Inc. is a violation of our Terms of Use and will be prosecuted to the fullest extent permitted by law.



This was a non-binding referendum and it should probably stay that way.

The most oft-Googleed question out of the UK since the vote is “what the EU is exactly?” (Google reported that a mere eight hours after the polls closed, searches for “what happens if we leave the EU?” had more than tripled).

We clearly have a case of buyer’s remorse on our hands.

Not to mention that Britain right now is basically leader-less and there is nobody to take the helm in terms of any negotiations for a new deal (including Boris Johnson). David Cameron is stepping down, but not until October. There is going to be a leadership campaign by then, but what happens if the grass roots Conservatives opt for a leader who is pro-EU?

After all, Cameron only agreed to do this to garner the support of his party’s right-wing xenophobic fringe (which in the end, he didn’t need to win last year’s election, but this is otherwise known as a striking a Faustian bargain) — the vast majority of the party, like Labour, is in the “remain” camp.

And now the Labour leadership is in disarray — there many calls for Jeremy Corbyn to step down as well.

But the bottom line is that Parliament itself is only 25% anti-EU. And the flaw in the Brexit campaign, which unfortunately was taken to task, was this view that Britain could always attempt to achieve the same relationship with the EU, but not be part of the EU, as is the case with Norway and Switzerland.

Of course, these two countries to have free access to the EU market, but in return, they have taken on the EU immigration policies.

You see, you just cannot have it both ways.

What if the new partnership that the U.K. ends up having with the EU is the one we have on our hands right now?

Maybe this is why *Article 50* isn’t being invoked so quickly — the realization that what we may end up with is a case of “meet the new relationship, same as the old relationship” with some new compromise wrinkles that everyone can live with (Cameron has already said he will leave this particular decision to his successor; maybe it never ends up being triggered at all).

Remember, a new administration, led by one of two new leaders from the Conservative and Labour ranks, could always use an election as an opportunity to renew negotiations without the rancor and difficulties that would be inherent under *Article 50* (a new election would probably be an

This was a non-binding referendum

Britain is basically leader-less

“Meet the new relationship, same as the old relationship”

This report is prepared for the exclusive use of the individual Gluskin Sheff Research subscriber to whom it was delivered. Sharing, redistributing, retransmitting or disclosing this report in whole or in part, or in any form or manner, without the express written consent of Gluskin Sheff + Associates Inc. is a violation of our Terms of Use and will be prosecuted to the fullest extent permitted by law.



event that would ease market anxiety; anything that slows an *Article 50* and gives the EU, especially Germany's Angela Merkel, time to reflect and respond — she must have regrets now over her unwillingness to renegotiate anything that Cameron could take back to Britain's euroskeptics).

Nothing would make me happier than to have completely wasted my time penning my thoughts on the global economic and financial repercussions of this Brexit vote, though I admit that this may be a case of wishful thinking.

Donald Trump's reaction was incredible, if predictable — "I said this was going to happen, and I think it is a great thing".

Well, as the U.K. economy swings into recession and the stock market and currency go through the ringer during the U.S. election campaign, all Hillary is going to need to do is play that tape over and over again.

Americans (at least those of you that still vote with your pocketbooks), is this move towards isolation really worth it?

The reality is that they never had lost their country

As for The Donald's marveling over how great it was that Britain took back its country, the reality is that they never had lost their country.

They always had control over their currency and their own central bank.

They are, and will remain, a nuclear power.

Mr. Trump may now know that Britain is so much a country that determines its own fate that it is a permanent member of the United Nations Security Council and is a crucial leader of NATO.

And I am sure that given the special relationship that the U.S. has with the U.K., it would not be long before a trade agreement was ironed out (or as part of NAFTA) and who doesn't know that the "get to the back of the line" comment from President Obama was just another fear tactic, not to be taken seriously, aimed at influencing the vote.

Maybe a U.K.-U.S. trade deal would get inked ahead of the Transatlantic Trade and Investment Partnership talks currently underway with very limited progress thus far (wouldn't that be ironic ... and at least a trade deal that improves access to 330 million Americans would provide a partial antidote to losing unfettered access to 430 million EU customers).

Can Article 50 be avoided?

Let me finish off this section by saying that in contrast to popular opinion, the people haven't really spoken at all.

This report is prepared for the exclusive use of the individual Gluskin Sheff Research subscriber to whom it was delivered. Sharing, redistributing, retransmitting or disclosing this report in whole or in part, or in any form or manner, without the express written consent of Gluskin Sheff + Associates Inc. is a violation of our Terms of Use and will be prosecuted to the fullest extent permitted by law.



The decision came down to 1.3 million Brits – that is it. The narrow gap between 17.4 million who voted to split and the 16.1 million who voted to stay.

This ain't no mandate for change this big, no matter the bill of goods that Cameron tried to sell.

We all have to understand, with all deference to the June 23rd vote, that the process of leaving begins only after the British government invokes the EU governing treaty (*Article 50*) and David Cameron, as I stated, is going to leave this up to the next leader of the party.

What if he is pro-EU? Do you think he invokes it?

What if an election is called first, and again, whether it is the Conservatives or Labour who wins, the next duly elected Prime Minister is pro-EU? Do you see him or her triggering *Article 50*?

Of course this would go to a vote in the House, but the vast majority of parliamentarians are staunchly pro-EU.

Now the EU leadership have already stated they want *Article 50* invoked as early as possible, but they can bark all they want – this is not their decision and there is nothing they can do about it.

The problem with *Article 50* is that once invoked, Britain can no longer think things through and try to change its mind without all the other 27 members agreeing. And the EU leadership knows that it cannot play nice with the UK once *Article 50* is invoked without incentivizing other countries to merely follow suit.

Then again, the EU also took a gamble in all of this, thinking that the Brits were bluffing and that they would never choose to leave (Angela Merkel gets part of this blame).

The question is whether a deal can still be worked out somehow, without triggering *Article 50*, that allows the U.K. to gain more control over immigration, which is the number-one concern in Britain (after all, the U.K. is just about the most desirable country to live and work in the Continent, but is aiming to limit annual net immigration to 100,000 – and so the more that resettle from the rest of the EU the fewer can be able to come in from other parts of the world, which in turn is exacerbating the chronic skills shortage there).

So what I am saying is that as everyone draws up doomsday scenarios, it is still not that clear that we are going to see a Brexit when all is said and done, despite last Thursday's vote.

The process of leaving begins only after the British government invokes the EU governing treaty

It is still not that clear that we are going to see a Brexit



There cannot be a parliamentarian who can believe honestly that this is a mandate to leave, and it is parliament, not pensioners and blue-collar residents in the Northeast, that in the end will make the decision.

For all the talk I have heard that if the U.K. does not leave now there will be mass demonstrations on the street, one can only picture in their minds the image of a bunch of greybeards searching for their bifocals as they search for their placards. Give me a break.

A Brexit raises other risks for the EU

All right, enough of the venting. Let's get to work.

Let's assume that this vote last Thursday will trigger *Article 50* and the slippery slope of negotiations for a new relationship between Britain and the EU.

And make no mistake, there will be spillover effects globally, and more through the interconnected financial markets than through the direct trade channels. The rise in uncertainty will lead to an increase in precautionary saving that, coupled with a decline in trade, is ominous.

And the questions will arise constantly as to how many more countries will leave Europe (more on this below).

And how will this play in the U.S. election. If the unthinkable can happen in the U.K., then why can't America vote into office a real estate tycoon whose main attractiveness is that he isn't politically correct but at the same time has zero experience?

From a forecasting standpoint, the economists have to admit that there is much they don't know and that the confidence interval around any forecast right now is far higher than normal.

We have never witnessed a global political shock like this. No other country has ever voted to leave the EU so there is no template to draw inferences from.

We know that we were in a world of high anxiety even before the U.K. vote. Janet Yellen, in her last four appearances, uttered the word "uncertainty" 39 times.

Modelling fiscal, monetary and regulatory policies is one thing; modelling heightened political uncertainty on such a grand global scale is something else and has no precedence.

Now the global economy and financial markets are hit with an additional huge shock.

**The confidence interval
around any forecast right
now is far higher than
normal**

This report is prepared for the exclusive use of the individual Gluskin Sheff Research subscriber to whom it was delivered. Sharing, redistributing, retransmitting or disclosing this report in whole or in part, or in any form or manner, without the express written consent of Gluskin Sheff + Associates Inc. is a violation of our Terms of Use and will be prosecuted to the fullest extent permitted by law.



Instead of moving to integration, countries are moving to isolation — it is not just the U.K. While I continue to question the veracity of last week's vote, there is no question that anti-EU sentiment is on the rise generally across the Continent and globally we are seeing a social uprising, being expressed in the political arena, against the elites, the status quo, crony capitalism, special interests, policymakers who are more interested in austerity than growth stimulus, as well as against the forces of globalization.

Marine Le Pen's far-right National Front party is gaining some serious momentum in the polls in France. For the 10th time in three months, French Prime Minister Hollande is facing widespread demonstrations by the trade unions voicing disapproval over his planned job reforms.

Italy's Five Star Movement scored some impressive victories last week in municipal elections in Rome and Turin.

Poland and Hungary are refusing to dance on Angela Merkel's dance card on the refugee file.

The trend towards nationalism, isolationism, and polarization is on the rise — not just in France, but in the Netherlands too.

One can say that Brexit was merely a vote against the wealthy Davos elite, but it is bigger than that. It is a backlash against globalization and government policies that have exacerbated income inequalities practically everywhere.

The end of the U.K. preferential access to the EU could well mean higher tariffs, depending on how the negotiations go.

Then again, the world has already witnessed back-door protectionism via repeated currency devaluations, not to mention that that over the past seven months, the G20 has launched 145 protectionist measures, the highest since 2009 (as per the FT).

So even before Brexit, the world was already beginning to splinter and the risk now is that having reached a new inflection point, this process will now accelerate. As per the Saturday NYT editorial (page A20):

That this Britain proved vulnerable to nationalistic, anti-globalization and anti-immigrant sentiments is certain to embolden other xenophobic movements, further weakening the union.

The Asian crisis of 1997/98 started with Thailand but didn't end there.

Neither did the financial crisis of 2008/09 — it started with New Century Financial but again, it didn't end there.

The trend towards nationalism, isolationism, and polarization is on the rise

Even before Brexit, the world was already beginning to splinter

This report is prepared for the exclusive use of the individual Gluskin Sheff Research subscriber to whom it was delivered. Sharing, redistributing, retransmitting or disclosing this report in whole or in part, or in any form or manner, without the express written consent of Gluskin Sheff + Associates Inc. is a violation of our Terms of Use and will be prosecuted to the fullest extent permitted by law.



The shocks are different but the one common thread is that knock-on effects ensure — the proverbial domino game. The cockroach theory, if you will, of their never being just one in the kitchen.

And in the coming year, we have a vote on constitutional reforms in Italy and national elections in France and Germany.

It wasn't just Sterling that had the stuffing knocked out of it on Friday. The euro slipped 3% against the U.S. dollar and the likes of the Swedish krona and Polish zloty sank 5%. A classic case of the foreign exchange market asking "who's next?"

Indeed, the focus has been on the U.K., but isn't it well known that just three months ago, an Ipsos MORI poll across nine EU countries found that 45% want a similar referendum on their countries' membership (and 33% indicated they would vote to get out). A Pew poll showed rising levels of dissatisfaction in France, Germany, the Netherlands, Sweden and Greece (see page C2 of the weekend WSJ).

Not to mention other nagging issues like the timing — a new Conservative leader isn't to be picked until October, the Scots now making noise to hold another referendum to secede from the U.K. since they overwhelmingly voted to remain in the EU (someone forgot to tell The Donald that Scotland actually voted for "Bremain" by an overwhelming 62%-38%).

An Ipsos MORI poll across nine EU countries found that 45% want a similar referendum on their countries' membership

Ditto for Northern Ireland, which reaped huge benefits from open borders with the Republic of Ireland — that freedom is now at risk because the North's border with the south now becomes the European Union's border (thereby threatening the Northern Ireland peace process too; just to show how the law of unintended consequences get triggered here).

Meanwhile, the anti-EU forces in France and the Netherlands are calling for an exit referendum too.

The anti-EU forces in France and the Netherlands are calling for an exit referendum too

More to the point — there is a risk that the U.K. drags its heels on invoking *Article 50* of the Lisbon Treaty, which gets the ball rolling on negotiating a new arrangement (the EU will want to get things started quickly and the appetite for compromise limited as the leadership will not want any other country thinking of pulling the same stunt believing that there will much in the way of compromises).

But keep in mind that *Article 50* is merely a formality that triggers the point at which negotiations begin; but is vague and only 261 words long ... so it is no roadmap *per se*.

Plus it involves a timeline of two years to garner an agreement, though some experts say this could drag on for as long as five years, so the

This report is prepared for the exclusive use of the individual Gluskin Sheff Research subscriber to whom it was delivered. Sharing, redistributing, retransmitting or disclosing this report in whole or in part, or in any form or manner, without the express written consent of Gluskin Sheff + Associates Inc. is a violation of our Terms of Use and will be prosecuted to the fullest extent permitted by law.



other dilemma for the economy is that the uncertainty is going to linger for a considerable period of time.

In other words, this does not look to be the sort of event that will be resolved quickly.

Recession in the U.K. a good bet with Brexit; closer call for Europe but growth there will be lower

Britain (and Europe) now face the prospect of a protracted period of economic and political uncertainty.

One can reasonably assume that the U.K. goes into recession as capital investment dries up and companies prepare for changed trading rules (over half of U.K.'s trade in goods and services are with the rest of the union). At issue will be the magnitude and duration.

A more competitive Sterling will help bolster UK. exports and tourism as an offset and the Bank of England will be very aggressive in its liquidity provisioning. But there is no monetary antidote to heightened political uncertainty.

**There is no monetary
antidote to heightened
political uncertainty**

And one must bear in mind that the U.K. was used by global manufacturers as a hub to serve the rest of the EU with unfettered access. For instance, the NYT reported that Nissan has pumped close to £4 billion into the U.K. economy in the past three decades and 55% of its production there was sold to the rest of the EU.

Germany has extremely close economic ties to Britain, and nameplates such as BMW, Mercedes and Volkswagen account for half of the cars sold in Britain. It was this exact prospect of the U.K. raising tariffs in the future that precipitated plunge in the share prices of these three auto giants on Friday.

The regulatory web that energy companies like BP or Royal Dutch Shell would have to deal with absent the umbrella laws governing the EU would be unwieldy to say the least.

I have no doubt that London retains its status as a global financial center, but I also have no doubt that Frankfurt and Dublin will be chipping away at its market share as banks expand operations in places that have established relationships with the EU.

At some point, the cheaper Sterling will make the U.K. an extremely competitive force, but only over time.

**The cheaper Sterling will
make the U.K. an extremely
competitive force, but only
over time**

For the near- and intermediate-term, the uncertainty alone will sharply depress new business and capital formation.

Either the “Brexit” crowd ignored the recession forecasts from the likes of the U.K. Treasury, the Bank of England, and the Institute for Fiscal

This report is prepared for the exclusive use of the individual Gluskin Sheff Research subscriber to whom it was delivered. Sharing, redistributing, retransmitting or disclosing this report in whole or in part, or in any form or manner, without the express written consent of Gluskin Sheff + Associates Inc. is a violation of our Terms of Use and will be prosecuted to the fullest extent permitted by law.



Studies and the International Monetary Fund, or they simply felt the risks were worth taking, in particular to reclaim sovereignty over its borders as far as immigration is concerned. The Treasury estimated that a Brexit would shave 3.5% off of real GDP in Britain, a half million net job losses and a 10% decline in home prices.

Nobody is quite as dire as that, but I'll put it this way — nobody is about to go and raise growth forecasts anywhere because of this vote.

Already I am seeing most economists call for recession, thought short and shallow for this year, with almost no growth for 2017 — the drag is around two percentage points from baseline growth.

The spillover to the rest of the EU will cost the region roughly 1%, perhaps a little more, and again growth will be close to zero next year.

The U.S. is less affected but the combination of the trade ties, as modest as they are, coupled with the negative wealth effects from the stock market hit and the general tightening in financial conditions, especially the renewed hit on exports and industrial activity from the stronger dollar, will come to around 0.25% to 0.5%.

Global economic fragilities

The grim reality is that this negative macro shock from the Brexit has occurred at a time when there was little growth cushion globally.

We have to also remember that this shock occurred with the macro backdrop very feeble across the planet. The World Bank has already cut its global growth forecast for the year to 2.4% from 2.9% and a further half-point cut due to this latest negative shock would take us perilously close to levels in the past that coincided with prior global recessions.

The starting point on global growth had very little cushion, unlike many of the shocks we had experienced in the past, where growth slowed, but coming off a decent enough level that recession was averted.

I'm thinking of the October 1987 crash, the Mexican crisis of 1994, Asia in 1998. While the Brexit issues in recent years did not trigger a global recession, it sure did in the euro area.

So it actually is a pretty close call as to whether the global economy tips into recession — not yet my base case even if the risks have risen — if for any reason that there was little margin of error to begin with.

While there were scattered signs of some economic pickup in the euro area in recent weeks, it quickly became clear that momentum faded as the second quarter drew to a close as the composite Markit PMI fell to its lowest level since the end of 2014 (52.8 in June from 53.1).

Most economists are calling for a recession in the U.K.

It actually is a pretty close call as to whether the global economy tips into recession

This report is prepared for the exclusive use of the individual Gluskin Sheff Research subscriber to whom it was delivered. Sharing, redistributing, retransmitting or disclosing this report in whole or in part, or in any form or manner, without the express written consent of Gluskin Sheff + Associates Inc. is a violation of our Terms of Use and will be prosecuted to the fullest extent permitted by law.



As for the U.S., all the talk of a rebound in growth in Q2 is a little misguided, coming off a sub-1% Q1 and leading indicators point to a renewed slowing in Q3.

The Chicago Fed's National Activity Index index was horrible as were Friday's durable goods data — they were weak yet again with core capital goods orders sagged 0.7% MoM and down 2.6%YoY. This is about the best leading indicator there is for the U.S. economy and the level of core capital order books is back to levels prevailing five years ago. Core capital goods shipments fell 0.5% MoM in May, much worse than the estimate of up +0.3% and this will lead to a downward revision to Q2 GDP and forecast cutbacks to Q3, even prior to the current round of jitters surrounding the Brexit fallout.

Indeed, as I have been saying for a while, those claiming that the U.S. economy was in okay shape really do need a reality check, with nominal gross domestic income growth having weakened over the past year to +3.4% YoY from +4.3%. Again, a thin cushion against a negative shock no matter how small.

How investors should weather this storm

Now let's turn to the markets.

No doubt we are into a period now of higher-than-normal volatility which means holding more cash than usual for optionality purposes (to put to work when mispricing occurs in these turbulent times and margin calls cause long-term opportunities).

Margin calls cause long-term opportunities

After all, when Sterling can go from its intra-day highs for 2016 to intra-day lows not seen since 1985 in a 24-hour span — a bedrock currency collapses nearly 10% — that tells you something about the degree of nervousness out there (more than 20-times the typical daily move).

And it is really just beginning. Friday was "Day One", and in some sense was really only unwinding the complacency and leveraged "Bremain" bets that had been placed in the days leading up to the June 23rd vote.

At some point, the market turmoil will subside but not quite yet.

Many pundits are calling for an additional 10% to 15% decline in the pound and not willing to touch it until a \$1.15 to \$1.20 range is tested.

More downside in many asset prices is coming and even after the lows are established, the uncertainties will remain at a high level and the Brexit, if it does come to fruition, is a global deflationary shock with far-reaching implications that will keep central banks on easier monetary policy paths, so the "lower for longer" theme as far as global interest rates are concerned received even more support, as if it needed it

More downside in many asset prices is coming

This report is prepared for the exclusive use of the individual Gluskin Sheff Research subscriber to whom it was delivered. Sharing, redistributing, retransmitting or disclosing this report in whole or in part, or in any form or manner, without the express written consent of Gluskin Sheff + Associates Inc. is a violation of our Terms of Use and will be prosecuted to the fullest extent permitted by law.



In this sea of uncertainty and heightened volatility, what is certain is that the Fed is not hiking rates at all, not this year, and probably not next year either.

Nothing is now priced into July or September and in fact, by year-end the futures market is discounting some positive probability that the Fed could cut rates. Fed funds futures had priced in 50% odds of a rate hike this year before the vote, those odds quickly shrank to 14% on Friday (along with a 12% chance of a cut and lots of market chatter now over QE4, or at a minimum Operation Twist II).

The markets are increasingly telling the Fed to back away, underscored by the 28 basis point slide in the two-year U.S. Treasury note yield on Friday, closing at 0.63%, where it was last October, fully two months before the Fed moved off zero interest rate policy (historians will the arbiters as to whether this was an ill-fated move).

The markets are increasingly telling the Fed to back away

For all the talk of how the British government would face a debt downgrade, the shock of the vote was considered deflationary enough to take the yield on the 10-year gilt yield to a new low of 1.01% — down 36 basis points on the day.

PIMCO is calling for the Bank of England to take policy rates back to zero by year-end, so the view on where the cost of carry is going is a factor as well.

The move in Swiss markets was massive — the bond rally was so intense that the 30-year yield has swung to -4 basis points and the only coupon that is positive in yield is the bond maturing in 2064.

The 10-year German bund yield fell to a record low -16.9 basis points.

The 10-year Treasury note plunged to as low of 1.42%, two basis points away from the record low of 1.4% posted in July 2012, though a round of profit-taking saw it close the session at 1.57%.

Be that as it may, the die has been cast for a grind lower in yield here and likely a convergence trade to 1% on the 10-year and 2% (or lower) for the 30-year bond yield as growth slows, deflation risks mount, and the Fed moves further away from its tightening bias.

We also know that lingering uncertainty in a slow-growth environment will attract attention not only to high-quality bonds but also high-yielding, low-beta, liquid stocks.

Note that Utilities and Mortgage REITS held in rather well in Friday's general flight out of risk assets. So did the Telecom and Consumer Staples space.

This report is prepared for the exclusive use of the individual Gluskin Sheff Research subscriber to whom it was delivered. Sharing, redistributing, retransmitting or disclosing this report in whole or in part, or in any form or manner, without the express written consent of Gluskin Sheff + Associates Inc. is a violation of our Terms of Use and will be prosecuted to the fullest extent permitted by law.



Dividend growth and yield in areas of the market with low betas and low cyclical-sensitivity are the most prudent way to put any cash to work until the dust settles, and the timetable for that is likely be rather extended and the political backdrop is going to stay highly-charged for months to come — even if the Brexit file moves off the front pages, as mentioned, the U.S. election campaign is still ahead of us and at the least will keep the markets on edge.

Financial stocks were clobbered on Friday but valuations are now looking rather compelling again (Morgan Stanley was clocked for a 10% loss and Citigroup by 9.4% — though about half what the European banks endured on Friday), and it is ironic in a sense because the other big news which was largely ignored was bullish for the sector in terms of the Fed's stress-test results (the 33 banks tested have 8.4% tier-one capital ratios which is about double the 4.5% requirement and enough of the cushion to withstand potential bad loan losses totaling \$385 billion; see page 9 of Barron's).

So again, in an extremely uncertain world, it is nice to know that this Brexit issue and all of its consequences will not trigger a Lehman moment and jeopardize the health of the banking system.

Now it may be a bit too soon to wade back into the noninvestment grade corporate bond market, but average yields of 7% will start to look juicy at some point, especially of what we are talking about is a haircut to global growth that doesn't involve outright recession and the default experience that would naturally ensue.

For equities as an asset class, much damage has been done.

The NASDAQ and S&P 500 both slashed below their 50-day moving averages; and the former has taken out the 200-day trend-line as well. The Dow and S&P 500 had their worst days since last August, but for the NASDAQ, the 4.1% decline was the worst in five years.

As we expected, stocks with a domestic flavor outperformed those with a heavy foreign revenue orientation.

No doubt the put/call volume ratio is signalling a market overdone on the downside — the ratio closed at 1.17x on Friday and typically selloffs that take this gauge to or through 1.15x often signals at least a near-term bottom.

But this is very temporary and any bounce should be viewed as an opportunity to clean up the portfolio by seeking out safe yield where it exists, look for asset mispricing caused by margin calls, and climb up the quality curve overall.

Financial stocks were clobbered on Friday but valuations are now looking rather compelling again

Climb up the quality curve overall



The U.S. major equity averages were one of few that actually broke below the peak angst ahead of the Brexit vote when the S&P 500 sagged briefly to 2,071 — it closed Friday at 2,037. The Nikkei closed Friday at 14,952, undercutting the pre-Brexit angst low (15,434) as well.

But there are some markets that, even after Friday's meltdown, have yet to take out the recent lows, and these are the ones that are vulnerable (notice how the S&P 500 has already done this).

The TSX closed Friday at 13,892, 10 points above the pre-Brexit low. Germany's DAX closed Friday at 9,557, still above the pre-vote low of 9,519. The U.K.'s FTSE 100 closed Friday at 6,139 — its recent low was 5,924.

So the European markets are still above the levels of a few weeks ago when everyone was jittery about Brexit — and here we have the rumor turning to fact, and these indices are still higher than they were.

The European markets are still above the levels of a few weeks ago

Even U.K. banks are trading higher now even with the sharp slide on Friday (!) — 3,078 now versus 3,046 at the pre-Brexit lows. In other words, more downside is in store.

Oil finished Friday at \$47.60 per barrel but again, at the Brexit concern lows of a few weeks back, crude was trading at \$46.21. Copper has downside too — it closed at \$2.11 per pound in Friday versus \$2.03 two weeks back.

Spanish and Italian bond yield spreads off German bunds have widened out to levels that are higher than they were at the pre-vote highs, but Portugal is still below and has some catching up to do.

High-yield corporate bond spreads over Treasuries are some 14 basis points narrower now than they are at the peak fear level prior to the vote. Yet, Investment-Grade spreads are already back to their pre-vote levels, though one would think, again, that they should be wider as those fears have not been fully realized.

The same for the Canadian dollar, which was 76.93 cents (U.S. dollar basis) at Friday's close, after getting as low at 76.36 cents just before the murder of Jo Cox caused the polls to shift back to the Remain camp.

Meanwhile, the CBOE's equity market volatility index (VIX) at 24.8 is far higher than the 21.4 peak seen two weeks back.

Gold is just about at that prior high and 10-year note yields bordering on the low — both of these still have tremendous rally potential.

Gold is just about at that prior high and the 10-year Treasury note yields bordering on the low



But in general, there is still room for more risk premia to be built in across the asset and currency markets — namely, those cited above that have still not taken out their pre-vote maximum fear levels.

The reality is that the stock market as merely range-bound for the better part of the past 18 months before this bout of global political and economic uncertainty.

At a minimum, this puts the oil rally in doubt with demand growth now called into question given the global macro uncertainty that has been generated, not to mention the outright weakening out of Europe as recession pressures build; and the firmness in the U.S. dollar will weigh on the manufacturing sector and more broadly the 40% chunk of S&P 500 sales that are derived abroad.

The whole premise of an end to the U.S. profits recession was oil bottoming and the dollar peaking and now these assumptions are looking a bit dubious.

Another item to consider is that some cracks in the foundation were already forming, and on display on page 5 of the Sunday NYT titled (*Buyback Surge May Signal Danger; Not Growth* on page 5 of the business section). Despite the earnings recession (in the past year, operating earnings have retreated to \$855 billion from \$989 billion), we have seen corporate buybacks surge from \$538 billion to \$589 billion, a record level.

This provides near-term support for the market, but it is the signal that businesses see little opportunity in diverting their cash flows towards expansion or internally-generated growth that end up providing a negative macro impulse. It actually speaks to a highly sluggish economy and uncertain environment, both domestic and global.

And for a reference point, consider that the last time we had a dynamic like this — weak profits bumping against soaring buybacks — was back in December 2007. If you are looking for classic late-cycle behavior, you need not look any further.

One innocent bystander in all this that is getting shot down is Japan, because the Brexit-induced risk-off atmosphere has caused dollar-yen to move to ¥99 in what was the sharpest move on Friday since 2008, triggering a crushing blow to Large-Cap exporters that was underscored by the Nikkei's 8% plunge on Friday; the currency is all the way back to where it was just when Abenomics was being launched three years ago.

Few markets have undercut the pre-Brexit low as the Nikkei has, and much of this relates to the rapid strengthening in the yen.

The whole premise of an end to the U.S. profits recession was oil bottoming and the dollar peaking

Few markets have undercut the pre-Brexit low as the Nikkei has, and much of this relates to the rapid strengthening in the yen

This report is prepared for the exclusive use of the individual Gluskin Sheff Research subscriber to whom it was delivered. Sharing, redistributing, retransmitting or disclosing this report in whole or in part, or in any form or manner, without the express written consent of Gluskin Sheff + Associates Inc. is a violation of our Terms of Use and will be prosecuted to the fullest extent permitted by law.



So actually, if we see any aggressive intervention move by the Ministry of Finance or expanded easing campaign by the Bank of Japan manage to reverse the yen's course, this is certainly one market that could recover quite quickly.

As an aside, have a look at *Yen's Surge Signals Alarm for Abenomics* on page C3 of today's WSJ.

The U.S. dollar is the canary in the coal mine

A principal risk going forward will be how far the U.S. dollar strengthens because this could end up being one of those proverbial canaries in the coal mine insofar as it prompts a reaction out of Beijing in the form of a yuan devaluation.

It was this prospect that triggered the acute market anxiety at the turn of the year and so imagine layering that on top this Brexit fiasco (the Dow fell almost 800 points and oil prices dropped 5.5% in a span of just two days on fears that the world's second largest economy was about to collapse and send the world into a currency war).

This may be something the gold bugs may be sniffing out as the yellow metal surged on Friday by the most since the 2008 crisis and took the price up 8% to \$1,358 per ounce at one point which was a four-year high (finished the day up 5% to \$1,318); in Sterling terms, gold soared 14% on the day (and was up 19% at one point).

Next in line: layering the Brexit file on top of US election uncertainties

Soon we will turn away from Europe and towards the U.S. election campaign.

While Donald Trump is having problems raising funds, was compelled to fire his campaign manager, is facing a further rise in his disapproval rating and confronts some major demographic challenges, this shocking Brexit vote is a big plus for him insofar as it brings home to roost these ultra-nationalist sentiments that have gone viral.

The folks who live in the countryside, and in industrial areas, with little or no education, feeling hopeless and frustrated by being left out, had a chance to vote against the status quo without even understanding what the EU actually does for them, warts and all. And the profile of the classic Brexit voter looks a lot like those who favour The Donald.

Some probably knew the consequences of the Brexit vote but were willing to take the risks to make a statement — and as such, we should not dismiss Donald Trump's election prospects given the mood of the public across the planet, not just the nation.

Soon we will turn away from Europe and towards the U.S. election campaign

Some probably knew the consequences of the Brexit vote but were willing to take the risks to make a statement

This report is prepared for the exclusive use of the individual Gluskin Sheff Research subscriber to whom it was delivered. Sharing, redistributing, retransmitting or disclosing this report in whole or in part, or in any form or manner, without the express written consent of Gluskin Sheff + Associates Inc. is a violation of our Terms of Use and will be prosecuted to the fullest extent permitted by law.



And no matter what anyone thinks of the two flawed candidates, both with astronomical unfavourable ratings, it cannot be denied that he is the risky choice.

Will there be a similar impulsive, isolationist response towards globalization and immigration in the U.S. is a legitimate question to ask.

If there is a certainty out there, it is that the center is folding and that the elites of all stripes are under attack.

Donald Trump has tapped into the doubts over the efficacy and fairness of freer trade and the concerns over immigration at a time of elevated terrorist activities.

Both he and Bernie Sanders have had success against their counterparts because they are anti-establishment and were proud of not seeking or receiving Wall Street support.

Hillary is vulnerable because of this and because of her prior stance on free trade, far more than her private email server scandal. One reason why Bernie still won't actively support her candidacy (we are hearing in some circles that his supporters are beginning to rally around the Clinton campaign... much to Donald Trump's chagrin).

Even if we manage to see some calm come to Europe, the conventions this summer, both Republican and Democrat, promise to be rather explosive affairs.

Both the Republican and Democrat conventions, promise to be rather explosive affairs

Gluskin Sheff at a Glance

Gluskin Sheff + Associates Inc. is one of Canada's pre-eminent wealth management firms. Founded in 1984 and serving high net worth private clients and institutional investors, we are dedicated to providing clients with strong risk-adjusted returns with the highest level of personalized client service.

OVERVIEW

As of March 31, 2016, the Firm managed assets of \$8.2 billion.

Gluskin Sheff is a publicly traded corporation on the Toronto Stock Exchange (symbol: GS) and is 21% owned by its senior management and employees. We have public company accountability and governance with a private company commitment to innovation and service.

LEADING

Our team is an exemplary group of investment professionals deep in talent, ideas and experience with the industry's top leaders in risk management and client service — all with the objective of providing strong risk-adjusted returns and the highest level of personalized client service.

INNOVATIVE

Throughout our history we have consistently pursued innovative approaches to wealth management for our clients. Today, we offer a diverse platform of investment strategies, including Canadian, U.S. and international equity strategies, alternative strategies and fixed income strategies.

PERSONAL

For Gluskin Sheff, delivering outstanding client service is as fundamental as delivering strong investment results. Our clients are unique, and so are their needs. This is why we offer customized investment plans to suit each client's specific objectives and risk profile.

Our success in developing lasting client relationships is founded on shared values, a thorough understanding of our clients' goals and a keen desire to earn their trust and confidence.

ALIGNED

Our investment interests are directly aligned with those of our clients, as Gluskin Sheff's management and employees are collectively among the largest clients of the Firm. Our clients are our partners, through performance-based fees that are earned only when pre-specified performance benchmarks for clients' investments are exceeded.

PROVEN¹

\$1 million invested in our flagship GS+A Premium Income Portfolio in 2001 (its inception date) would have grown to approximately \$5.5 million² on May 31, 2016 versus \$2.7 million for the S&P/TSX Total Return Index³ over the same period.

Similarly, many of our other long-standing investment strategies have outperformed their relevant benchmarks.

Our investment interests are directly aligned with those of our clients, as Gluskin Sheff's management and employees are collectively among the largest clients of the Firm.

\$1 million invested in our flagship GS+A Premium Income Portfolio in 2001 (its inception date) would have grown to approximately \$5.5 million² on May 31, 2016 versus \$2.7 million for the S&P/TSX Total Return Index³ over the same period.

For further information, please contact:
research@gluskinsheff.com

Notes:

1. Past returns are not necessarily indicative of future performance. Rates of return are those of the composite of segregated Premium Income portfolios and are presented net of fees and expenses and assume reinvestment of all income. Portfolios with significant client restrictions which would potentially achieve returns that are not reflective of the manager's portfolio returns are excluded from the composite. Returns of the pooled fund versions of the GS+A Premium Income portfolio are not included in the composite.

2. Investment amounts are presented to reflect the actual return of the composite of segregated Premium Income portfolios and are presented net of fees and expenses.

3. The S&P/TSX Total Return Index calculation is based on the securities included in the S&P/TSX Composite and includes dividends and rights distributions. This index includes only Canadian securities.

This report is prepared for the exclusive use of the individual Gluskin Sheff Research subscriber to whom it was delivered. Sharing, redistributing, retransmitting or disclosing this report in whole or in part, or in any form or manner, without the express written consent of Gluskin Sheff + Associates Inc. is a violation of our Terms of Use and will be prosecuted to the fullest extent permitted by law.

IMPORTANT DISCLOSURES

Copyright 2015 Gluskin Sheff + Associates Inc. ("Gluskin Sheff"). All rights reserved.

This report may provide information, commentary and discussion of issues relating to the state of the economy and the capital markets. All opinions, projections and estimates constitute the judgment of the author as of the date of the report and are subject to change without notice. Gluskin Sheff is under no obligation to update this report and readers should therefore assume that Gluskin Sheff will not update any fact, circumstance or opinion contained in this report.

The content of this report is provided for discussion purposes only. Any forward looking statements or forecasts included in the content are based on assumptions derived from historical results and trends. Actual results may vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision, and no investment decisions should be made based on the content of this report.

This report is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and particular needs of any specific person. Under no circumstances does any information represent a recommendation to buy or sell securities or any other asset, or otherwise constitute investment advice. Investors should seek financial advice regarding the appropriateness of investing in specific securities or financial instruments and implementing investment strategies discussed or recommended in this report.

Gluskin Sheff may own, buy, or sell, on behalf of its clients, securities of issuers that may be discussed in or impacted by this report. As a result, readers should be aware that Gluskin Sheff may have a conflict of interest that could affect the objectivity of this report. Gluskin Sheff portfolio managers may hold different views from those expressed in this report and they are not obligated to follow the investments or strategies recommended by this report.

This report should not be regarded by recipients as a substitute for the exercise of their own judgment and readers are encouraged to seek independent, third-party research on any companies discussed or impacted by this report.

Securities and other financial instruments discussed in this report are not insured and are not deposits or other obligations of any insured depository institution. Investments in general and, derivatives, in particular, involve numerous risks, including, among others, market risk, counterparty default risk and liquidity risk. No security, financial instrument or derivative is suitable for all investors. In some cases, securities and other financial instruments may be difficult to value or sell and reliable information about the value or risks related to the security or financial instrument may be difficult to obtain. Investors should note that income from such securities and other financial instruments, if any, may fluctuate and that the price or value of such securities and instruments may rise or fall and, in some cases, investors may lose their entire principal investment. Past performance is not necessarily a guide to future performance.

Foreign currency rates of exchange may adversely affect the value, price or income of any security or financial instrument mentioned in this report. Investors in such securities and instruments effectively assume currency risk.

Any information relating to the tax status of financial instruments discussed herein is not intended to provide tax advice or to be used by anyone to provide tax advice. Investors are urged to seek tax advice based on their particular circumstances from an independent tax professional.

Individuals identified as economists in this report do not function as research analysts. Under U.S. law, reports prepared by them are not research reports under applicable U.S. rules and regulations.

In accordance with rules established by the U.K. Financial Services Authority, macroeconomic analysis is considered investment research.

Materials prepared by Gluskin Sheff research personnel are based on public information. Facts and views presented in this material have not been reviewed by, and may not reflect information known to, professionals in other business areas of Gluskin Sheff.

To the extent this report discusses any legal proceeding or issues, it has not been prepared as nor is it intended to express any legal conclusion, opinion or advice. Investors should consult their own legal advisers as to issues of law relating to the subject matter of this report. Gluskin Sheff research personnel's knowledge of legal proceedings in which any Gluskin Sheff entity and/or its directors, officers and employees may be plaintiffs, defendants, co – defendants or co – plaintiffs with or involving companies mentioned in this report is based on public information. Facts and views presented in this material that relate to any such proceedings have not been reviewed by, discussed with, and may not reflect information known to, professionals in other business areas of Gluskin Sheff in connection with the legal proceedings or matters relevant to such proceedings.

The information herein (other than disclosure information relating to Gluskin Sheff and its affiliates) was obtained from various sources and Gluskin Sheff does not guarantee its accuracy. This report may contain links to third – party websites. Gluskin Sheff is not responsible for the content of any third – party website or any linked content contained in a third – party website. Content contained on such third – party websites is not part of this report and is not incorporated by reference into this report. The inclusion of a link in this report does not imply any endorsement by or any affiliation with Gluskin Sheff.

Gluskin Sheff reports are distributed simultaneously to internal and client websites and other portals by Gluskin Sheff and are not publicly available materials. Any unauthorized use or disclosure is prohibited.

TERMS AND CONDITIONS OF USE

Your receipt and use of this report is governed by the Terms and Conditions of Use which may be viewed at research.gluskinsheff.com/epaper/helpandsupport.aspx?subpage=TermsOfUse

This report is prepared for the exclusive use of Gluskin Sheff clients, subscribers to this report and other individuals who Gluskin Sheff has determined should receive this report. This report may not be redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of Gluskin Sheff.

YOU AGREE YOU ARE USING THIS REPORT AND THE GLUSKIN SHEFF SUBSCRIPTION SERVICES AT YOUR OWN RISK AND LIABILITY. NEITHER GLUSKIN SHEFF, NOR ANY DIRECTOR, OFFICER, EMPLOYEE OR AGENT OF GLUSKIN SHEFF, ACCEPTS ANY LIABILITY WHATSOEVER FOR ANY DIRECT, INDIRECT, CONSEQUENTIAL, MORAL, INCIDENTAL, COLLATERAL OR SPECIAL DAMAGES OR LOSSES OF ANY KIND, INCLUDING, WITHOUT LIMITATION, THOSE DAMAGES ARISING FROM ANY DECISION MADE OR ACTION TAKEN BY YOU IN RELIANCE ON THE CONTENT OF THIS REPORT, OR THOSE DAMAGES RESULTING FROM LOSS OF USE, DATA OR PROFITS, WHETHER FROM THE USE OF OR INABILITY TO USE ANY CONTENT OR SOFTWARE OBTAINED FROM THIRD PARTIES REQUIRED TO OBTAIN ACCESS TO THE CONTENT, OR ANY OTHER CAUSE, EVEN IF GLUSKIN SHEFF IS ADVISED OF THE POSSIBILITY OF SUCH DAMAGES OR LOSSES AND EVEN IF CAUSED BY ANY ACT, OMISSION OR NEGLIGENCE OF GLUSKIN SHEFF OR ITS DIRECTORS, OFFICERS, EMPLOYEES OR AGENTS AND EVEN IF ANY OF THEM HAS BEEN APPRISED OF THE LIKELIHOOD OF SUCH DAMAGES OCCURRING.

If you have received this report in error, or no longer wish to receive this report, you may ask to have your contact information removed from our distribution list by emailing research@gluskinsheff.com.