The Risk of Brexit on Economic Growth

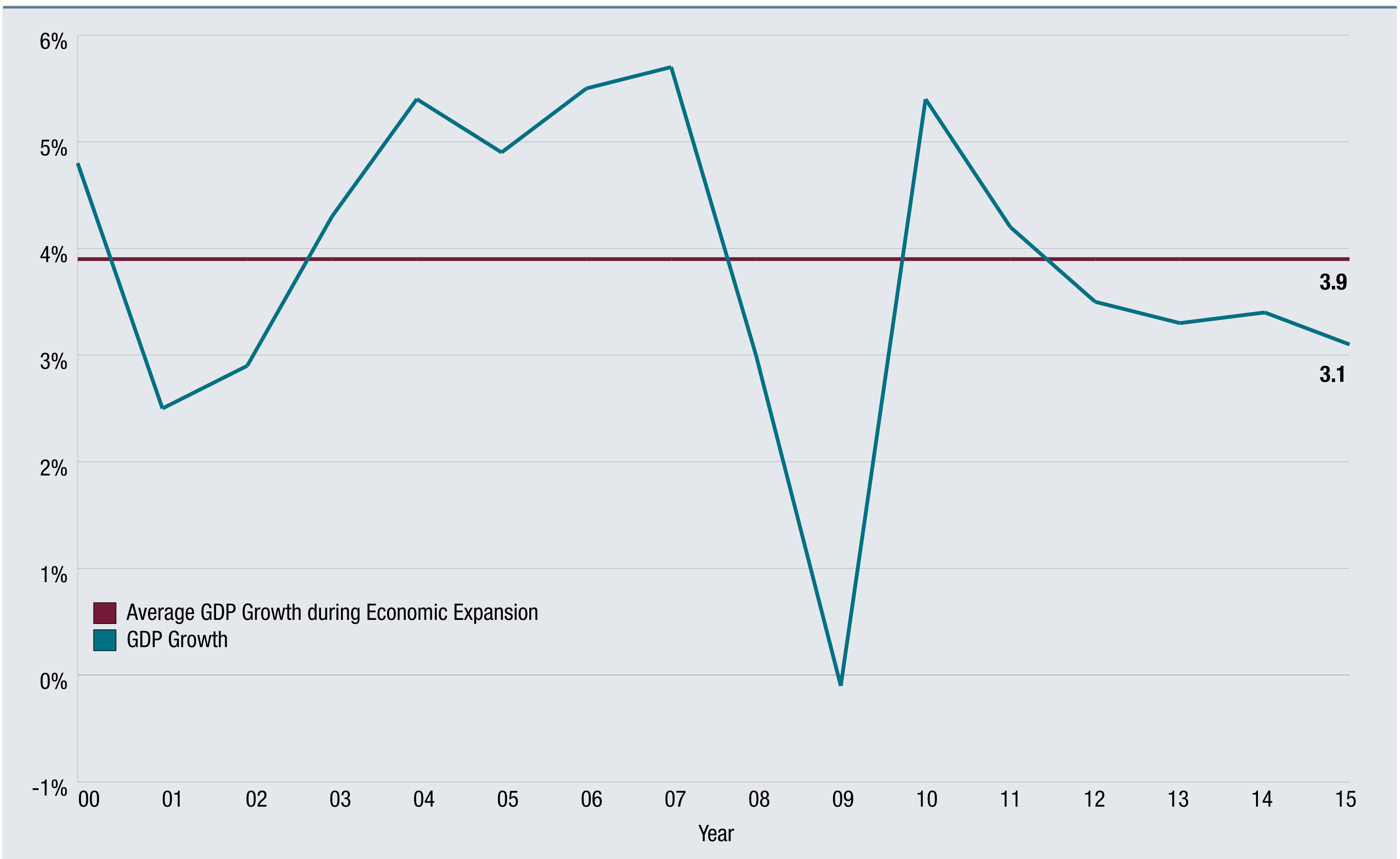
– Michael Mack, Portfolio Manager

The news of the United Kingdom's vote to exit the European Union, more commonly known as Brexit, has many scrambling and wondering what the fallout will be for economic growth. The general consensus is that investors should expect the British pound and the euro to weaken as currencies. UK and European equities may depreciate as well. Beyond this, the outcome is unclear and likely dependent upon the impact of the political uncertainty surrounding Brexit.

Economic Growth

With global economic growth already slowing, the timing of the Brexit is less than ideal. Global GDP is growing at 3.1% compared to the 3.9% expected during expansions. Even the US, a lone bright spot in the past few years, has started to see growth slow thanks to a stronger dollar and lower oil prices.

International Monetary Fund World GDP Growth – as of 12/31/15



Source: IMF

There are several factors that have contributed to the current weak economic growth.

- **Lower corporate earnings** – For the sixth consecutive quarter, the S&P 500® earnings projection is negative for Q2 2016.
- **Higher loan delinquencies** – Delinquencies for commercial and industrial loans have increased for five consecutive quarters. The delinquency rate has doubled since Q3 2014.
- **Tighter lending standards** – Banks have tightened lending standards for four consecutive quarters. Tighter lending standards tend to precede recessions.
- **Business inventory build-ups** – Sales growth has lagged inventory growth resulting in inventory counts near recessionary levels.
- **Uncertain employment growth** – Monthly increases in non-farm payrolls declined from 250,000 in April to just 38,000 in May, followed by an increase of 287,000 in June.

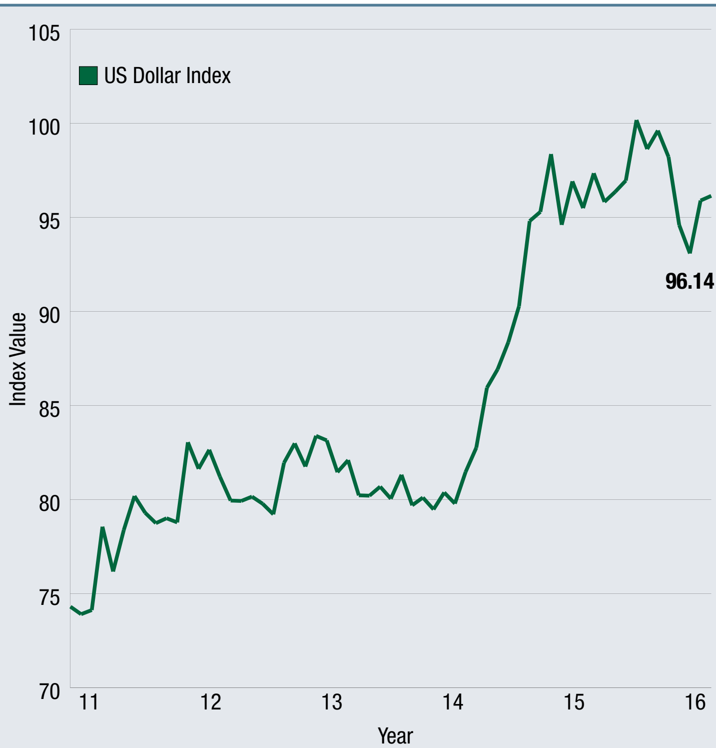
While those factors paint an ominous picture of the US economy, it is important to take notice of what is doing well.

- **Strong housing market** – Home sales are increasing, housing prices are increasing, and mortgage delinquencies are declining.
- **Strong auto sales** – Auto sales are near multi-year highs.
- **Accommodative monetary policy** – Interest rates remain near all-time lows.

Going forward, consumers need to drive economic growth through higher spending. However, consumer confidence is likely to suffer as a result of the Brexit. A severe decline in confidence may stifle US economic expansion and potentially cause a recession to take place. Outside of the US, growth has been weak for some time. Uncertainty continues to plague the Eurozone ever since the Greek debt crisis began in 2011. Moderately strong growth in Germany and France counteracts the near recessionary conditions across the rest of the Eurozone and Japan continues to be stuck in a deflationary spiral that has plagued them over the past twenty years. Emerging market economies have also seen a slowdown thanks to the strong US dollar, low oil prices, the lack of structural reforms, and political unrest. Even though the Brexit is recent, there are a few notable effects already.

The Brexit Risk

Strong US Dollar – as of 6/30/16

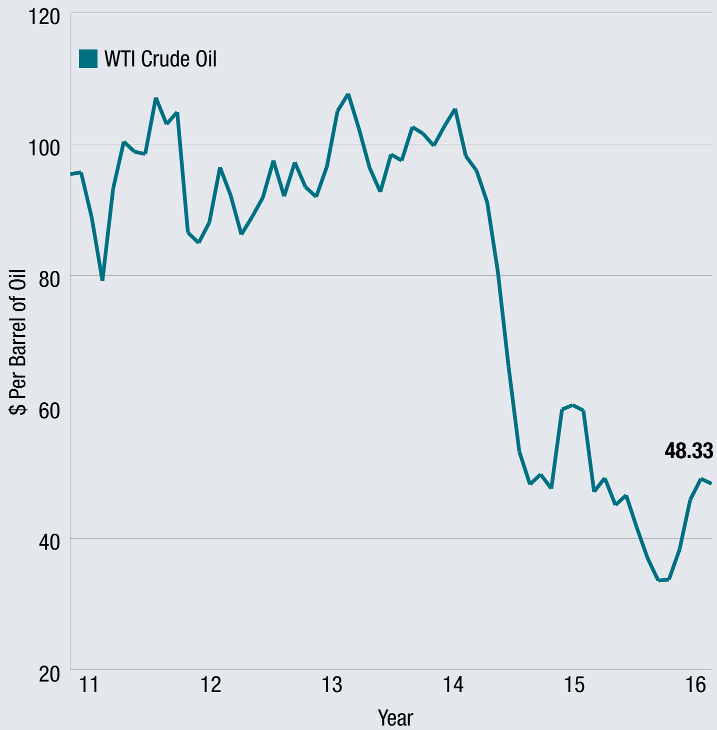


The general consensus is that the UK pound is expected to weaken in order to attract foreign capital.

This capital is needed to fund the country's current 5.74% account deficit caused by a greater number of imports than exports in the UK. The weakened pound will likely influence the euro as political uncertainty weighs on confidence. The European Central Bank is expected to increase asset purchases to maintain liquidity in response to Brexit.

Source: Bloomberg

Low Oil Prices – as of 6/30/16



Lower oil prices are expected as confidence wanes across the globe.

The potential for weaker economic growth could lower oil demand. Also, oil prices tend to be negatively correlated with the US Dollar.

Source: Bloomberg

Weaker Consumer Confidence – as of 6/30/16

During the two-day Brexit sell off, investors saw $2.4 trillion in stock market wealth disappear.

Most of those losses have been recovered, but it is unclear if the effects of Brexit are over. A deeper sell-off is still possible given the lengthy process involved in Britain's exit of the European Union. This next possible decline in equity prices could weigh on consumer confidence as they see the value of equity portfolios decline.

Source: Bloomberg

Maintain a Defensive Bias in Portfolios

While these risks are cause for concern, investors should also weigh the impact of the upcoming central policy support. Since the Brexit vote on June 23, central banks across the world have issued statements signaling their support to the markets. Though investors question the effectiveness of the central bank policies, it certainly has been effective in maintaining liquidity since the global financial crisis. Whether the push by the central bank is successful this time remains to be seen, but in the meantime, we believe investors should maintain a defensive bias in their portfolio.

More specifically, coupling a high dividend or low volatility strategy with a risk management strategy like the Pacer Trendpilot™ ETFs is conducive to this uncertain environment. The Trendpilot™ strategy removes emotions from the decision making process and aims to participate in the upside and minimize exposure to the downside. Each ETF in the Trendpilot™ lineup uses a benchmark index and its 200-day simple moving average (SMA) to decide when to participate in the market and when to exit it either partially or completely. The Pacer Trendpilot™ European Index ETF (PTEU) has been in the T-Bill position since 6/17/16 and did not feel the severe impact of Brexit on markets. Consider this and other Trendpilot™ ETFs to mitigate risk while participating in market gains.

Learn more about how **PTEU** can help diversify your portfolio.

Before investing you should carefully consider the Fund's investment objectives, risks, charges, and expenses. This and other information is in the prospectus. A copy may be obtained by visiting www.paceretfs.com or calling 1-877-337-0500. Please read the prospectus carefully before investing.

An investment in the Funds is subject to investment risk, including the possible loss of principal. Pacer ETF shares may be bought and sold on an exchange through a brokerage account. Brokerage commissions and ETF expenses will reduce investment returns. There can be no assurance that an active trading market for ETF shares will be developed or maintained. The risks associated with these funds are detailed in the prospectus and could include factors such as concentration risk, equity market risk, fixed income risk, government obligations risk, high portfolio turnover risk, large and mid-capitalization investing risk, new fund risk, other investment companies risk, passive investment risk, tracking risk, trend lag risk, currency exchange rate risk, European investments risk, foreign securities risk, geographic concentration risk, non-diversification risk, and/or special risks of exchange traded funds.

This document does not take into account any investor's particular investment objectives, strategies, tax status, or investment horizon. Please consult with your financial advisor and tax advisor before investing.

This document is not intended to be relied upon as a forecast, research or investment advice, and is not a recommendation, offer or solicitation to buy or sell any securities or to adopt any investment strategy. This document represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. The user of this information assumes the entire risk of any use made of the information provided herein.

The MSCI World Index captures large and mid cap representation across 23 Developed Markets (DM) countries. With 1,645 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

Trendpilot™ is a registered trademark of Index Design Group, LLC.

Distributor: Pacer Financial, Inc., member FINRA, SIPC, an affiliate of Pacer Advisors, Inc.

NOT FDIC INSURED | MAY LOSE VALUE | NOT BANK GUARANTEED

PACER ETFs

16 Industrial Boulevard ▪ Suite 201 ▪ Paoli, PA
19301 ▪ 877-337-0500 ▪ www.paceretfs.com