The Education Liquidity Fund

The Education Liquidity Fund Letter

July 2016

For institutional investors only. Not to be used for retail investors.

Global Shocks Muddy the Water

The second quarter can best be described as a "rollercoaster of macro events" that continue to shape the outlook for the U.S. and global economies. After the extreme market volatility experienced in the first few months of the year, the second quarter was relatively calm until June. The volatility in June began with disappointing monthly jobs data and ended with the surprising result of the U.K. referendum to leave the European Union.

The "Brexit" vote resulted in significant volatility in currency, interest rate, and equity markets as the uncertainties and risks this brings to both the U.K. and the E.U are on investors' minds. While the indirect impacts and the longer-term consequences of the U.K. exit vote are unclear for both the U.S. and the Eurozone, we do know that the vote creates uncertainty and risk to the region that will create headwinds to growth in the near term. As for the U.S., the U.K. is a relatively small trading partner and direct impacts are likely minimal.

Within the U.S., the consumer continues to be a relative bright spot. Consumer confidence has increased over the last several quarters and remains near multi-year highs, due in part to a sustained level of moderate growth in personal income experienced since 2014. Consumer spending dipped slightly in the first few months of the year but has returned in the 2nd quarter. Expectations are for the trend to continue based on solid income levels, low interest rates, and continued job market strength. This is critical to sustained GDP growth as household spending accounts for more than two-thirds of economic growth here in the U.S.

U.S. GDP growth has been choppy for the past few years, primarily due to the annual slowness we've experienced during the 1st quarter. Nevertheless, we believe we'll see a fairly stable GDP growth of 2 to 2.5 percent in the coming quarters, which should outpace many developed markets.

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Market Consultant Responds to Your Questions

Dan Zomermaand

Questions abounded this quarter about the likely impacts of the "Brexit" vote.

Q: I've heard conflicting reports on how the "Brexit" vote will impact us here in the U.S. Can you clarify?

A: The recent "Brexit" vote resulted in significant trading as global speculators sought to take advantage of the uncertainties and risks this brings to both the U.K. and the E.U. While the unwinding of these agreements will likely take at least 2 years, the British Pound Sterling plunged to a 30-year low and some European 10-year government bonds dropped into negative yields for the first time in history. Given this volatility in currency and in European bond yields, it is likely the U.S. dollar and the U.S. government bonds will remain strong as a global safe haven for a significant period of time, which may keep U.S. rates lower for longer. Additionally, this has impacted the Federal Reserve's resolve to further raise rates this year. While we still expect one increase in 2016, it is unlikely we will see more.

If you would like more information on these questions or you have others, please let us know.

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Events

August 3
School Administrators of Iowa

September 24-27
Community College Business Officers

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IACCT

Holidays

Closed to transactions and participant inquiries.

Monday, July 4
Independence Day

Monday, September 5
Labor Day

Monday, October 10
Columbus Day

Professionals

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