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"You get recessions, you have stock market declines. If you don't understand that's going to happen then you're not ready, you won't do well in the markets."

~Peter Lynch, famed manager of Fidelity's *Magellan* Mutual Fund

Reflecting back on the financial markets since the beginning of the year, it seems as though the chaos that abounded in the first quarter transitioned quickly into an off-season like lull. During the second quarter, the markets experienced markedly fewer days of manic price swings and an overall slower pace of news and activity. The back-to-back months of relative calm were welcomed by skittish investors, many of whom weren't able to heed the experienced words of Peter Lynch (long-tenured manager of Fidelity's *Magellan* Fund), and had become worn out from the near daily doses of hair-raising volatility. And then as if on cue, the Brits surprised the world by voting to leave the European Union, reigniting the fires of European and global economic angst.

Hedge fund managers, politicians, the bookies of London, and even noted prognosticator Jose Canseco projected a landslide victory for the "Stay" campaign. So when the sun rose that Friday morning with the people of the United Kingdom deciding to leave, worldwide investment markets visibly shuddered. Irrespective of the final tally, gauging the magnitude and direction of resulting movements in the currency, equity, and fixed income markets with any accuracy is an inexact endeavor. Our experience has been that even with analysis that is logical and fundamentally sound, there are elements of randomness swaying jittery markets that make weather prediction seem relatively precise by comparison. As has happened before, the market focused on an issue emotionally charged with populist rhetoric, and got caught on the wrong side of the outcome. It's only natural that there be an overreaction, and we feel this is yet again the case. And while the vote's outcome may have been a surprise, the details will take years to iron out and in no logical way do they necessarily point to an instant global recession. The near-term economic fate of the U.K. may now be slightly more questionable than it was just a few short days ago, but there is little question that the enterprising individuals and businesses that support and supply the world with everything from soap and tea (*Unilever*), to insurance (*Lloyd's*), will find a way to prosper. This is neither the first nor the last time we have faced news with global implications, and the only thing we expect to remain constant is the drive of individuals and businesses to ultimately figure out a way to thrive.

There is a saying that "history may not repeat itself, but it certainly rhymes", and while the recent wild moves in the investment markets may not have happened exactly like this before, they certainly harken back to similar experiences not that long ago. As some may remember, parts of the South American investment markets had a similar wild ride in 2015, Brazil in particular. Brazil is a broadly owned global market for many foreign investors, and in 2015 as oil and commodity markets swooned, the Brazilian currency, the *Real*, declined 40% against the U.S. dollar. Understandably, the *Real's* drop hurt returns for dollar-based investors holding Brazilian securities. Fast forward to 2016 however, and Brazil has been one of the best performing equity markets year-to-date, up 20% locally, with currency gains adding another 27% for U.S. based investors. We know firsthand from our research trips that Brazil has complicated economic and political issues. Still, with a population that has grown from around 100 million in 1970 to over 200 million today, along with enviable natural resources, it would be shortsighted for corporations or investors to ignore opportunities linked to their expanding consumption and their intellectual capital. While the wild ride was happening in Brazil, many quite naturally fretted about the steep drop in values, short-term fluctuations, and political uncertainty. We, on the other hand, accepted the currency impact as an expected consequence, and kept our focus on the potential benefits of a multi-year demographic trend.

Switching segment gears, we remain both perplexed and amazed watching bond prices around the world continuing to rise, while yields continue to fall, to now unprecedented levels. Japan's 10-year bond yield fell to minus 0.21%, Australia's 10-year yield fell below 2%, Germany's dropped below 0%, and Switzerland's 30-year sovereign bond yield briefly turned negative. As we gauge the markets, we can't help but take some literary liberties with a line from Samuel Coleridge's classic poem, Rime of the Ancient Mariner: "Bonds, bonds, everywhere are bonds, and not a drop of yield to be had." Fixed income investors have been forced to adapt to the "new abnormal" rate environment, while corporate treasurers have perhaps never been more excited. A case in point is *Sanofi*, a French multi-national pharmaceutical firm that was able to sell 600 million in 8-year *Euro*-denominated bonds to investors at 70 basis points, or 0.7%. As *Sanofi* shareholders, we are thrilled for the good fortune of their low borrowing cost, but as fixed income investors, it is simply mind numbing to think of buying that bond. As with *Sanofi,* a byproduct of this ultra-low interest rate environment has predictably been the ballooning debt on corporate balance sheets. We are not fans of rapidly expanding debt, but the corollary is that at these interest rate levels, corporate treasurers might actually be considered fiscally negligent if they completely ignored the unprecedented opportunity. Another byproduct has been the lengthening of durations. In May, the Spanish government sold 50-year bonds for the first time, with a yield of 3.4%. We firmly believe there are better risk-adjusted returns available than lending money for 70 basis points for nearly a decade, even to an admittedly stable pharmaceutical company like *Sanofi*. And quite frankly, lending to Spain for 50 years at 3.4% is a bit… well, loco, in our estimate. Rates are falling lower and maturities are moving longer, but (with apologies to the U.S. Air Force marketing staff) we're going to "aim higher" for our clients.

Aiming higher may sound trite, but in this environment it requires a degree of unconventional thinking. With expected returns lower across the board for most asset classes, creative sourcing of new investment ideas is proving more and more valuable, albeit challenging. This doesn't dismiss the necessity of appropriate risk vetting, but it does speak to the importance of having an open mind to go along with experienced portfolio strategists and the capability for in-house research. We are finding that more of our time lately is spent "digging" into less efficient sectors like micro-cap companies (market cap under $1 billion), non-rated preferred stocks, sharply discounted closed-end bond funds, covered call strategies, term specific bond ETFs, and other "orphaned" securities. Many of these ideas offer a "complexity premium", producing an elevated and more interesting expected total return. These forays off the beaten path result in yield and diversification benefits, a welcome boost in a low return world.

Finally, as the U.S. political race intensifies in the last half of the year, investors are reminded once again of the country's many divisions. As those differences are repeatedly highlighted by the media, it is important to step back and recognize the benefit of diversifying your capital with companies that offer products and services expected to remain in universal demand. That may be as simple as bottled water and cardboard boxes, or as complex as heart stints and flying drones. We remain resolute that neither politics as usual, nor the entertaining but sometimes troubling demonstrations and rallies, will eliminate global commerce, despite the incessant noise. Through the clamor, we continue to think creatively, invest globally, and work within the numerous and varied economic systems at our disposal. That doesn't mean that we all shouldn't voice logic with our votes; we absolutely should, and we will. But once done casting your vote, and regardless of the outcome, there will always be the practical aspect of figuring out the rules and getting back to the business of America, which is business.