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U.S. Global Investors
Investor Alert

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4 Winners to Emerge from Brexit

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This week my friend John Mauldin, chairman of Mauldin Economics, released a special Brexit edition of his popular investments newsletter Outside the Box. In it he shared a post written by geopolitical strategist George Friedman that describes a recent meeting among six foreign ministers representing the European Union's founding member states: Belgium, France, Germany, Italy, Luxembourg and the Netherlands. The topic of discussion was the possible causes and implications of the U.K.'s decision to leave the EU.

What George finds extraordinary is that, in their follow-up statement, the ministers appear to capitulate, admitting they "recognize different levels of ambition amongst Member States when it comes to the project of European integration."

As George puts it, this is their way of acknowledging—finally?—the impossible task of enforcing uniformity across the European continent, home to many different peoples and cultures, all with different goals and aspirations.

If nothing else, this alone should be seen as a positive consequence of Brexit. It's too early to tell what direction the EU will take post-Brexit, or whether any material policy changes will be made, but it seems as if the cries of resentment and frustration that have risen up from England and Wales (and, to a lesser extent, Scotland and Northern Ireland) have not fallen on deaf ears.

This is precisely what I've been writing about the last couple of weeks. If you've been following the mainstream media's coverage of Brexit, you might think it's little more than a reactionary, anti-immigrant groundswell. Don't get me wrong—immigration is certainly part of it. Trying to integrate 50,000 people a year into the country's national health care and school system has pushed the bandwidth of the British economy.

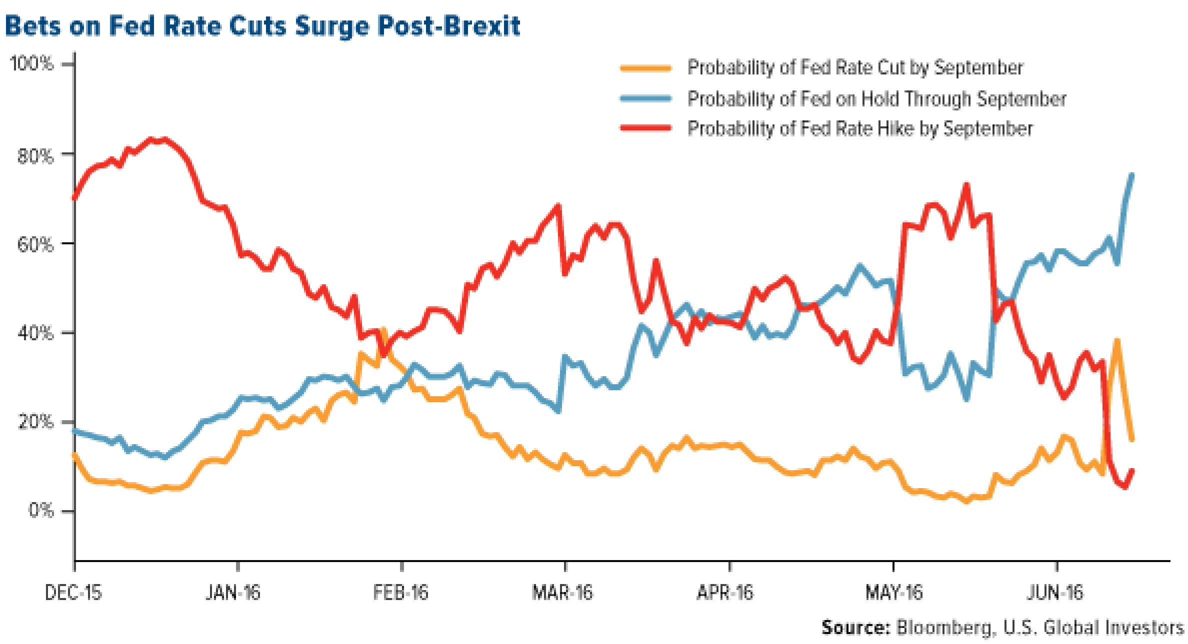
But the U.K.'s grievances—some of which I discussed in previous commentaries—are much more varied than that. And following the historic referendum last week, EU bureaucrats seem to be taking the gripes seriously, which we can count as a win not just for the U.K. but other member states as well.

Below are four more winners to have emerged from Brexit.

1. Gold Investors

The day after the referendum, gold jumped nearly 5 percent and since then has held above $1,300 an ounce, helping to achieve its best first half of the year since 1974. The yellow metal, which has historically been sought by investors during times of political and economic uncertainty, is also strengthening now that a U.S. interest rate hike seems less and less likely post-Brexit.

Markets, in fact, seem to have completely shed any belief that the Federal Reserve will raise rates this year. Bets that rates will be *cut* by September spiked before retreating, while bets that they would be left untouched surged 48.6 percent.



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This bodes well for gold, which has traditionally shared an inverse relationship with interest rates. When savings account rates and yields on government bonds are low, gold suddenly becomes much more attractive to hold as a store of value.

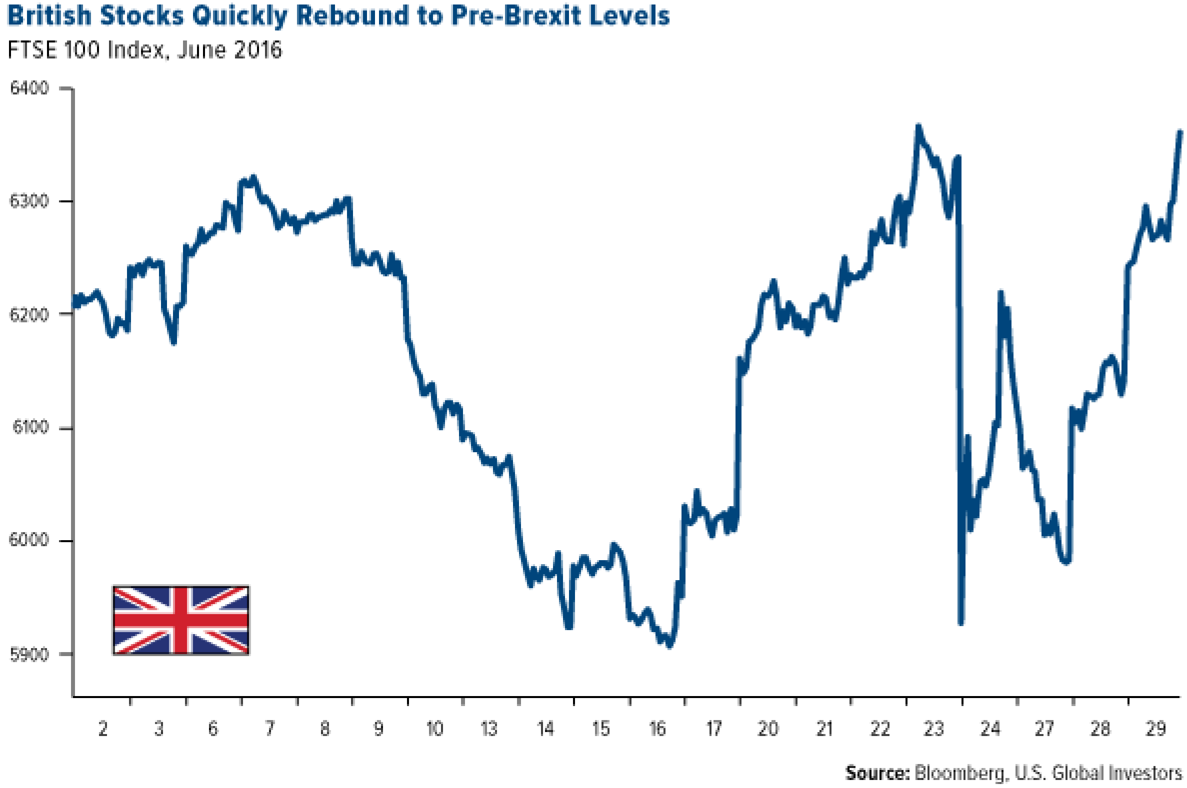
This is especially true in countries where rates are negative. The yield on the German 10-year Bund recently fell below zero, and last week the Swiss 30-year government bond yield turned negative, in effect charging investors for the privilege of holding their cash.

But American investors aren't immune. Today, the yield on the 10-year Treasury fell to as low as 1.385 percent, an all-time record.

Learn where the opportunities are in today's gold market.

Across the pond, British rates are likely to be slashed this summer, according to Bank of England Governor

Mark Carney on Thursday. In response, Britain's FTSE 100 Index roared up to a 10-month high, erasing all Brexit-inflicted losses.



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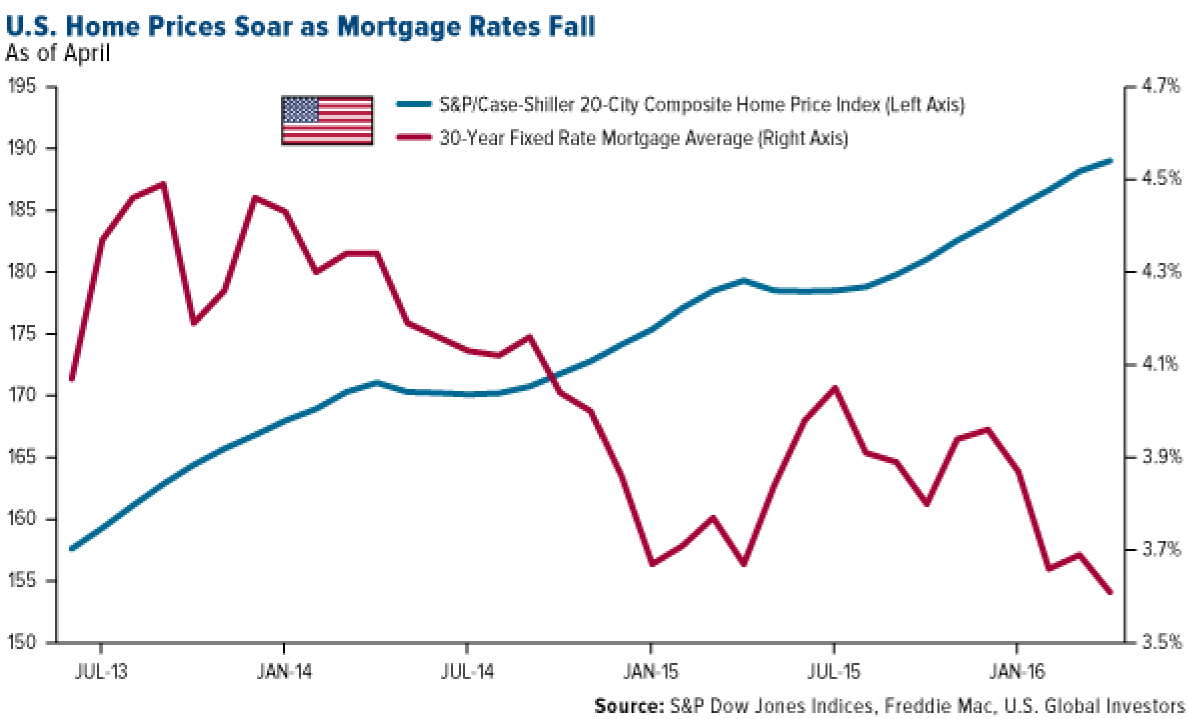
2. U.S. Homeowners

The promise of continued low rates in Brexit's wake could be good news for U.S. homeowners, both current and potential. For the week ended June 24, the mortgage rate on a 30-year home loan fell to 3.75 percent, its lowest level since May 2013, according to the Mortgage Bankers Association. Some analysts are even forecasting mortgage rates—which tend to track 10-year Treasury yields—to sink to record lows in the coming weeks. This move is expected to spur a wave of new loan applications and refinancing as borrowers rush to lock in historically low rates.



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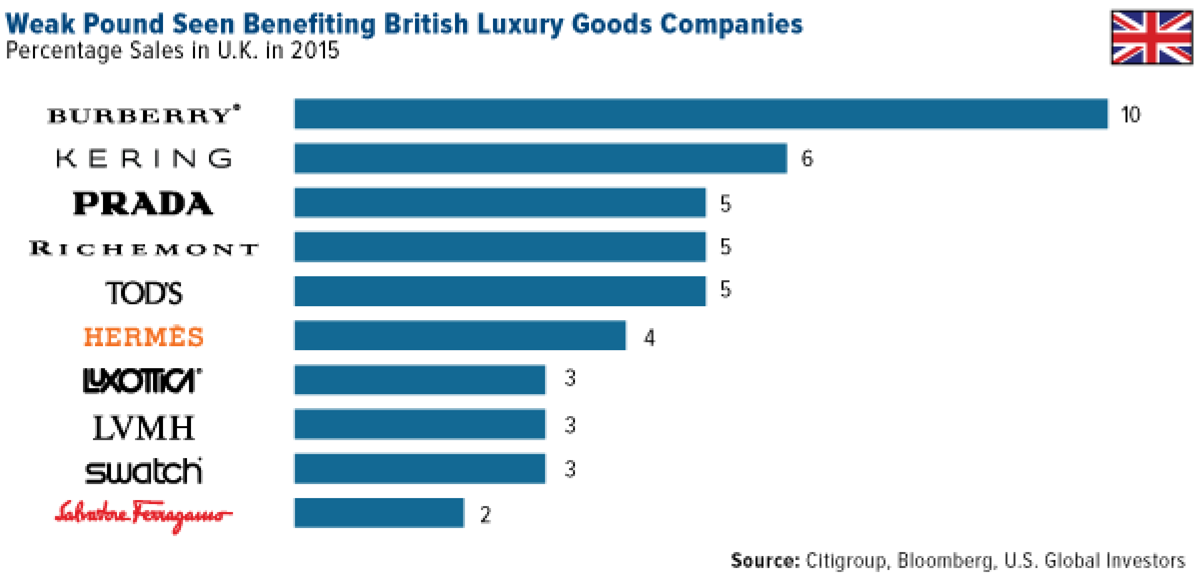
Home prices in the U.S., meanwhile, continue to improve after the financial crisis. Prices advanced 5 percent year-over-year in April, according to new data from the S&P/Case-Shiller Home Prices Indices. The 20-City Composite Index, in fact, is back up to its winter 2007 level.

3. British Luxury Goods Makers

In the immediate aftermath of the U.K. referendum, Donald Trump suggested the pound's dramatic decline could encourage more foreign tourists to visit Turnberry, Scotland, where he owns a luxury golf resort. Many in the media criticized him for the comment, arguing he seems to care only about how he might profit from Brexit. But the thing is, he's right.

Because of the drop in the pound, which sent it to levels not seen in more than 30 years, U.S. and Chinese interest in travel to Britain has already seen a huge spike. This could be a potential windfall for Britain's luxury goods industry, which posted sales averaging nearly $1 billion in 2014, according to advisory firm Deloitte. Clothing designer Burberry, Britain's largest luxury company, could end up being a beneficiary, along with many other major European brands found in the U.K.



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I've mentioned before how Chinese tourists spend more than any other country's. Now, a March report by the World Travel & Tourism Council (WTTC) found that in 2015, outbound Chinese travelers shelled out a massive $215 billion overseas, representing an increase of 53 percent from the previous year. A weakened pound should only intensify demand even more.

4. British Taxpayers

According to the Daily Express, about 10,000 Brussels-based bureaucrats earn more than—and in many cases, more than twice as much as—U.K. Prime Minister David Cameron, who has a gross annual salary of 142,500 pounds. What's more, they pay the euro equivalent of 50,000 pounds less per year than Cameron does. And before the 2015 Christmas break, these Eurocrats, who all enjoy a final salary pension, just gave themselves a 2.4 percent raise.

Last week's referendum was in large part a rejection of this brand of elitism. Similar to what many Americans feel today, taxpayers in the U.K. are fed up with seeing their money leave the British shores only to line the pockets of unelected officials, with little to show for it in return.

The two-year transition period that follows will likely present many challenges, but in the long run, an independent Britain will be able to set its own immigration policies, impose its own rules and regulations, negotiate the terms of its own trade agreements and much more.

Canada Markets Closed for Birthday Celebration

This form of sovereignty is precisely what three North American colonies—Nova Scotia, New Brunswick and the Province of Canada—sought nearly 150 years ago today. With the enactment of the Constitution Act of 1867, Canada became a federation in its own right, allowing it to shape its own destiny as its people saw fit.

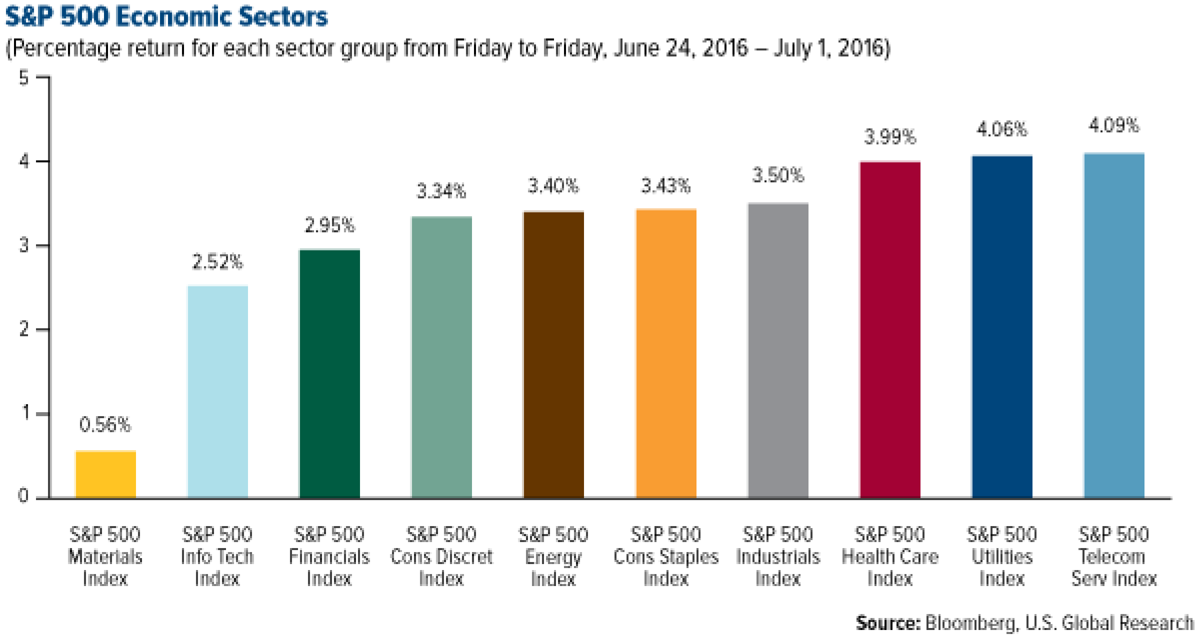
The same goes for the United States, which celebrates its independence on Monday.

No matter if you live in Canada or the U.S. (or both!), I hope you get to enjoy some fireworks and time spent with friends and family this weekend. Happy Canada Day! Happy Fourth of July!

Index Summary

- The major market indices finished up this week. The Dow Jones Industrial Average gained 3.15 percent. The S&P 500 Stock Index rose 3.22 percent, while the Nasdaq Composite climbed 3.28 percent. The Russell 2000 small capitalization index gained 2.59 percent this week.
- The Hang Seng Composite gained 32.12 percent this week; while Taiwan was up 3.08 percent and the KOSPI rose 3.22 percent.
- The 10-year Treasury bond yield rose 11 basis points to 1.45 percent.

Domestic Equity Market



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Strengths

- Telecommunications was the best performing sector for the week, increasing by 4.09 percent versus an overall increase of 3.23 percent for the S&P 500.
- Harley Davidson was the best performing stock for the week, increasing 24.57 percent. The company's shares soared on Friday amid reports of buyout speculation from the private equity firm KKR & Co.
- U.S. stocks have climbed their way back into positive territory for the year, just days after the U.K.'s decision to leave the European Union sent markets plunging by triple digits.

Weaknesses

- Materials was the worst performing sector for the week, increasing by 0.56 percent versus an overall increase of 3.23 percent for the S&P 500.
- Darden Restaurants was the worst performing stock for the week, falling -5.75 percent. The company offered lower-than-expected earnings guidance for fiscal year 2017.
- Energy Transfer has terminated its $33 billion merger with Williams because of a "failure of conditions under the merger agreement." According to Bloomberg, Energy Transfer was able to back out of the deal after it was discovered that a combination wouldn't free investors from their tax liabilities. Williams's shareholders approved the deal Monday and are appealing.

Opportunities

- While the economic fallout from Brexit is likely to play out over a long horizon as the U.K.'s exit is negotiated, this political event will have repercussions for U.S. equity markets in the interim. Defensive sectors have surged in relative performance terms. Since the financial crisis, consumers' propensity to save has steadily climbed. That has coincided with increased traffic at non-cyclical retail stores. Policy and political uncertainty are likely to fuel this trend. Thus, the consumer staples sector should continue to enjoy an upward re-rating in relative forward earnings estimates.

- The S&P media sector has been in a consolidation phase for over two years, in relative performance terms. That is consistent with cash flow trends, which flat-lined alongside a slump in sales growth and rising costs. However, this trend looks to be on a reversal. Sales growth has turned around because the industry has been able to introduce new services and raise selling prices by enough to drive up consumers' share of spending on media services. Pricing power has surged in both the cable and entertainment industry. If cash flow grows again, then media stocks could be in for a re-rating.

- After passing the Dodd-Frank stress tests, Wall Street banks announced their stock-buyback plans. Among the notables, JPMorgan will buy back $10.6 billion worth of stock, while Citi and Bank of America will repurchase $8.6 billion and $5 billion worth of shares. Goldman Sachs will also buy back shares, but it did not release an amount.

Threats

- Health care facilities equities may become the odd man out in the overall health care sector bull market due to slowing profit growth. This is as a result of inflating cost pressures from both labor and drug prices.

- Brexit could do some serious damage to Wall Street. Goldman Sachs' Richard Ramsden and team ran a "stress test" on bank earnings, based on a scenario in which there are no additional Fed fund hikes, and 1 percent, five-year yields and 1.75 percent, 10-year yields at the end of 2017, which is what the futures market was pricing in at the end of last Friday. The team also assumed a 20 percent year-on-year decline in capital-markets revenues, a 20 percent drop in stocks, and a downshift in mergers and acquisitions. Under that scenario, bank earnings could drop by more than 10 percent, while mergers-and-acquisitions advisers could see a near 30 percent drop.

- Anthem's $48 billion takeover of Cigna is in jeopardy after the Department of Justice said the deal would threaten competition. Specifically, the DOJ is worried that large employers would have reduced options for finding insurers that can provide coverage on a national scale, a person familiar with the matter told Bloomberg. The DOJ is willing to listen to solutions but is skeptical that a resolution can come from selling parts of the business, Bloomberg reports.

The Economy and Bond Market

Strengths

- The U.S. economy was not as weak as previously thought in the first quarter. The Department of Commerce released the third and final (for now) estimate of GDP, which showed 1.1 percent growth, revised up from the second estimate of 0.8 percent and the advance print of 0.5 percent. The first quarter has consistently been revised higher for the past five years, so this improvement was expected. But there was a significant downward revision to personal consumption, which contributes to about 70 percent of growth. It was dropped to a two-year low of 1.5 percent, from 1.9 percent. Economists had expected an upward revision to 2 percent. Corporate profits were revised higher, and overall gross domestic income was lifted to 2.9 percent. The more complete data also showed that the gap between exports and imports was narrower than previously thought.

- Personal income rose 0.2 percent in May while personal spending climbed 0.4 percent, according to the U.S. Commerce Department. Consumer spending is starting the second quarter on a stronger footing than the first, and that points to a stronger pace of growth, which bodes well for a growth bounce back this quarter. The core personal consumption expenditures index — which excludes food and energy costs and is the Federal Reserve's preferred inflation measure — rose 0.2 percent month-on-month and 1.6 percent year-on-year. That's still shy of its 2 percent target.

- Chicago business activity rebounded in June. The Chicago PMI barometer rose from contractionary territory to a reading of 56.8, topping expectations for 51. That was the highest reading since January 2015. Also, consumer confidence rose more than expected in June. The Conference Board's consumer confidence index improved to 98 in June from 92.4 in the prior month. It was lifted by a brighter outlook on current conditions, and a rise in the expectations index.

Weaknesses

- Pending home sales fell in May for the first time in two years. The National Association of Realtors said that sales fell 3.7 percent; economists had forecast a drop by 1.1 percent. Additionally, Markit's flash services PMI for June showed that growth in the all-important sector is still subdued. The index held steady at 51.3, below economists' consensus expectation for 51.9. Markit's survey of service providers — who contribute to two-thirds of economic activity — showed that their business optimism fell to a survey-record low. In addition, the Dallas Fed's manufacturing index fell to -18.3 in June, more than expected. The report showed that there was some improvement, although production remained in contraction, and the headline activity index has been negative since December 2014. The gauge of employment tanked to its lowest level since 2009.

- Standard and Poor's lowered its rating on the EU's debt to AA+ from AA just days after it downgraded the U.K. The ratings agency expects the 27 member states excluding the U.K. to remain in the EU, but now has doubts about the union's future and its ability to repay long-term debt. Brexit will "complicate budgetary and policy priorities among the 27 remaining members of the EU, in our opinion, weakening the EU's fiscal flexibility and introducing uncertainty into budgetary forecasts," S&P said in a statement.

- Puerto Rico is expected to miss its bond payments due on Friday. On Wednesday, the governor of the commonwealth, Alejandro García-Padilla, wrote an article for CNBC saying Puerto Rico would miss more than $1 billion in general obligation bonds. The commonwealth is estimated to have defaulted on $562 million of debt service payments since August, according to Moody's data. The default will come despite President Obama signing the Puerto Rico Oversight, Management, and Economic Stability Act, or Promesa, into law on Thursday. Promesa will help Puerto Rico restructure its $70 billion of debt.

Opportunities

- While the yield spread on corporate bonds does not seem to fully compensate investors for the risk of default, opportunities for tactical exposure could arise from any Brexit related sell-offs.

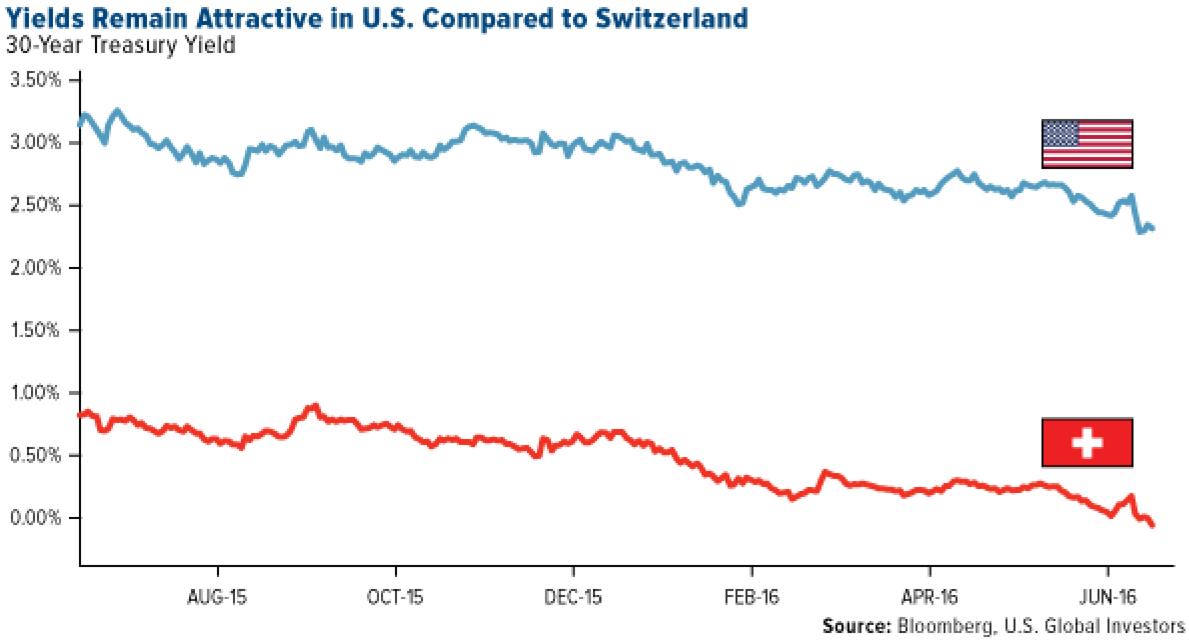
- Brexit uncertainty will continue to add to global growth divergences, which is likely to support the U.S. dollar and cap the upside in long-dated Treasury yields.

- Oil and major financial markets have been strongly correlated in recent years. According to BCA, however, that could change going forward. The high correlations between oil and financial markets reflect the influence of extreme moves in oil. Crude prices rose sharply in 2010 and fell sharply in 2014. In between these years, when oil traded in a tight range, the correlations with stocks, bonds and inflation expectations declined towards zero. That may well happen again if oil prices settle between $50-65/barrel as BCA's commodity strategists expect.

Threats

- The nonmanufacturing ISM on Wednesday and the jobs report on Friday will be closely watched for validation of the market's benign outlook for U.S. short-term interest rates. A telecom strike depressed nonfarm payrolls in May and a bounce should be seen in the June data. However, BCA warns that the underlying trend in U.S. employment growth is slowing.

- Global bond yields continue to slide. The 10-year U.K. bond fell to a record-low yield of 0.81 percent this week. U.S. yields retested record lows in the wake of the Brexit referendum while German bund yields slipped deeper into negative territory. The 30-year Swiss yield went negative for the first time ever. The uncertainty stemming from Brexit is being taken as a deflationary shock.



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- Narayana Kocherlakota says the Federal Reserve should cut rates because of Brexit. "Given the prospect of shocks that are hard to offset, the Fed should be easing monetary policy to make the U.S. economy as healthy as possible," the former Minneapolis Fed president wrote in a Bloomberg View column.

Gold Market

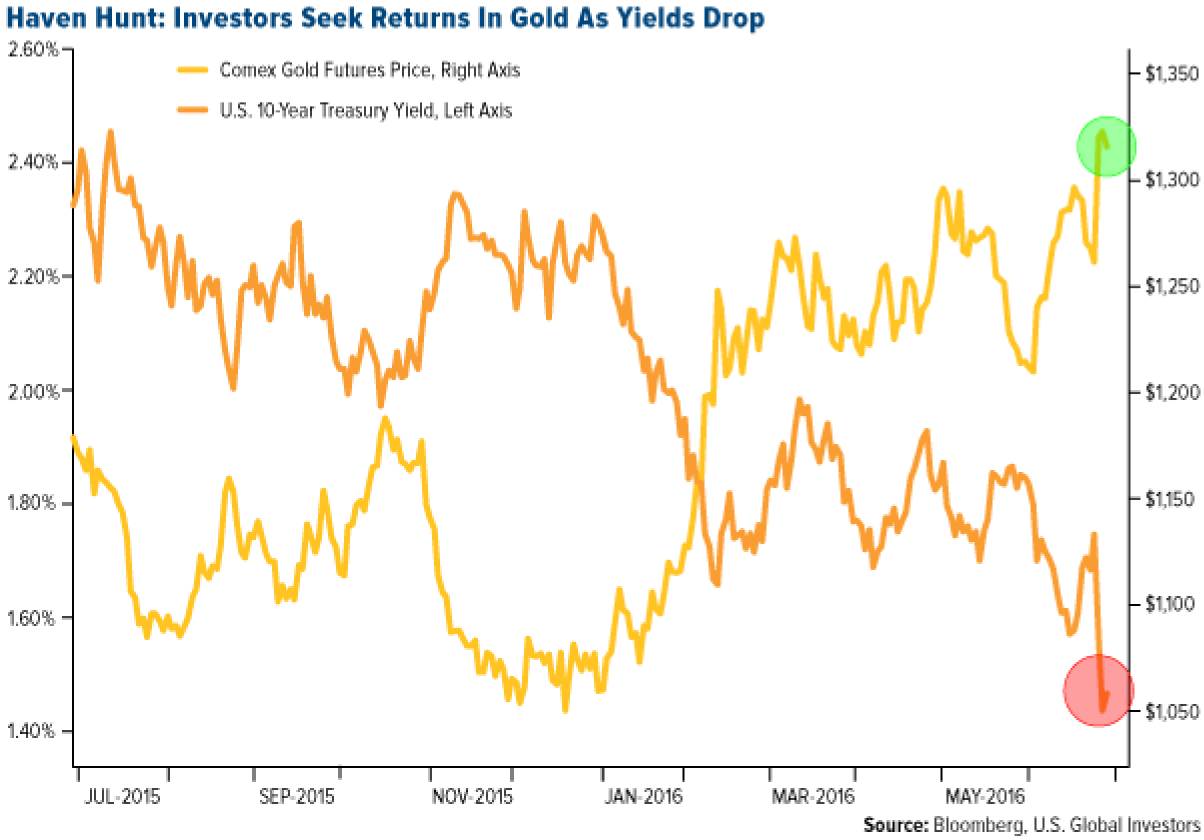
This week spot gold closed at $1,341.11 up $25.66 per ounce, or 1.95 percent. Gold stocks, as measured by the NYSE Arca Gold Miners Index, gained 8.18 percent. The U.S. Trade-Weighted Dollar Index jumped higher with a 0.26 percent gain.

Date	Event	Survey	Actual	Prior
Jun-27	Hong Kong Export YoY	-1.7%	-0.1%	-2.3%
Jun-28	U.S. GDP Annualized QoQ	1.0%	1.1%	0.8%
Jun-28	U.S. Consumer Confidence Index	93.5	98.0	92.4
Jun-29	Germany CPI YoY	0.3%	0.3%	0.1%
Jun-30	Eurozone CPI YoY	0.8%	0.9%	0.8%
Jun-30	U.S. Initial Jobless Claims	267k	268k	258k
Jun-30	Caixin China PMI Mfg	49.2	48.6	49.2
Jul-1	U.S. ISM Manufacturing	51.3	53.2	51.3
Jul-5	U.S. Durable Goods Orders	-2.2%	--	-2.2%
Jul-7	U.S. ADP Employment Change	156k	--	173k
Jul-7	U.S. Initial Jobless Claims	265k	--	268k
Jul-8	U.S. Change in Nonfarm Payrolls	175k	--	38k

Strengths

- The best performing precious metal for the week was silver. Silver trades at a much more volatile spread than gold, thus its over 10-percent price reaction this week, its biggest weekly gain in 15 months (due to the fallout in Europe over Brittan voting to leave the EU), is refreshing to see.

- Market turmoil following the U.K.'s decision to leave the EU is causing more investors to turn to gold and Treasuries, reports Bloomberg. The yellow metal rallied more in the first half of the year than in any other year since 1974, with prices pushed up 24 percent. In addition, traders are now pricing in greater chances of a rate cut than a rate hike in September, pushing Treasury yields lower and boosting the appeal of gold.



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- Imports of gold to mainland China from Hong Kong were up 68 percent month-on-month in May, reports S&P Global Platts, totaling 115 mt and reaching the highest level since December. This figure was up 63 percent year-on-year from 70.7 mt in May of 2015.

Weaknesses

- The worst performing precious metal for the week ironically was gold, still up around 1.99 percent. Perhaps not too surprising since this was a page-one story. As central bankers assured the markets that they were ready to act, if needed, equities climbed higher and this became a headwind for further momentum in gold prices.

- Elvira Nabiullina, chair of the Russian central bank, commented on gold reserves during an interview with a local newspaper this week, according to one Reuters headline. Nabiullina said she sees no possibility of increasing Russia's gold and FX reserves in the near future.

- A surge in gold prices could cut Indian demand for the precious metal to the lowest in seven years, reports Bloomberg. "Price is a very important factor for Indians and if it remains at these levels then I don't see much recovery in demand," said Bachhraj Bamalwa, a director at the All India Gems & Jewelry Trade Federation. Weak demand since the start of 2016 has forced dealers to sell gold at a discount to clear inventories.

Opportunities

- Turnover in China's top exchange-traded fund backed by bullion, the Huaan Yifu Gold ETF, jumped to a record $191 million last Friday following Britain's vote. Outstanding shares of the fund also jumped five-fold from the start of the year to 1.6 billion, according to David Xu, managing director at Huaan Asset Management. Similarly, a decline of the Chinese real estate market moved billions into the country's stock market. If Chinese investors sour on stocks and decide gold's historic value looks tempting, this could mean the next boom for the metal, reports Bloomberg Intelligence analyst Kenneth Hoffman. Currently the ETF only holds 16 tonnes of metal, but the creators of the fund expect it to grow to 500 tonnes in the next three to five years.

- According to consensus data from June 28, economists are raising the probability of U.S. interest rate cuts, rather than hikes, over the next 18 months, reports Bloomberg. A hike is seen only from February 2017. Overseas, initial shock following Brexit is easing. Economists are expecting the Bank of England to add more stimulus and Japan's central bank chief Haruhiko Kuroda said this week that more funds could be injected into markets should they be required, reports Bloomberg.

- Citing updated commodity forecasts, Credit Suisse analysts Anita Soni and Ralph Profiti believe the price of gold could hit $1,500 an ounce by early 2017. Goldman and Morgan Stanley are among other banks increasing their price outlooks. On Thursday, Australia & New Zealand Banking Group Ltd. reported that it sees bullion rallying to as much as $1,400 an ounce over the next 12 months. If the Brexit vote spurs the world's central banks to step up easing, currencies will be hurt and gold could be favored even further.

Threats

- Temp jobs are the first to go in a downturn and serve as a predictor of general job trends, according to a report from BMO Private Bank. And since December, this sector has shed 27,400 jobs, reversing a five-year trend that saw it grow five times faster than overall employment, the bank writes. Compounding the trend, there has been a pickup in initial jobless claims.

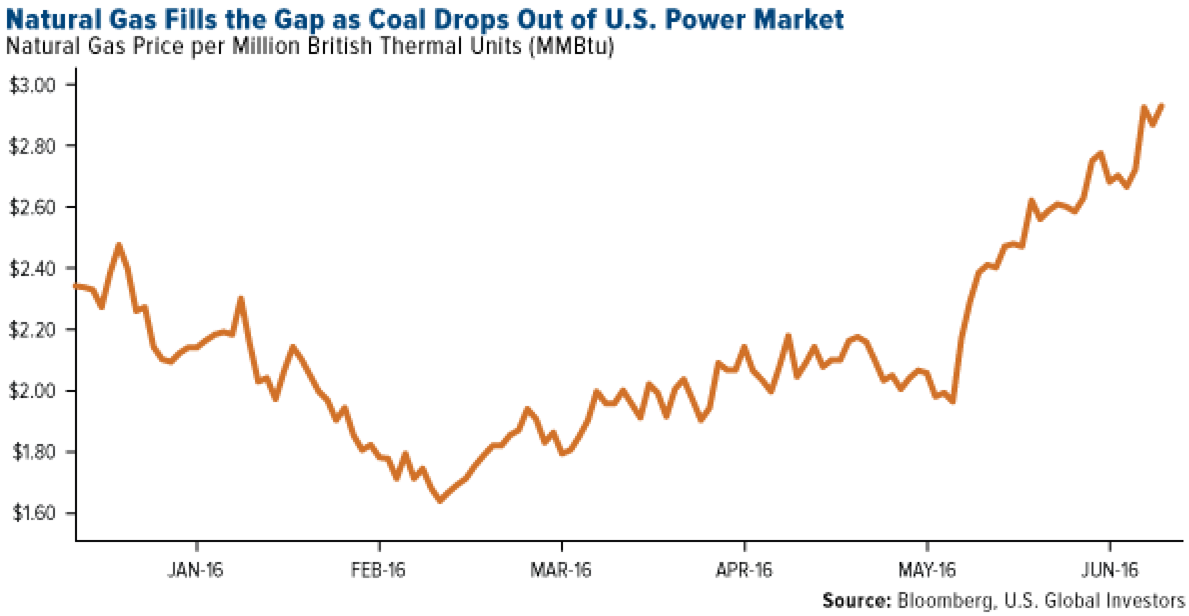
- According to a new poll by Marketplace and Edison Research, 71 percent of Americans believe the U.S. economic system is "rigged in favor of certain groups," reports CNN Money. On this note, JPMorgan Chase & Co won the dismissal of three private antitrust lawsuits on Wednesday, reports Reuters, accusing the bank of rigging a market for silver futures contracts traded on COMEX. U.S. District Judge Paul Engelmayer said the plaintiffs did not show JPMorgan made "uneconomic" bids, or intended to rig the market at counterparties' expense, the article continues. Engelmayer's dismissal was with prejudice, meaning the lawsuits cannot be brought again. This follows a 2014 court victory by JPMorgan where plaintiffs nationwide accused the bank of trying to drive down the silver price.

- Gold miner Asanko Gold Inc. has come under attack from a Toronto-based hedge fund, reports the Financial Post, claiming the company's stock price could plummet 90 percent. K2 Associates Investment Management alleges that Asanko's gold resources "don't add up" and appears to be over-inflated by a factor of two. Asanko rejected all allegations by K2.

Energy and Natural Resources Market

Strengths

- Natural gas prices rallied in June as meteorologists forecast a warm summer. However, the underlying fundamentals for the natural gas market have continued to improve, underpinning a transformation in the U.S. power generation market. For the first time, natural gas surpassed coal as the main power generation fuel source, following the closure of a record 346 coal-burning plants. Thanks to America's shale boom, which unleashed cheap and abundant natural gas, the price of electricity in the nation's largest grid fell 40 percent from five years ago. The benefits don't end there; natural gas also burns more cleanly than coal, leading to health benefits worth in excess of $40 billion annually, according to the EPA.



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- The best performing sector for the week was the FTSE 350 Mining Index. The London index of base and precious metals mining companies rose 9.2 percent for the week fueled by a rally in gold and copper prices after global central banks discussed easing measures to avert a global crisis post-Brexit.

- Fresnillo PLC, a Mexican silver and gold producer listed on the London Stock Exchange was the best performing stock in the broader natural resource space after rallying 22.6 percent for the week. The stock rallied as silver prices posted a 10-percent weekly return, its best weekly performance in nearly three years.

Weaknesses

- Refiners' earnings have downside risk as RIN prices are likely to stay elevated on strong demand. A Goldman Sachs report suggests refiners will have greater compliance costs after the EPA proposed biofuel blending standards at ambitious levels that are difficult to achieve in the medium-term. RINs (Renewable Identification Numbers) are tradable units used to demonstrate compliance with the Renewable Fuels Standard (RFS) program, which requires a minimum level of biofuel blended into the fuel supply.

- The worst performing sector for the week was the S&P 500 Fertilizers and Agricultural Chemicals Index. The index dropped 2.7 percent for the week led by investors selling their holdings in CF Industries, a major fertilizer company with high exposure to the U.K. market.

- The worst performing stock for the week in the S&P Global Natural Resources Index was K+S AG. The German fertilizer producer dropped 10.6 percent for the week after announcing its earnings in the second quarter will drop because of a slide in potash prices and worse-than-expected production outages.

Opportunities

- Crude prices rallied this week as the EIA reported a major inventory draw. The 4.05 million barrels draw for the week was the seventh inventory decline in the past eight weeks, leading investors to support the advance in crude prices. The momentum may continue as hundreds of workers on oil platforms operated by Norway's Statoil threaten to strike, which could result in further supply disruptions.

- BHP boosts its exploration budget in hunt for copper and petroleum, according to a Mineweb article. The world's largest miner has announced it will lift its exploration expending by more than a quarter to $900 million annually as it seeks new discoveries in base metals and oil that could replace cornerstone assets into the next decade.

- Precious metals' outperformance is set to continue. JPMorgan's commodities strategy team revised up its gold, silver and zinc prices and stated the outlook for precious metals remains bullish with NIRP, ZIRP, and possibly more quantitative easing on the horizon. Credit Suisse echoed JPMorgan's bullish comments and raised its gold price target to $1,450 per ounce, as the market turns to "safe mode."

Threats

- JPMorgan published a research report highlighting near-term China risks to the oil price as gasoline demand slows down and the Strategic Petroleum Reserve build nears maximum capacity. The bank's analysts suggest China may stop importing excess crude for the SPR in September, leading to a 1.2 million barrel per day drop in imports. In addition, the current state of refined product inventories is leading "teapot" refineries to cut runs and slowdown their crude purchases abroad.

- A cease-fire in Nigeria may trigger a selloff in crude as more barrels come online. This week China signed MOUs totaling $80 billion for the development of the Nigerian oil industry, leading investors to believe the negotiations and cease-fire with militants responsible for infrastructure bombings can stabilize the country's output. As a matter of fact, OPEC reported record production for the month of June, noting that Nigerian output recovered from 1.3 to 1.9 million barrels per day during the month of June, suggesting the largest African producer may soon resume production at full capacity.

- The oil glut may well continue into 2017 as U.S. offshore production is set to hit record production next year. An oil price report shows 500,000 more barrels per day of crude from the Gulf of Mexico will go online by 2017, as sizable fields funded for construction when prices were higher, hit production in the next months. Once the fields become operational, the U.S. Department of Energy predicts offshore oil production will set a record in 2017 with 1.91 million barrels - 24 percent more than in 2015.

China Region

Strengths

- Official China Non-Manufacturing PMI came in at 53.7 for the June period, up from 53.1 in May. The Caixin China Services PMI reading will come out early next week. The previous Caixin reading was at 51.2.

- The Nikkei Indonesia Manufacturing PMI continues its rise, with the June period coming in at 51.9, up from 50.6 in May and well ahead of its lows in early 2015, when it bottomed out at 46.4.

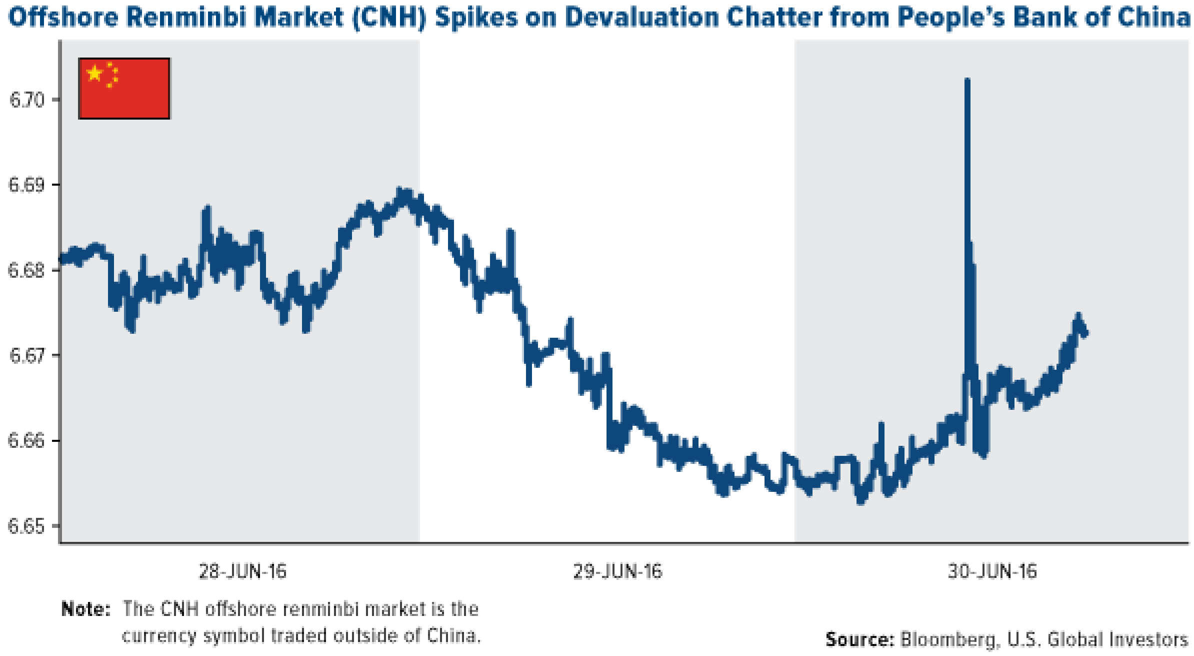
- According to Moody's rating agency, China's investment fund industry is set for continued growth based on strong performance last year, booming by 87 percent year-on-year in 2015. The robust growth is led by money market funds (the second largest globally) and balanced funds, along with bond funds which are catching up from a smaller base, reports China Daily.

Weaknesses

- Manufacturing in China continues to stall. Official government Manufacturing PMI came in at 50.0 for the June period, in line with expectations and slightly down from a previous reading of 50.1, while the Caixin China Manufacturing PMI number came in at only 48.6 for the June period, down from the May reading of 49.2 and falling short of analysts' expectations for a flat print of 49.2.

- The offshore Chinese renminbi fell dramatically earlier this week after a report suggesting that the People's Bank of China (PBOC) had set a 6.8 level as a line in the sand for maximum devaluation this year. The rapid decline was followed by an equally dramatic reversal even as the PBOC downplayed allegedly misleading reports that supposedly encourage short-sellers. On a positive note, this week the

PBOC reiterated expectations for a reasonable level in the renminbi, suggesting that there will be no shocking volatility or sudden devaluation.



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- Retail sales in Hong Kong dropped in May for the 15th consecutive month, reports Reuters, sliding 8.4 percent from a year earlier. A drop in tourist arrivals along with weaker consumption locally led to the fall.

Opportunities

- During a State Council meeting on Wednesday, an approval was made to continue China's plans to invest more into railway construction as part of the nation's 13th five-year plan, reports China Daily. The Asian nation plans to invest more than 2.8 trillion yuan, building no less than 23,000 kilometers of new rail lines, the Economic Information Daily cites.
- Uber and China CITIC Bank officially teamed up on Wednesday, announcing the launch of a co-branded credit card, which would continue a strategic partnership globally, writes China Daily. By using an Uber-CITIC credit card to pay for rides, bank customers are able to earn free Uber rides along with cashback rewards.
- China's largest bank (by number of branches), state-owned Postal Savings Bank of China, filed for a Hong Kong IPO on Thursday, Thomson Reuters IFR reports, seeking to raise as much as $10 billion. The preliminary prospectus sets in motion what is "expected to be the world's biggest new listing in about two years," continues the IFR, which cited sources close to the deal.

Threats

- According to a Goldman Sachs report, in which the bank's own assessment was not included, metals investors in China are concerned that the government may sharply weaken the yuan in a decision that could trigger large swings in price, reports Bloomberg. Analysts wrote that devaluation "would present headwinds for metals prices and lead to market speculation about larges moves of prices short term."
- Brexit has confirmed many of the Chinese Communist Party's worst fears about democracy, reports Bloomberg. Throughout many parts of the Asian nation, "dissatisfaction with officials is simmering" over things like unpaid wages and layoffs for the Communist Party. A popular rejection of distant bureaucrats isn't to be taken lightly, the article continues.
- Potential bidders for Yum! Brand's China business missed a deadline earlier this month to submit offers for a minority stake in the company, reports Bloomberg. Bids were delayed due to new terms on the investments by the company, along with investors' disagreement with Yum!'s proposed valuation of $10 billion for the China unit.

Emerging Europe

Strengths

- Romania was the best performing country this week, gaining 3.53 percent. Romania is one of the fastest growing markets and could be one of the least affected by Brexit. GDP for the first quarter of 2016 is expected to be 1.6 percent, while Germany's economy grows at 1.6 percent on a year-over-year basis.

- The Russian ruble was the best currency this week, gaining 1.27 percent against the U.S. dollar. Brent crude oil gained 4.4 percent this week, closing above $50 per barrel. Manufacturing PMI data for June was reported at 51.5, the highest level since November 2014. A jump in PMI was due to stronger activity in the domestic market, as new export orders contracted further.

- Consumer staples was the best performing sector among Eastern European markets this week.

Weaknesses

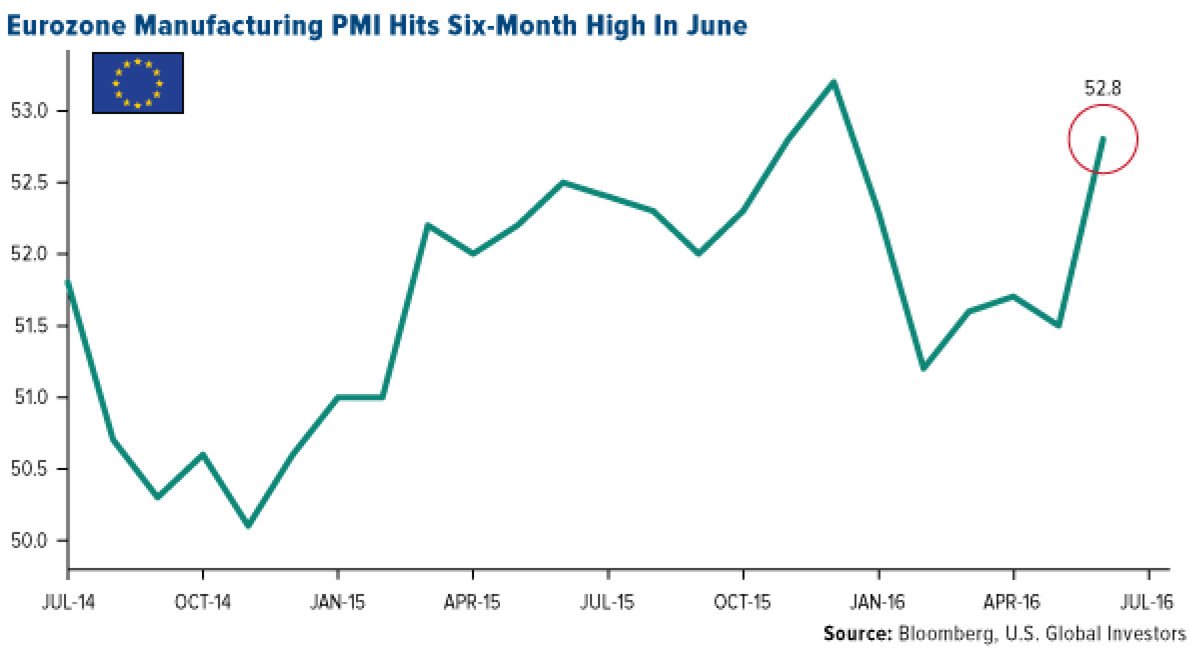
- Poland was the worst performing market this week, losing 4 basis points. After the U.K.'s decision to leave the EU, Polish GDP may be lower by 0.5 -1 percent in 2017 and 2018, and the biggest threat to the economy may be a slump in foreign trade, according to Mateusz Morawiecki , Deputy Prime Minister and Minister of Development .

- The Hungarian forint was the worst relative performing currency this week, gaining 8 basis points against the U.S. dollar. Analysts forecast that the British vote to leave the European Union could slightly slow down economic growth in Hungary. Hungary Manufacturing PMI data for June fell to 50.9 from 52.2 in May.

- The utility sector was the worst performing sector among Eastern European markets this week.

Opportunities

- The final eurozone manufacturing PMI reading for June was reported at 52.8 versus the Flash reading of 52.6. Looking at the Emerging Europe breakdown, Russian and Greek PMI rose above the 50 level that separates growth from contraction. The eurozone service and composite readings will be reported Tuesday.



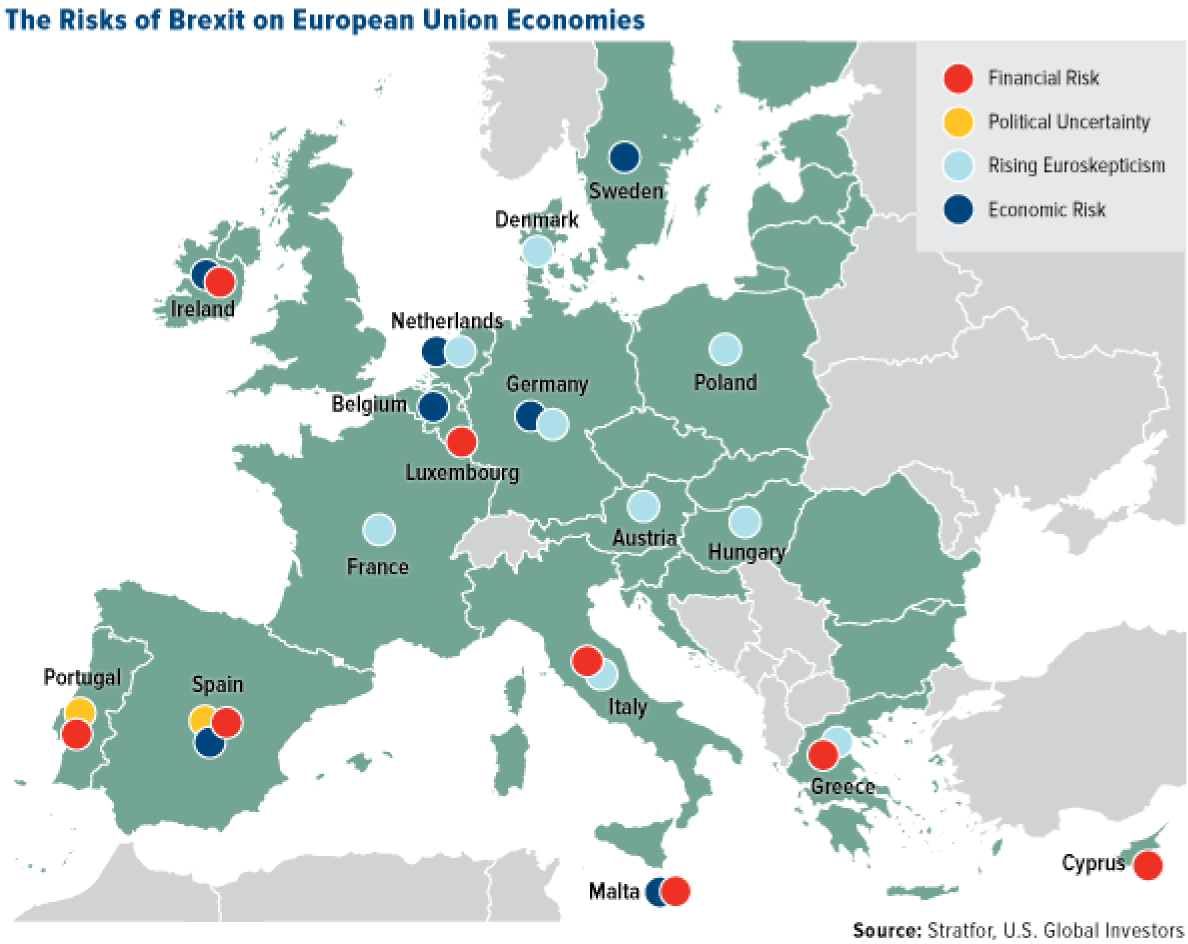
click to enlarge

- Bond yields declined as investors' poured money into safe heaven assets, creating opportunity for cheaper government funding. The U.K. referendum results on June 24 prompted Poland to cancel a debt auction for the first time in a year as bond yield soared. The nation's borrowing cost has since fallen to the lowest level in more than a month.

- The President of Turkey sent a letter to Vladimir Putin expressing his deep regret over shutting down a Russian warplane last November. Russia imposed trade restrictions and threatened to keep sanctions until Erdogan apologized over the incident. Additionally, a deal was announced to repair the relationship between Turkey and Israel that soured after a 2010 Israeli raid on an aid flotilla left 10 Turkish nationals dead. A better relationship with Israel and Russia will improve the economic prospective for Turks.

Threats

- Markets rebounded from lows of last week after the U.K. voted to leave the eurozone, but investors are cautious and are unsure how Brexit will unfold. Britain's decision to leave the European Union will affect each of the bloc's members differently. The map below, created by Stratford, lists countries that will be damaged by the U.K./EU split.



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- S&P downgraded the U.K.'s credit rating by two notches, from "AAA" to "AA," citing last week's referendum that approved a British exit from the European Union. Fitch, meanwhile, moved its rating from "AA+" to "AA."

- Van Der Bellen (left-leaning candidate) won the presidential election last month in Austria. He had won 50.3 percent of the ballot to Norbert Hofer's (far-right candidate) 49.7 percent. Austria's constitutional court on Friday accepted a challenge filed by the anti-immigration far-right Freedom Party over the run-off presidential election on May 22, and ordered the election to be held again.

Leaders and Laggards

Weekly Performance

Index	Close	Weekly Change($)	Weekly Change(%)
DJIA	17,949.37	+548.62	+3.15%
S&P 500	2,102.95	+65.54	+3.22%
S&P Energy	514.79	+17.07	+3.43%
S&P Basic Materials	290.79	+1.64	+0.57%
Nasdaq	4,862.57	+154.59	+3.28%
Russell 2000	1,156.77	+29.23	+2.59%
Hang Seng Composite Index	3,630.79	+882.76	+32.12%
Korean KOSPI Index	1,987.32	+62.08	+3.22%
S&P/TSX Canadian Gold Index	150.77	-92.86	-38.12%
XAU	102.50	+8.80	+9.39%
Gold Futures	1,344.30	+21.90	+1.66%
Oil Futures	49.19	+1.55	+3.25%
Natural Gas Futures	2.99	+0.33	+12.25%
10-Yr Treasury Bond	1.45	-0.12	-7.43%

Monthly Performance

Index	Close	Monthly Change($)	Monthly Change(%)
DJIA	17,949.37	+159.70	+0.90%
S&P 500	2,102.95	+3.62	+0.17%
S&P Energy	514.79	+17.49	+3.52%
S&P Basic Materials	290.79	-4.05	-1.37%
Nasdaq	4,862.57	-89.68	-1.81%
Russell 2000	1,156.77	-6.27	-0.54%
Hang Seng Composite Index	3,630.79	+812.50	+28.83%
Korean KOSPI Index	1,987.32	+4.60	+0.23%
S&P/TSX Canadian Gold Index	150.77	-58.40	-27.92%
XAU	102.50	+22.06	+27.42%
Gold Futures	1,344.30	+129.60	+10.67%
Oil Futures	49.19	+0.18	+0.37%
Natural Gas Futures	2.99	+0.61	+25.49%
10-Yr Treasury Bond	1.45	-0.39	-21.30%

Quarterly Performance

Index	Close	Quarterly Change($)	Quarterly Change(%)
DJIA	**17,949.37**	**+156.62**	**+0.88%**
S&P 500	**2,102.95**	**+30.17**	**+1.46%**
S&P Energy	**514.79**	**+58.79**	**+12.89%**
S&P Basic Materials	**290.79**	**+7.05**	**+2.48%**
Nasdaq	**4,862.57**	**-51.98**	**-1.06%**
Russell 2000	**1,156.77**	**+39.08**	**+3.50%**
Hang Seng Composite Index	**3,630.79**	**+821.92**	**+29.26%**
Korean KOSPI Index	**1,987.32**	**+13.75**	**+0.70%**
S&P/TSX Canadian Gold Index	**150.77**	**-33.24**	**-18.06%**
XAU	**102.50**	**+32.78**	**+47.02%**
Gold Futures	**1,344.30**	**+119.40**	**+9.75%**
Oil Futures	**49.19**	**+12.40**	**+33.70%**
Natural Gas Futures	**2.99**	**+1.03**	**+52.76%**
10-Yr Treasury Bond	**1.45**	**-0.33**	**-18.41%**

Holdings may change daily. Holdings are reported as of the most recent quarter-end. The following securities mentioned in the article were held by one or more accounts managed by U.S. Global Investors as of 03/31/2016:
BHP Billiton Ltd.

The Dow Jones Industrial Average is a price-weighted average of 30 blue chip stocks that are generally leaders in their industry.
The S&P 500 Stock Index is a widely recognized capitalization-weighted index of 500 common stock prices in U.S. companies.
The Nasdaq Composite Index is a capitalization-weighted index of all Nasdaq National Market and SmallCap stocks.
The Russell 2000 Index® is a U.S. equity index measuring the performance of the 2,000 smallest companies in the Russell 3000®, a widely recognized small-cap index.
The Hang Seng Composite Index is a market capitalization-weighted index that comprises the top 200 companies listed on Stock Exchange of Hong Kong, based on average market cap for the 12 months.
The Taiwan Stock Exchange Index is a capitalization-weighted index of all listed common shares traded on the Taiwan Stock Exchange.
The Korea Stock Price Index is a capitalization-weighted index of all common shares and preferred shares on the Korean Stock Exchanges.
The Philadelphia Stock Exchange Gold and Silver Index (XAU) is a capitalization-weighted index that includes the leading companies involved in the mining of gold and silver.
The U.S. Trade Weighted Dollar Index provides a general indication of the international value of the U.S. dollar.
The S&P/TSX Canadian Gold Capped Sector Index is a modified capitalization-weighted index, whose equity weights are capped 25 percent and index constituents are derived from a subset stock pool of S&P/TSX Composite Index stocks.
The S&P 500 Energy Index is a capitalization-weighted index that tracks the companies in the energy sector as a subset of the S&P 500.
The S&P 500 Materials Index is a capitalization-weighted index that tracks the companies in the material sector as a subset of the S&P 500.
The S&P 500 Financials Index is a capitalization-weighted index. The index was developed with a base level of 10 for the 1941-43 base period.
The S&P 500 Industrials Index is a Materials Index is a capitalization-weighted index that tracks the companies in the industrial sector as a subset of the S&P 500.
The S&P 500 Consumer Discretionary Index is a capitalization-weighted index that tracks the companies in the consumer

discretionary sector as a subset of the S&P 500.
The S&P 500 Information Technology Index is a capitalization-weighted index that tracks the companies in the information technology sector as a subset of the S&P 500.
The S&P 500 Consumer Staples Index is a Materials Index is a capitalization-weighted index that tracks the companies in the consumer staples sector as a subset of the S&P 500.
The S&P 500 Utilities Index is a capitalization-weighted index that tracks the companies in the utilities sector as a subset of the S&P 500.
The S&P 500 Healthcare Index is a capitalization-weighted index that tracks the companies in the healthcare sector as a subset of the S&P 500.
The S&P 500 Telecom Index is a Materials Index is a capitalization-weighted index that tracks the companies in the telecom sector as a subset of the S&P 500.
The NYSE Arca Gold Miners Index is a modified market capitalization weighted index comprised of publicly traded companies involved primarily in the mining for gold and silver.
The Consumer Price Index (CPI) is one of the most widely recognized price measures for tracking the price of a market basket of goods and services purchased by individuals. The weights of components are based on consumer spending patterns.
The Purchasing Manager's Index is an indicator of the economic health of the manufacturing sector. The PMI index is based on five major indicators: new orders, inventory levels, production, supplier deliveries and the employment environment.
The S&P/TSX Venture Composite Index is a broad market indicator for the Canadian venture capital market. The index is market capitalization weighted and, at its inception, included 531 companies. A quarterly revision process is used to remove companies that comprise less than 0.05% of the weight of the index, and add companies whose weight, when included, will be greater than 0.05% of the index.

The COMEX is a commodity exchange in New York City formed by the merger of four past exchanges. The exchange trades futures in sugar, coffee, petroleum, metals and financial instruments.
The FTSE 100 Index is an index of the 100 companies listed on the London Stock Exchange with the highest market capitalization.
The S&P/Case-Shiller 20-City Composite Home Price Index seeks to measures the value of residential real estate in 20 major U.S. metropolitan areas: Atlanta, Boston, Charlotte, Chicago, Cleveland, Dallas, Denver, Detroit, Las Vegas, Los Angeles, Miami, Minneapolis, New York, Phoenix, Portland, San Diego, San Francisco, Seattle, Tampa and Washington, D.C.
The FTSE 350 Mining Index is a capitalization-weighted index of all stocks designed to measure the performance of the mining sector of the FTSE 350 Index. The index was developed with a base value of 1000 as of December 31, 1985.
S&P 500 Fertilizers and Agricultural Chemicals Index is a subset of the S&P 500 which tracks the companies in the fertilizer and agricultural chemicals industry.
The S&P Global Natural Resources Index includes 90 of the largest publicly-traded companies in natural resources and commodities businesses that meet specific investability requirements, offering investors diversified, liquid and investable equity exposure across 3 primary commodity-related sectors: Agribusiness, Energy, and Metals & Mining.

The ISM Nonmanufacturing index based on surveys of more than 400 non-manufacturing firms' purchasing and supply executives, within 60 sectors across the nation, by the Institute of Supply Management (ISM). The ISM Non-Manufacturing Index tracks economic data, like the ISM Non-Manufacturing Business Activity Index. A composite diffusion index is created based on the data from these surveys that monitors economic conditions of the nation.

Service PMIs are published monthly by Markit Economics in conjunction with sponsors, and are based on surveys of over 400 executives in private sector service companies. The surveys cover transport and communication, financial intermediaries, business and personal services, computing & IT and hotels and restaurants.

The "core" PCE price index is defined as personal consumption expenditures (PCE) prices excluding food and energy prices.

The Consumer Confidence Index (CCI) is an indicator which measures consumer confidence in the Economy.

The Dallas Fed Manufacturing Index measures the performance of the manufacturing sector in the state of Texas. The index is derived from a survey of around 100 business executives and tracks variables such as output, employment, orders and prices.

The Caixin China Services PMI, released by Markit Economics, is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 400 private service sector companies.