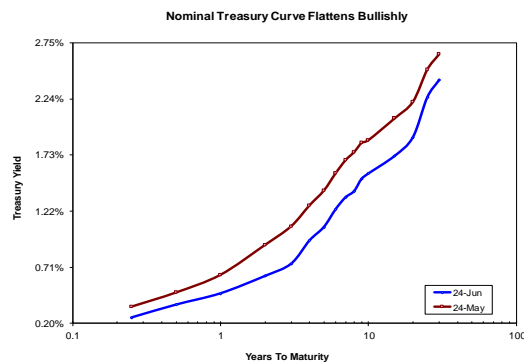


To quote myself, markets do not move like that when people are right, they move like that when people are wrong. The Brexit vote clearly surprised many. Is simply a market event that changed price but not value or something that changed value by exposing the fault lines in the liberal order? Methinks the latter. This will further suppress growth rates, trade flows, economic efficiency, long-term investment and capital formation and eventually peace. Worse from a trading and investment standpoint, we will have to endure the two-year divorce between the U.K. and the European Union, plus whatever other political uncertainties that will arise. The causal chain now is:

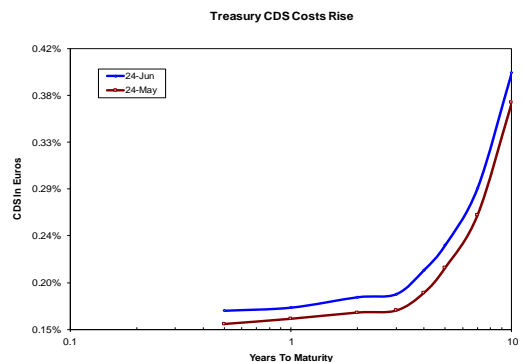
1. The market has no clear idea of if and when U.S. short-term rates will rise;
2. Disinflationary pressures will persist globally;
3. Inflation expectations as measured by TIPS and inflation swaps are turning lower;
4. The U.S. yield curve retains its long-term bias toward flattening;
5. Short-term borrowers are accepting rollover risk once again;
6. Swap spreads are finally moving higher; and
7. CDS costs remain within a trading range.

### Key Market Indications

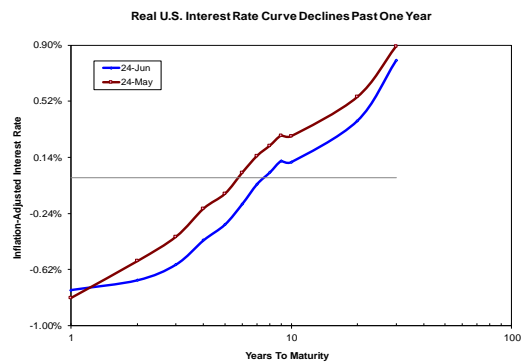
Lending at a negative rate is a form of insurance; you trade a known loss against the possibility of a greater loss. Investors around the world are panicking to buy this insurance. The real interesting question is becoming why UST rates have not collapsed even further given the absolute yield gaps between the reserve-currency U.S. and various European countries and Japan.



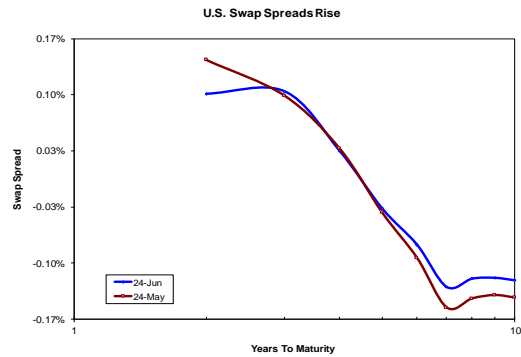
CDS costs rose slightly over the past month. The reduced prospect of higher U.S. short-term interest rates should have reduced these costs, but few are willing to write protection on U.S. debt for less.



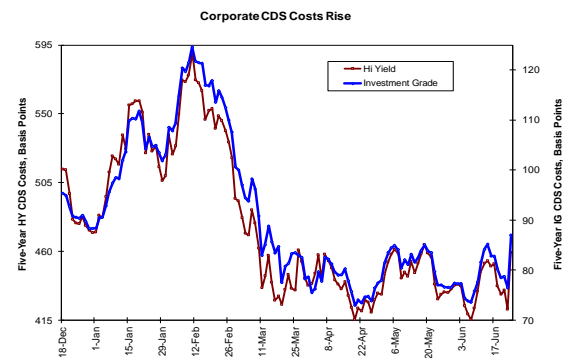
While the decline in pseudo-real longer-term rates should be bullish for risky assets, it clearly was not by the end of the week. What we are seeing is the compression effect of nominal yields declining faster than inflation-indexed yields.



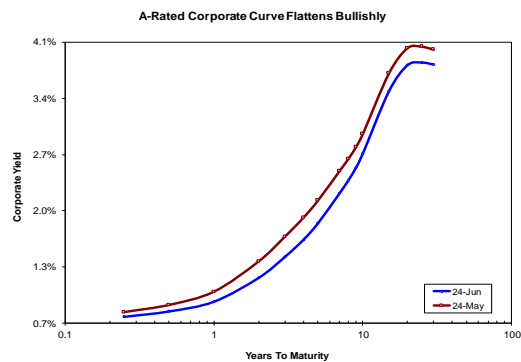
Swap spreads, which rise when floating-rate borrowers want to fix their payments, rose past two years as floating-rate payors calculate the risk/reward for remaining floating in a negative-rate world is poor.



Both high-yield and investment-grade CDS indices rose at week's end, but the Brexit situation has not created a credit risk event. Barring an unexpected increase in short-term rates, there is little reason to expect a greater deterioration, either.



The A-rated corporate yield curve continues to mirror the UST curve as credit spreads remain in a narrow range. The general bull market remains intact, but the potential for further gains is limited.



## Market Structure

Both Precious and Industrial Metals are in uptrends, as is Natural Gas. Grains, Petroleum and Livestock entered structural downtrends. Within the financials, the S&P 500 and the EAFE are in structural downtrends. The dollar index joined ten-year UST in an uptrend.

	N-Day Speed	Market Structure	Trend Oscillator	HLC Volatility	Daily Trend Rate June 27 - July 1
BBERG	6	Sideways	-0.124	12.1%	
BBERG Grain	29	Trending	-0.215	19.7%	-0.36%
BBERG Ind. Metl	29	Trending	0.116	17.6%	0.14%
BBERG Pre. Metl	29	Trending	0.289	17.8%	0.22%
BBERG Softs	7	Sideways	-0.077	22.2%	
BBERG Nat. Gas	29	Trending	0.206	21.7%	0.34%
BBERG Petroleum	26	Trending	-0.106	22.9%	-0.27%
BBERG Livestock	21	Trending	-0.191	12.9%	-0.28%
Dollar Index	29	Trending	0.092	8.8%	0.11%
S&P 500 Index	29	Trending	-0.223	10.0%	-0.03%
EAFE Index	29	Trending	-0.288	16.2%	-0.08%
EM Index	11	Transitional	-0.073	15.9%	
Ten-year UST (price)	29	Trending	0.213	6.6%	0.06%

## Performance Measures

I noted two weeks ago if commodities were pushed higher on the back of financial flows, something we saw a lot of in the past decade, they would fall once we hit a strong risk-off patch. That happened with the Brexit vote, and in the unexpected subindices of Grains, Livestock and Softs. Precious Metals rallied because, well, because there is a lot of money seeking to avoid some sort of financial death-ray. The most interest aspect was the stability of economically sensitive Industrial Metals.

	Five-Days	One Month	Six Months	One Year
<b>Bloomberg Index</b>	-1.98%	1.76%	10.95%	-13.86%
<b>Grains Sub-Index</b>	-8.75%	-3.81%	7.40%	-7.71%
Com	-12.14%	-6.62%	3.63%	-8.61%
Soybeans	-6.07%	1.03%	24.15%	9.02%
Wheat	-6.01%	-5.50%	-4.85%	-22.90%
<b>Energy Sub-Index</b>	-0.69%	0.97%	7.95%	-35.67%
Petroleum Sub-Index	-1.10%	-3.73%	7.46%	-36.25%
WTI	-1.58%	-4.19%	1.07%	-42.53%
Brent	-1.42%	-2.56%	15.23%	-35.99%
ULSD	-1.04%	-2.14%	20.69%	-32.36%
Gasoline	0.61%	-6.91%	-7.94%	-31.51%
Natural Gas	0.60%	19.43%	4.64%	-35.82%
<b>Precious Metals Sub-Index</b>	2.15%	8.89%	23.00%	12.26%
Gold	2.14%	8.71%	22.70%	12.27%
Silver	2.17%	9.35%	23.38%	11.85%
<b>Industrial Metals Sub-Index</b>	1.54%	2.98%	5.32%	-15.54%
Copper	2.90%	-0.10%	-0.98%	-20.75%
Aluminum	0.24%	3.94%	4.05%	-9.11%
Nickel	-0.51%	6.99%	3.58%	-28.62%
Zinc	1.99%	6.19%	29.39%	-2.86%
<b>Softs Sub-Index</b>	-3.55%	11.36%	15.61%	19.79%
Coffee	-3.98%	11.49%	9.38%	-6.92%
Sugar	-3.71%	8.98%	25.60%	46.57%
Cotton	-2.27%	-0.10%	0.89%	-5.07%
<b>Livestock Sub-Index</b>	-3.12%	-0.57%	-0.74%	-9.47%
Cattle	-1.48%	-4.74%	-10.34%	-21.30%
Hogs	-4.70%	4.04%	13.96%	11.04%

The collapse of the GBP after the Brexit vote was expected, as were flows into the JPY. Really; you want to own a currency whose issuer is trying to destroy it at times like these. The EUR is going to remain on the defensive, possibly for a long time, given questions whether the whole EMU will dissolve. As higher short-term interest rates in the U.S. are unlikely in this environment, the gains in the USD should be limited.

	Five-Days	One Month	Six Months	One Year
<b>Currency Returns</b>				
Euro	-1.42%	-0.22%	1.40%	-0.79%
Chinese yuan	-0.53%	-0.98%	-2.20%	-6.26%
Japanese yen	1.90%	7.60%	17.81%	21.16%
British pound	-4.73%	-6.54%	-8.26%	-12.91%
Swiss franc	-1.23%	2.20%	1.57%	-3.94%
Canadian dollar	-0.85%	0.92%	6.28%	-4.78%
Australian dollar	1.07%	3.94%	2.80%	-3.09%
Swedish krona	-1.58%	-1.78%	-0.84%	-2.65%
Norwegian krone	0.35%	0.26%	4.40%	-5.77%
New Zealand dollar	1.06%	5.73%	4.58%	3.40%
Indian rupee	-1.30%	-0.31%	-2.59%	-6.43%
Brazilian real	1.22%	5.83%	16.88%	-8.19%
Mexican peso	-0.48%	-2.33%	-8.88%	-18.11%
Chilean peso	0.68%	2.31%	3.12%	-6.92%
Colombian peso	1.27%	3.10%	7.21%	-13.88%
Bloomberg-JP Morgan Asian dollar index (spot)	-0.40%	0.08%	-0.46%	-4.80%

Dividend plays, utilities and consumer staples will not lead equity markets to new highs, certainly not with the large financial sector hobbled by negative rates and flat yield curves. Stocks can only look good on a relative basis right now.

	Five-Days	One Month	Six Months	One Year
<b>Equity Total Returns</b>				
MSCI World Free	-1.63%	-3.86%	-2.37%	-7.04%
North America	-1.57%	-1.49%	0.39%	-2.38%
Latin America	1.60%	2.94%	16.33%	-14.33%
Emerging Market Free	0.14%	2.75%	1.59%	-16.54%
EAFE	-1.72%	-4.33%	-6.81%	-15.32%
Pacific	-1.07%	-3.09%	-4.28%	-11.41%
Eurozone	-3.18%	-8.94%	-10.29%	-18.72%

While CTAs had a bad week, the strong reversals almost everywhere on Friday could have made things worse. Chalk one up for prudent position sizing. Macro hedge funds did what they do best, lose other people's money.

	Five-Days	One Month	Six Months	One Year
<b>CTA/Hedge Fund Returns</b>				
Newedge CTA	-3.38%	-0.08%	-3.40%	-3.29%
Newedge Trend	-2.69%	0.49%	-0.08%	0.30%
Newedge Short-Term	-3.34%	0.85%	3.63%	0.41%
HFR Global Hedge Fund	0.51%	1.22%	-0.73%	-6.82%
HFR Macro/CTA	-0.66%	0.26%	-2.07%	-4.52%
HFR Macro: Systematic Diversified CTA	-2.00%	0.64%	-1.42%	-1.58%