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Investment Summary
2nd Quarter 2015

Following a modestly positive first quarter for stocks and bonds, major asset classes stumbled in the second quarter due to turmoil overseas. The month of June was particularly weak, with problems in both Greece and China capturing investors' attention. In the case of China, their $7 trillion stock market fell sharply due to concerns of slowing economic growth, as well as government meddling in their financial markets. China has clearly communicated their goal to make their stock and bond markets more open and transparent, but have found execution of that goal to be fraught with challenge.

To recap the debt crisis in Greece: the local government had been under-reporting their national debt for years, before coming clean during the financial crisis of 2009. To avoid collapse of the Greek economy in 2010, the European Central Bank (ECB) and International Monetary Fund lent the troubled country $260 billion with the caveat that Greece would fix their woeful finances. What proceeded was a 25% contraction in the Greek economy and soaring unemployment of 25%. In the most recent update, Greece has agreed to make good on a current debt payment to the EU, and remain a member of the Eurozone. However, it is clear to all participants that the national debt levels in Greece are unsustainable, and that major concessions must be considered in order to avoid bankruptcy.

Despite the turmoil overseas, stocks around the world showed their resiliency yet again, bolstered by solid earnings reports. Year to date through June 30th, the international and U.S. equity benchmarks were up 5.9% and 1.2%, respectively, while the U.S. bond index registered a loss of 0.1%. Higher interest rates are to be expected at this point in the business cycle, as investors anticipate an improving economy and tighter monetary policy forthcoming from the Federal Reserve.

Parsing the U.S. economic data, 2015 GDP is forecast to grow in the 2 to 2.5% range. This rate of economic growth is lower than most analysts expected, as difficult winter weather, labor problems in the ports, and cautious businesses and consumers alike have tempered business activity. Nonetheless, slower GDP growth isn't entirely problematic, as it can lend itself to a longer recovery. In 2015, the U.S. economy looks to continue its pace of 240,000 jobs created per month, helped by a housing market that is finding its stride (in the form of 9% growth in housing starts and an 8% increase in home sales). While the second half of the year looks promising on many fronts, from low inflation to expected steady corporate earnings, we will continue to place emphasis on stability and diversification at this juncture of the economic recovery.