Quarterly Insight

Johnson Private Client Group | Johnson Trust Company | Johnson Institutional Management

Second Quarter 2016

Market Update

Brexit Rattles Markets, but Stocks Recover

The relative calm in stock markets during most of the quarter was shattered by the surprise outcome of the British vote to leave the European Union (E.U.), now commonly known as "Brexit." Markets worldwide reacted sharply to the news. The week before the vote, stocks, the British pound, and the euro had fallen, while the U.S. dollar, gold, and bond prices rose in anticipation of a "leave" vote. Then a reversal occurred in the final days before the vote as odds seemed to be more in favor of a "remain" vote. On the day of the vote and the day after, stocks fell sharply, particularly in Europe. The pound fell more than 10% to 30-year lows. Gold surged, and bond prices rose as investors flocked to safer assets. As investors digested the news, however, fears eased and stocks recovered nicely in the final days of the quarter.

"Leave" Vote Creates Uncertainty

The issues that gave rise to the British referendum go well beyond money, but the fallout of a U.K. departure from the E.U. would have a meaningful impact on the global economy and markets. The details are far from clear, but a formal separation would entail changes to trade agreements, less ease of movement of capital and labor between countries, and changes to the banking and finance industries.

For now, the only thing that is certain is that Brexit has added more uncertainty. The votes have been counted, but a formal separation may take some time. Adding to the confusion, some are calling for a reversal of the decision or another vote, suggesting that enough voters may have already changed their minds to tilt the scales back to a remain vote. There are calls in Scotland for a vote to secede from the U.K., which could further complicate matters. The political situation in the U.K. is chaotic in the wake of the resignation of former Prime Minister David Cameron, and it will take time for a new government to settle in.

Markets dislike uncertainty, and there is little precedent to refer to in assessing the outcomes of Brexit. The process of separation would probably be drawn out and complicated. The British are likely to endure the most pain in the near-term, but the ripple effects will extend throughout the E.U. and to the rest of the world in varying degrees. The U.K. economy is the world's fifth-largest, and the British are involved in significant amounts of trade worldwide.

Limited Impact on the U.S.

The impact on the U.S. may be relatively lighter than other countries because of the U.S. economy's self-reliance. Consumer spending accounts for a majority of U.S. economic activity, meaning that international trade doesn't impact the economy as much as more export-oriented nations. Economists have cut estimates for GDP growth in the wake of the vote, but only by a small amount. The U.S. economy continues to benefit from some key supports. Interest rates remain low, the labor market continues to improve, wages have continued to increase, and the housing market in

Featuring

TOTAL RETURNS

	2Q2016	2016
S&P 500	2.5%	3.8%
Dow Jones Industrial Average	2.1%	4.3%
NASDAQ	-0.2%	-2.6%
Russell 2000	3.8%	2.2%
MSCI EAFE (International)	-1.2%	-4.0%
Barclays Aggregate Bond Index	2.2%	5.3%

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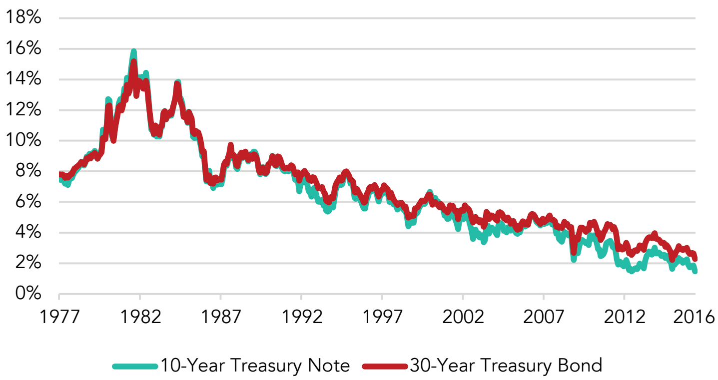
most areas is healthy. Still, the impact of Brexit will be a drag on growth as well as confidence among consumers and businesses. Elsewhere, GDP estimates for both the U.K. and the E.U. have been reduced by larger amounts, from already-weak levels. Brexit could possibly send the U.K. and the E.U. into recession. Reflecting these realities, currency moves in the wake of Brexit were substantial. Both the pound and euro weakened versus the U.S. dollar as investors sought safety in the relative stability of the greenback. Euro weakness could continue as investors question the resiliency of the economic and political union.

U.S. Treasury Yields Near All-Time Lows



Source: Bloomberg

Central Banks Respond with More Support; Interest Rates at Historic Lows

The Bank of England (BOE) has already announced its intention to cut rates, and the European Central Bank (ECB) may follow suit. The BOE will also consider embarking on asset purchases (quantitative easing, or QE), which the ECB is already doing to a large extent. In the U.S., odds of a Federal Reserve (Fed) rate hike dropped after the vote. The Fed was already treading cautiously in 2016, in part due to the prospect of Brexit. Now that the vote has been cast, the Fed will likely remain on hold to remain supportive while the dust settles. The bond market is now pricing in a 0% probability of a rate hike before the end of the year. The market anticipated higher interest rates in 2016, but rates have actually moved lower as a result of economic weakness and the flight to safety after the Brexit vote. Government bond yields around the world are at historically-low levels, averaging less than 1%. U.S. Treasury yields are also hovering near all-time lows, but at relatively higher levels than most developed nations. The decline in rates helped bonds outperform stocks in the first half of the year.

Brexit Domino Effect?

Investors will be watching for a domino effect of Brexit, which would probably exacerbate volatility and concern in the markets. While Brexit is likely a negative for the E.U. and its future, there are some unique aspects of the relationship between the U.K. and Europe that make the break-up different than if it were one of the core countries on the continent. For example, the U.K. never adopted the euro as its currency, opting instead to retain the pound. It also maintained its own central bank. In contrast, if Italy, France or other countries decide to hold a referendum and vote to leave, it would be more complicated. The difficulties would be much greater given the common currency and central bank. Perhaps more importantly, if that were to happen it would cast substantial doubt on the viability of the E.U. experiment.

Volatility is the Norm and Creates Opportunities

The combination of lower growth, a stronger dollar, as well as increased volatility and uncertainty is not supportive of stocks. Some of the stock market movements in the wake of Brexit were similar to what occurred in the January/February correction. Financials, multi-nationals, and commodity-related companies were the most impacted. Corporate earnings had already begun to slow, and Brexit is likely to exacerbate the trend.

Despite the tumultuous trading at the end of June, U.S. stocks remain within close distance of record highs and are positive for the year. But recent market behavior is a reminder that volatility is a normal part of investing, and times like these test investors' discipline. On average, stocks experience three drops of 5% and one 10% drop every 12 months. These create opportunities for patient and disciplined investors and serve as a reminder of the value of diversification.

European Union Facts and Figures

> In 1958, Belgium, France, Germany, Italy, Luxembourg, and the Netherlands created the European Economic Community. In 1993, the European Union was created.

> The E.U. includes 28 member nations (including the U.K.). The 19 member nations that use the euro are known as the Eurozone or Euro area.

> The population of the E.U. is over 500 million, including 65 million in the U.K.

> Eurozone GDP in 2015 was approximately $13.4 trillion, second-largest in the world behind the U.S. ($17.9 trillion). U.K. GDP in 2015 was $2.8 trillion, approximately the same as California.

> The E.U. accounts for approximately 7% of the world's population and 20% of global trade. Two-thirds of E.U. trade occurs among the members themselves.

> The euro, established in 1999, is the world's second-most traded currency behind the U.S. dollar.

Source: FactSet, Bloomberg, European Union

Is it Time for an Estate Plan Check-up?

A recent Gallup poll found that just 44% of Americans have a written last will and testament, meaning that more than half of Americans will leave no indication as to how assets should be handled upon their death. Sadly, dying without a plan in place or even an ill-conceived plan only serves to increase stress for heirs, who in addition to grieving the loss of a loved one, are forced to deal with the hassle and complexity of the estate settlement process. A common misconception is that only the ultra-wealthy need an estate plan. Another common mistake is to believe that once an estate plan is created it will never need to be revisited. This is simply not the case. There are several reasons to act now to prepare for the inevitable.

Who should worry about estate planning, and why?

Estate planning is important for everyone to consider, regardless of wealth, because it involves more than just money. Age and/or illness often lead to the need for others to step in to assist with financial and health care matters. Even if that doesn't occur, everyone should have a plan in place for the distribution of assets upon death.

What is an "estate plan?"

At a minimum, an effective estate plan consists of the basic legal documents that give direction as to what should occur at various life stages, particularly at the end of life.

> Financial power of attorney
> Health care directives (health care power of attorney, living will, health care information release)
> Last will and testament
> Trust

Each document serves a particular purpose. A financial power of attorney enables an agent or agents to act on behalf of another person with respect to financial matters. Health care directives allow an agent to do the same with respect to health care decisions. These documents are effective only during the lifetime of the individual.

A last will and testament controls the disposition of probate assets – generally, assets titled in one's individual name at the time of their death. A will can also appoint a guardian for minor children. A will takes effect at the time of death. A trust controls the disposition of assets titled in the name of the trust or assets that pass into the trust upon death. A trust can be effective both during one's lifetime and after death.

When should I begin thinking about estate planning? If I have an estate plan in place, when should I review it again?

Certain life events create good opportunities to create or revisit estate plan documents. Some examples are:

> Marriage
> Divorce
> Death of a loved one
> Substantial change in assets
> Birth or adoption
> Retirement
> Change in health
> Change in family circumstances

Three Key Questions

1. How much of your assets do you need to retain during your lifetime to feel financially secure?

2. How much wealth do you want to transfer to your family, and how and when should it be transferred given your family's unique circumstances?

3. With what's left, how much should be given to charity?

Our goal is to help answer these questions and create a plan that will achieve your specific goals. When the time comes to write these documents, we partner with clients and estate planning attorneys to ensure the documents are aligned with client objectives.

Asset titling is another critical piece of every estate plan. Appropriately naming investment and bank accounts along with personal assets and real estate can greatly simplify matters for your heirs. In addition, it is critical to confirm and frequently review all beneficiary designations for retirement assets and insurance policies. For many people, beneficiary designations are the most important part of the estate plan.

Johnson Investment Counsel and Johnson Trust Company are well positioned to assist with the estate planning process. If you have questions or concerns, contact your Portfolio Manager.

New Shareholders

We are pleased to announce and congratulate six new shareholders to the firm: Jim Hunter, Vince Russell, Joel Siefert, Michelle Stroh, Sharon Tallman, and Matt Yung. All are Portfolio Managers in our Private Client Group. Since 2001, JIC has been a privately-held, employee-owned firm, which has allowed us to truly focus on the long-term needs of our clients. These new shareholders embody our firm's core values and have demonstrated a commitment to JIC and its mission – providing peace of mind to our clients through trusted counsel and a genuine desire to help people.


Jim Hunter


Vince Russell


Joel Siefert


Michelle Stroh


Sharon Tallman


Matt Yung

Congratulations to Trinity

We are pleased to announce that Trinity Garrett of Johnson Trust Company has been promoted to Trust Associate. This new role is a reflection of her ability, experience, and commitment to serving people.


Trinity Garrett

New Additions to the Team

At Johnson Investment Counsel, we continue to invest in our service infrastructure, which includes hiring the right people to join our team. As our firm grows, this expansion is critical to maintain our objective of providing the highest level of client service. We are pleased to announce that the following individuals have joined our team over the last quarter.

> Dan Gusty
Portfolio Manager

> Dom Robles
Senior Operations Associate

> Justine Waterman
Operations Associate

> Tammy Truman
Receptionist


Dan Gusty


Dom Robles


Justine Waterman


Tammy Truman

JIC Named a Top Workplace

Johnson Investment Counsel was named one of "Cincinnati's Top Workplaces in 2016" by Enquirer Media. Based upon employee feedback, companies were evaluated on the following criteria: opportunities for career development, balance between work and personal life, compensation, manager performance, and overall job satisfaction.

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About Us

Johnson Investment Counsel, Inc. is Ohio's largest independent wealth management firm, managing over $8 billion in assets. Johnson Investment Counsel is an employee-owned firm, offering a full range of fee-based, integrated wealth management services, including: investment portfolios, education and retirement planning, cash management, estate planning, trust services, charitable giving, mutual funds, 401(k) plans, IRAs and more. Johnson Investment Counsel has built strong, long-term relationships with individuals and families, charitable organizations, foundations and corporations through three divisions: Johnson Private Client Group, Johnson Trust Company, and Johnson Institutional Management.

Divisions

- Johnson Private Client Group
- Johnson Trust Company
- Johnson Institutional Management

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