



## Markets in a Minute

Biweekly insights on the latest global investment news

### Equities: Brexit clouds the horizon



**Omar Aguilar, PhD**  
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#### Aftershocks of uncertainty

In the wake of the U.K.'s unprecedented decision to leave the European Union late last month, uncertainty has become a central theme for equity markets around the world. Stocks and currencies appear to be bearing the brunt of the aftershocks compared with many other asset classes, as investors attempt to gauge the long-term ramifications of the British exit, or "Brexit," on the prospects for global economic growth.

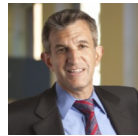
#### Slower growth for now

Worldwide economic growth was anemic even before Brexit. A slower pace of global economic growth over at least the near-term seems entirely possible post-Brexit. Heightened concerns about the U.K. potentially slipping into recession, the sharp drop in pound sterling, and the potential for ripple effects to spread throughout broader Europe are among the notable obstacles.

#### Short-lived U.S. stability

U.S. equity markets have recently stabilized compared with many international markets, but the present level of relative calm could prove short-lived. Last quarter's clouded economic environment led to lower capital expenditures, raising the odds that the upcoming round of corporate earnings reports will selectively disappoint. Meanwhile, the increasingly flat yield curve poses problems for the Financials sector—particularly banks—by limiting their near-term prospects for meaningful top-line revenue growth.

### Fixed Income: Trending



**Brett Wander, CFA**  
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#### A rally in the making

Since the U.K.'s referendum two weeks ago, U.S. government bond yields have been heading decidedly lower. This, in and of itself, doesn't seem terribly surprising. With the U.K. set to leave the European Union, all sorts of economic fronts worldwide could be negatively affected. If this doesn't sound like a bond market rally in the making, we don't know what would.

#### Low rates everywhere

The day after Brexit, things went more or less as we expected: 10-year Treasury yields fell from around 1.75% to about 1.55%, and stocks sank. In the week following Brexit, U.S. stocks basically recovered, while U.S. bonds continued to rally. These performances reflect the enormous central bank stimulus that investors now seem to expect worldwide. From Japan, to Europe, to the U.S. and beyond, central banks seem poised to keep rates historically low to drive up growth. As long as this persists, rates could stay low everywhere!

#### U.S. bonds unfazed by June jobs

The June jobs report showed that 287,000 new jobs were created last month, way above expectations. That's great news, right? However, the U.S. bond market barely blinked, convinced that it'll take a lot more than one strong jobs report to get the Fed to raise rates again amid Brexit concerns, negative rates overseas, and accommodative central bank policies around the world.

## About the authors

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Omar Aguilar is Chief Investment Officer (Equities) of Charles Schwab Investment Management, Inc. (CSIM), a subsidiary of The Charles Schwab Corporation. Aguilar joined CSIM in 2011 and is responsible for equity and asset allocation mutual funds, ETFs, and separately managed accounts. Aguilar has more than 20 years of broad investment management experience in the equity markets, including managing index, quantitative equity, asset allocation, and multi-manager strategies. Aguilar received a BS in actuarial sciences and a graduate degree in applied statistics from the Mexico Autonomous Institute of Technology. He was a Fulbright scholar at Duke University's Institute of Statistics and Decisions Sciences, where he earned his MS and PhD.

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Brett Wander is Chief Investment Officer (Fixed Income) of CSIM, a subsidiary of The Charles Schwab Corporation. Wander joined CSIM in 2011 and is responsible for all aspects of the firm's fixed income and money market portfolios, leading a team of more than a dozen investment professionals. Over his more than 20 years of investment management experience, Wander has been intimately involved in the design, development, and oversight of a wide range of active, indexed, and alternative fixed income strategies. His expertise spans a wide range of global and domestic markets and sectors. He is a frequent industry speaker, presenting at conferences and in various media forums. He has taught MBA-level investment courses at the University of Southern California. Wander earned an MBA from the University of Chicago and a BS in system science engineering from the University of California, Los Angeles. He is a Chartered Financial Analyst® charterholder.

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