



Monthly Market Commentary July 2015

ECONOMY: Developed & Emerging Economies Diverge

Q2 GDP

GDP grew 2.3% in the second quarter, less than expected, but still as significant improvement after paltry 0.6% in the first quarter.

INFLATION WATCH....

The core CPI, which strips out food and energy prices, is up 1.8% from a year ago, close to the Federal Reserve's target of 2%. Globally, inflationary trends are weak as most major economies (i.e. China, Japan, and Europe) are weak or slowing. Additionally, commodity prices have tumbled in recent weeks as concerns over slow global growth and over-supplied markets have mounted. The latest drop in commodity prices will likely renew downward pressure on consumer price inflation.

...JOBS...

The US economy added 215,000 jobs in July, and the unemployment rate held steady at 5.3 percent—a seven-year low. Over the past six months, the economy has added an average of 213,000 jobs per month. However, hourly earnings remain stagnant, and have grown just 2.1 percent over the past year even as the job market has tightened. And labor force participation rate has remained stubbornly

... AND THE FED

Fed chair Janet Yellen has made no secret that the decision on when to begin to normalize short-term interest rates would depend on the economic data. The policy statement from the most recent FOMC meeting suggests that the Fed still sees the economy growing modestly. The labor markets are seen as improving and inflation, while still below expectations, is expected to gradually move back toward their preferred 2 percent pace.

CONSUMER CONFIDENCE FALLS

The Conference Board **Consumer Confidence Index**[®], which had improved in June, declined in July. The Present Situation Index decreased moderately in July, while the Expectations Index declined sharply. *"Consumer confidence declined*

sharply in July, following a gain in June. Consumers continue to assess current conditions favorably, but their short-term expectations deteriorated this month. A less optimistic outlook for the labor market, and perhaps the uncertainty and volatility in financial markets prompted by the situation in Greece and China, appears to have shaken consumers' confidence. Overall, the Index remains at levels associated with an expanding economy and a relatively confident consumer."

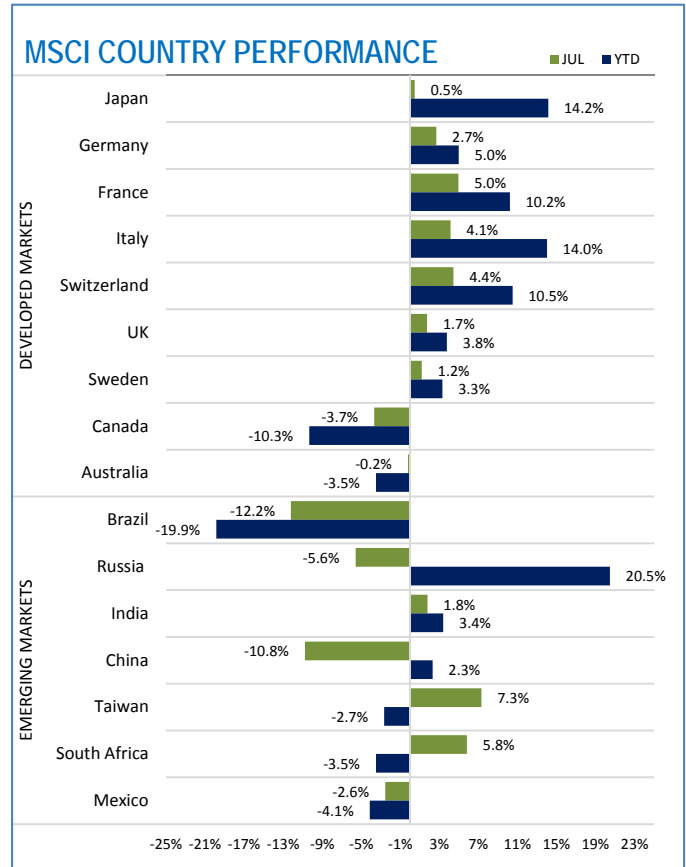
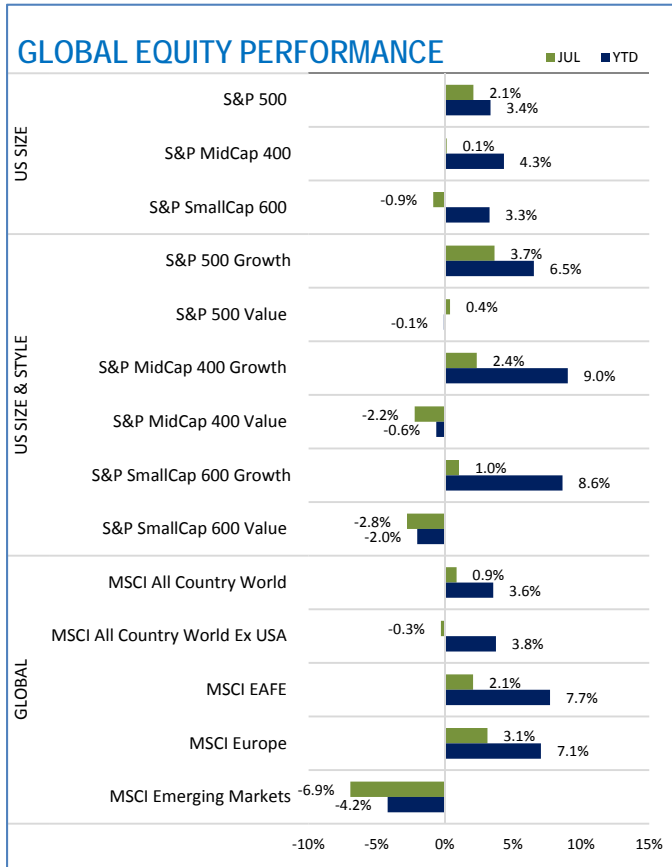
EUROPEAN RECOVERY REMAINS

Growth in the Eurozone is recovering faster than many expected, the result of lower oil costs and a weaker euro spurring exports. Eurozone GDP grew 0.4% in the first quarter, and consensus GDP forecasts for 2015 and 2016 have been revised upward, while deflationary fears have receded. The region is also benefiting from moves away from fiscal austerity, and accommodative monetary policies. The European Central Bank has taken several steps since last summer to increase the degree of policy accommodation, including an expansion of its bond-buying program this year.

EMERGING ECONOMIC DIVERGENCE

- In China, growth prospects have been reduced to slightly below the government's 7% target for 2015. Policymakers have been aggressive, but structural problems persist as China transitions to a more consumer-oriented economy.
- India now appears to be growing faster than China, After taking office last year, Prime Minister Narendra Modi's government has set a course for steady economic reforms.
- Russia entered into recession in the first quarter, and recent data point to an economic contraction for the full year. Sanctions remain in place amid risks from potential reescalation of tensions with Ukraine.
- Brazil faces multiple challenges. Its central bank is near the end of a series of rate hikes designed to cut inflation from over 8% to below 6.5%. President Dilma Rousseff's government appears committed to fiscal adjustment to maintain the country's investment-grade credit rating.

GLOBAL EQUITIES: US Focused On Earnings



EARNINGS DRIVE US EQUITIES HIGHER

The major benchmarks were mostly higher for the month, as global macroeconomic concerns appeared to be offset by some better-than-expected earnings reports. With over three-quarters of companies in the S&P 500 having reported earnings, the market was up 2.1% since earnings started, accounting for most of the 3.4% gain YTD. Smaller-cap shares lagged their larger counterparts, as the S&P SmallCap 600 fell 0.9% for the month. Growth significantly outperformed value across the market capitalization spectrum.

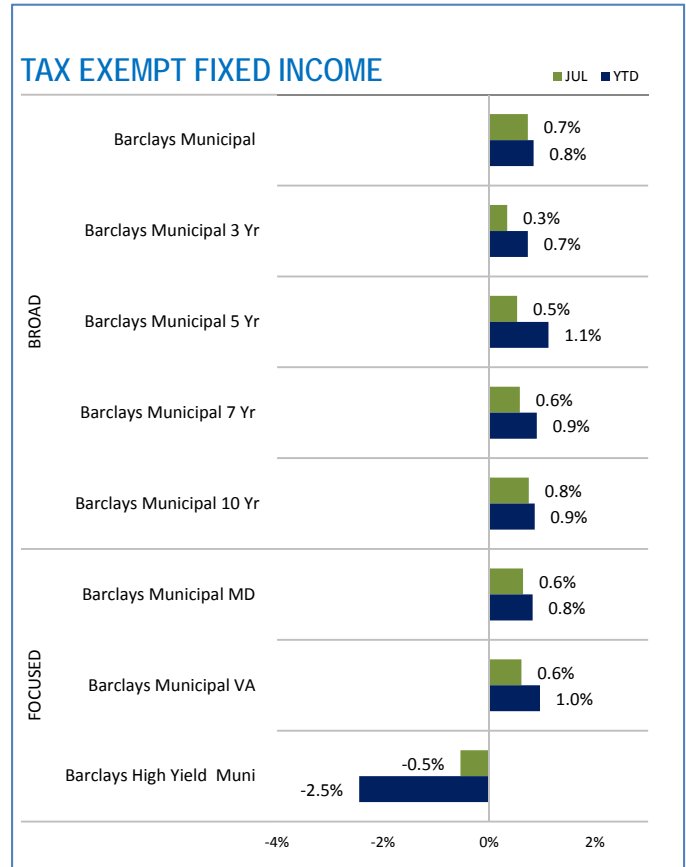
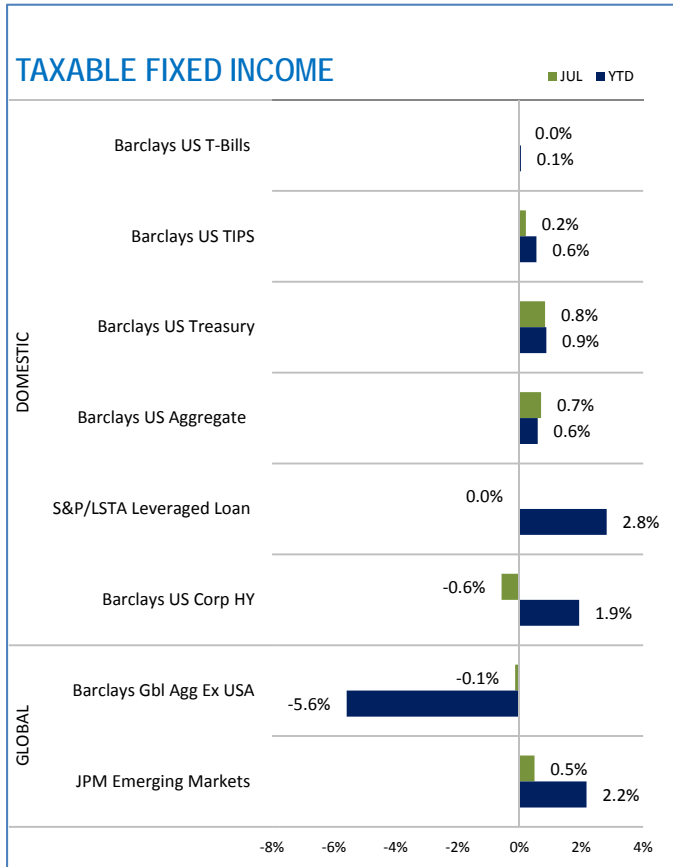
EUROPE STRONG AS EMERGING MARKETS FALL

Developed European markets generated solid gains in July, with many counties posting returns of 2-4%. In the Asia-Pacific region, developed markets generated flat to modestly lower performance. Emerging markets stocks in Latin America, Asia, and Eastern Europe fell significantly in July as the largest emerging markets dragged the broad emerging markets index lower.

GOV'T EFFORTS CAN'T STOP CHINESE FREEFALL

Chinese stocks fell 10.8%, while the A shares market fell nearly 14.7%, though both markets remain positive this year. China's stock market slump, which began after markets peaked on June 12, continued even after the government took unprecedented steps to stem the decline, such as banning insider selling, allowing nearly half of all listed companies to halt trading, and supplying billions of dollars to a state-run fund to buy shares.

FIXED INCOME: Treasuries Remain Volatile



TREASURY VOLATILITY REMAINS

U.S. Treasury yields were volatile throughout July amidst the Greek debt crisis and Chinese stock market rout. As expected, the Federal Reserve left rates unchanged and reiterated that future rate hikes will be data dependent. Short-term Treasury yields edged higher, but longer-term yields ended July slightly lower, pressured by falling commodities prices, stock market weakness, and easing inflation expectations. The yield on the 10-year U.S. Treasury fell 23 basis points during July to end at 2.20%

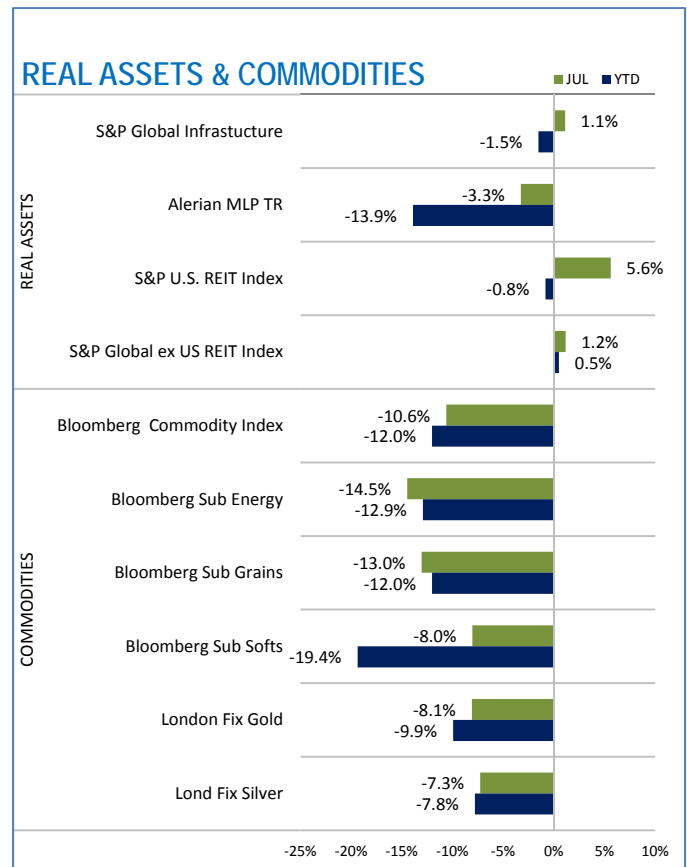
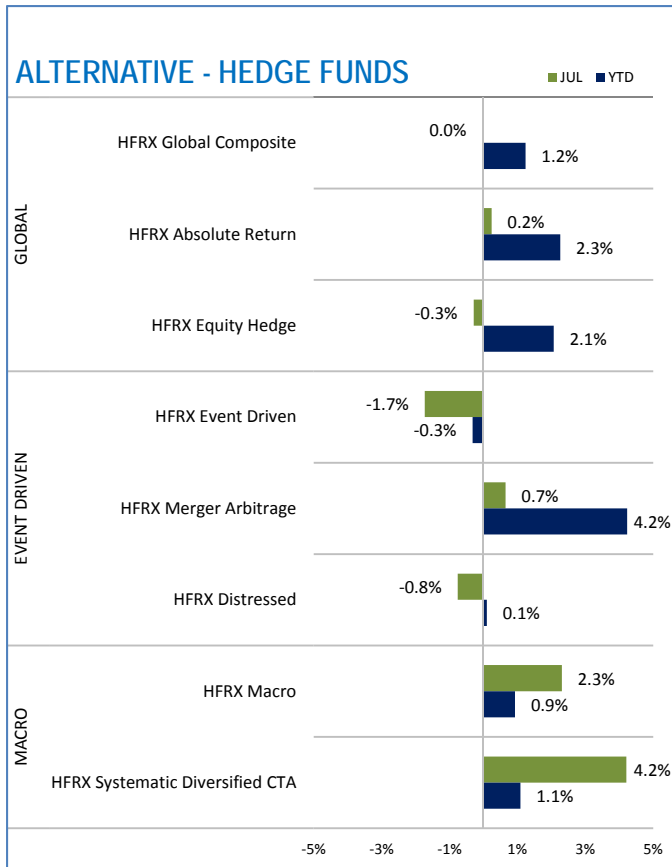
HIGHER RATED "JUNK" OUTPERFORMS

Overall high yield bonds returned -0.6% during the month of July, underperforming the S&P 500 by 2.7%. For the year high yield now trails the S&P 500 by 1.4%. Lower rated credits (CCC-rated securities) underperformed higher rate issues, signaling that investors may be less willing to underwrite less liquid and risky credits in today's profit growth environment.

MUNI'S RECOVER DESPITE PUERTO RICO

The municipal market was bolstered by the ability of many municipalities to issue new bonds with lower yields as well as by strong demand. This technical support helped the market surmount fundamental concerns. Municipal bonds snapped a three-month losing streak and posted positive results in July even as investors braced for Puerto Rico to miss another debt payment.

ALTERNATIVES: Commodities Continue To Fall



HEDGE FUNDS POST MIXED RESULTS

Hedge funds posted mixed results for July at the HFRX Global Hedge Fund Composite was flat for the month. Global macro and managed futures strategies posted strong returns due to the decline in commodities, and gains in the currency and equity markets. The HFRX Merger Arbitrage index is up 4.2% year to date amidst a boom in M&A activity.

TOUGH YEAR FOR MLPs

It was another hard month after an already disappointing year for Master Limited Partnerships (MLPs) as the Alerian MLP Index fell another 3.3%. Oil prices fell nearly 20% during July, and MLPs fell despite raising their tariffs by 4.58% according to the Federal Energy Regulatory Commission (FERC). Many MLPs operate as “toll roads” transporting oil & natural gas, and their tariffs are akin to a toll to use their assets. The yield spread on the Alerian MLP Index currently stands at 4.5% over the 10-year Treasury compared to a historical median of around 3.3%

COMMODITIES PLUNGE

Commodities suffered the biggest monthly decline in almost four years on concern that supplies are rising as demand slows. The Bloomberg Commodity Index fell 10.6% in July, its worst monthly performance since September 2011. The prospect of higher borrowing costs in the U.S. strengthened the dollar and drove gold to the lowest in five years. Grains including wheat, corn and soybeans had their worst monthly performance this year.