DOLLAR SAFE HAVEN BID POISED TO CONTINUE POST BREXIT

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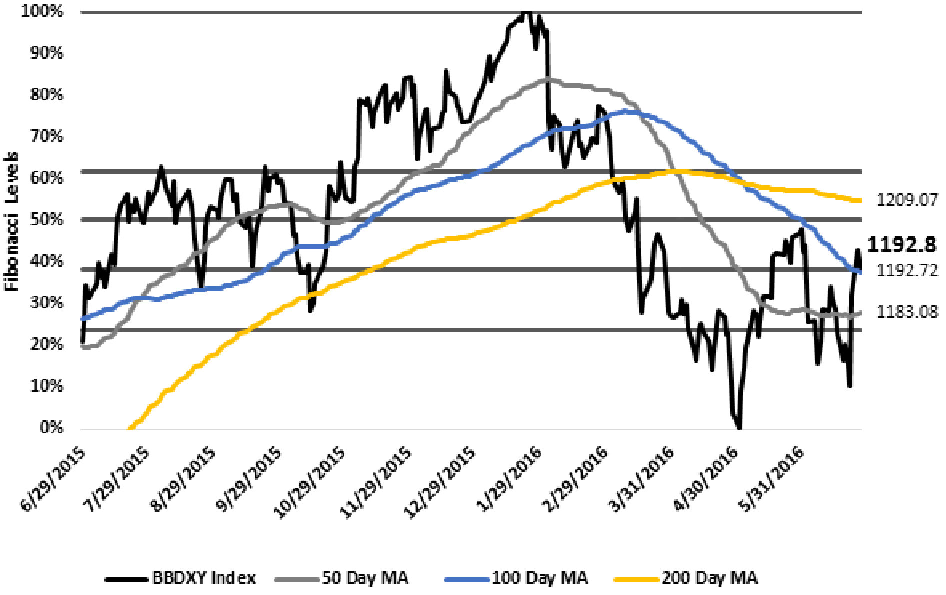
While investors fully digest what Britain's "leave" vote may mean for global markets, one key trend that may be poised to resume is an increased interest in U.S. dollars. Below, we outline our rationale and point to key technical levels that investors should be aware of when positioning portfolios over the next several months. **Consolidation to Appreciation** After consolidating for nearly six months, we believe dollar strength is likely to resume post-Brexit. While our primary thesis was that the dollar could continue to be strong because of divergence in monetary policies, the focus has now shifted to sentiment and economics. As a store of value, the British pound as well as the euro have seen their prospects decline as a result of Brexit. While it is still far too early to know if this decline will be contained as a regional issue or if it sets off a chain reaction, we believe the balance of risks favors being long the U.S. dollar against a broad basket of global currencies. **Focus on Britain** As a result of the UK's decision to leave the European Union, the British pound faces three key headwinds: capital outflows, increased prospects of recession and readjustment in the trajectory of monetary policy. While British politicians likely don't know the next step forward at this moment, investors appear to be uninterested in waiting to find out. The violent shocks to the pound we've seen over the last several days point to an increased likelihood of capital flight or at least a dramatic decrease in local investment demand. Additionally, with a cloud of uncertainty hanging over any future negotiations with the EU, assigning a new fair value to the pound will be difficult. With the added uncertainty of what the next steps will be, the British economy is likely to slow, potentially tipping into recession later this year. In response, the Bank of England likely will be forced to cut interest rates to support growth. As a result, the comparative "carry" investors receive for holding U.S. dollars could lead to another leg lower in the pound. The difficulty for the Bank of England, however, will be in striking an appropriate balance between economic growth and inflation expectations. With a weaker currency, import costs will increase, likely pushing inflation expectations higher. While it's anyone's guess where the pound will settle, some analysts have posited that it could fall as far as £1.20 against the U.S. dollar in an adverse scenario.[1] In the chart below, we show year-to-date performance for currencies of the Bloomberg Dollar Spot Index (BBDXY), a broad-based measure of the U.S. dollar. While the dollar spent much of 2016 lower against many foreign currencies, we have seen a sharp reversal in the last several days. **Bloomberg Dollar Spot Index Performance Review**

U.S. Dollar vs.	Weight	12/31/15–6/23/16	Post-Brexit
BBDXY	100%	-5.4%	2.7%
EUR	31.8%	4.8%	-3.2%
JPY	18.5%	13.2%	4.1%
CAD	11.5%	8.5%	-2.5%
GBP	9.9%	1.0%	-11.1%
MXN	9.5%	-5.6%	-5.0%
AUD	6.1%	4.5%	-3.8%
CHF	4.4%	4.6%	-2.1%
KRW	3.4%	1.9%	-2.7%
CNH	3.0%	-0.3%	-1.4%
BRL	2.1%	18.8%	-1.6%

Source: Bloomberg, as of 6/27/16. Subject to change. EUR (euro), JPY (Japanese yen), CAD (Canadian dollar), GBP (British pound), MXN (Mexican peso), AUD (Australian dollar), CHF (Swiss franc), KRW (Korean won), CNH (Chinese yuan), BRL (Brazilian real). Past performance is not indicative of future results. You cannot invest directly in an index.

What About Everybody Else? Leading up to the vote, European politicians continued to urge the UK to vote "remain," because European economies are stronger with the UK as part of the European Union. While it may feel good for the EU to make upcoming negotiations punitive, Britain remains an integral part of Europe. In our view, the European Central Bank will likely need to provide additional stimulus to help the continental economies manage uncertainty. Relating this to currency markets, in our view, one of the biggest factors driving dollar strength is the loss in investor confidence after the Brexit vote on June 23. As a result, risk appetite is likely to be constrained until markets gain greater clarity on possible outcomes. While the Japanese yen has been an early beneficiary of the dip in confidence, emerging market currencies may likely also find themselves under pressure as collateral damage of Brexit. Specifically, while Mexico appears strong from a macro perspective, the deep liquidity and ease of access often make it a popular hedge for broader emerging market angst. **Bloomberg Dollar Spot Index (BBDXY) Fibonacci Levels (6/30/2015-6/30/2016)**



Source: Bloomberg, as of 6/29/16. MA (moving average). You cannot invest directly in an index.

Timing Is Everything While our macro thesis points toward broad-based dollar strength over the coming months, many investors often look to technical conditions in the market to time their entry and exit points. In the chart above, we highlight the current positioning of BBDXY. As you can see, the index rallied abruptly above the 100-day moving average (as well as the 38.2% Fibonacci retracement) as the pound and many emerging market currencies declined against the U.S. dollar. If the dollar remains above these levels, investors should consider being long the U.S. dollar. While markets will undoubtedly remain volatile, we believe that the current macro and technical trends can support dollar strength. [1]Source: Bloomberg, as of 6/27/16.

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DEFINITIONS

Brexit : an abbreviation of “British exit” that mirrors the term Grexit. It refers to the possibility that Britain will withdraw from the European Unio.

Monetary policy : Actions of a central bank or other regulatory committee that determine the size and rate of growth of the money supply, which in turn affects interest rates.

Interest rates : The rate at which interest is paid by a borrower for the use of money.

Carry : The amount of return that accrues from investing in fixed income or currency forward contracts.

Inflation : Characterized by rising price levels.

Bloomberg Dollar Spot Index (BBDXY) : Tracks the performance of a basket of ten leading global currencies versus the U.S. dollar. Each currency in the basket and their weight is determined annually based on their share of international trade and FX liquidity.

Fibonacci retracement : A technical analysis tool displaying percentage lines which look at support and resistance levels, potentially signaling short-term price/yield reversals. The concept of retracement suggests that after a period of market movement, prices/yields can retrace a portion of their prior pattern before returning to their original trend.