

Economic Review

Contagion redo or crisis containment? The outcome of the Greek vs. European Union game of chicken could significantly disrupt the world economy and global financial markets.

The spillover effect on US growth, the dollar, and oil prices undoubtedly will impact the Federal Reserve's outlook with respect to the timing of interest rate increases, previously believed to begin in September by a majority of prognosticators.

At its June meeting, the Federal Open Market Committee reaffirmed its view that the current 0 to ¼ percent target range for the federal funds rate remains appropriate. The Committee stated that when it decides to begin to remove policy accommodation, it will take a balanced approach consistent with its longer-run goals of maximum employment and inflation of 2 percent.

Real gross domestic product (GDP) decreased at an annual rate of 0.2% in the first quarter of 2015 compared to the previous estimate of a 0.7% decrease. GDP increased 2.2% in the fourth quarter of 2014. Estimates by economists for GDP growth in the second quarter are primarily in the 2 to 3 percent range.

The Conference Board Leading Economic Index increased sharply again in May, confirming the outlook for more economic expansion in the second half of the year.

The U.S. Bureau of Labor Statistics reported that the unemployment rate was essentially unchanged at 5.5% in May, as well as the number of unemployed persons at 8.7 million. The number of long-term unemployed (those jobless for 27 weeks or more) accounted for 28.6% of the unemployed. The civilian labor force participation rate was little changed, at 62.9%

Consumers voiced in the first half of 2015 the largest and most sustained increase in economic optimism since 2004 according to the June Thomson Reuters/University of Michigan Surveys of Consumers. The fewest consumers thought the economy had worsened in the survey than any time since August of 2000. Consumers more favorably assessed their current finances as well as their future financial prospects than in the first half of any other year since 2007.

Financial Markets Review: Domestic Stock Market

The Dow Jones Industrial Average fell for the second straight quarter, down 0.88% to 17,619.51. The DJIA is off 1.14% for the year-to-date. The S&P 500 fell 0.23% (ex-dividends) for the quarter to 2,063.11, and eked out a mere 0.20% gain for the YTD marking its worst first half to a year since 2010. The NASDAQ rose 1.75% for the quarter and 5.30% YTD to end at 4,986.87.

Among the 10 sectors in the S&P 500, healthcare led the second quarter with a 2.84% gain, followed by consumer discretionary advancing 1.92% and financials returning 1.72%. Lagging sectors included utilities sinking 5.80%, industrials sliding 2.23%, and energy dropping 1.88%.

Mid- and small-cap stocks had mixed results in the second quarter, with the S&P Midcap 400 Index declining 1.06% while the S&P SmallCap 600 Index was able to add 0.19%.

With respect to style, growth outperformed value for both large- and small-cap stocks for the three-month period.

The top-performing stocks in the Dow Jones Industrial Average for the second quarter included J.P Morgan Chase (+11.85%), Goldman Sachs (+11.08%), and Walt Disney (+8.82%). Stocks detracting from the Dow's performance included Wal-Mart Stores (-13.76%), Travelers (-10.61%), and DuPont (-10.52%).

Leaders for the quarter among the Dow Jones industry groups included home construction (+9.8), biotechnology (+7.7%), and investment services (+7.5%). Laggards included airlines (-12.3%), aluminum (-12.3%), and railroads (-10.8%).

The current price-earnings level of the S&P 500 at 21.52 (per Barron's) is 11.4% higher than levels a year ago—indicating that stocks appear richly valued.

Looking forward to the third quarter of 2015, geopolitical and financial turmoil, a continuing strong dollar, heightened market volatility, mixed U.S. economic data, low oil prices, overseas recession and deflation concerns, and uncertainty around the timing of the next Fed move will likely dominate headlines.

Category/Style	Total Returns (6/30/15)			Annualized Returns (6/30/15)		
	2nd Quarter	Year-to-Date	One Year	Three Years	Five Years	Ten Years
S&P 500 (w/ dividends)	0.28	1.23	7.42	17.31	17.34	7.89
Russell 1000 Large Cap	0.11	1.71	7.37	17.73	17.58	8.13
Russell 1000 Growth	0.12	3.96	10.56	17.99	18.59	9.10
Russell 1000 Value	0.11	-0.61	4.13	17.34	16.50	7.05
Russell 2000 Small Cap	0.42	4.75	6.49	17.81	17.08	8.40
Russell 2000 Growth	1.98	8.74	12.34	20.11	19.33	9.86
Russell 2000 Value	-1.20	0.76	0.78	15.50	14.81	6.87

Source: Frank Russell Company/Standard and Poor's

International Stock Markets

Greece's default on a loan from the International Monetary Fund (IMF) has set the stage for a tense showdown with international creditors ahead of a national referendum that will likely decide its Eurozone membership. Inflation in the Eurozone eased in June, highlighting that the region remains vulnerable to deflation pressures. China's unexpected interest rate cut failed to soothe the country's sliding stock market. Puerto Rico is seeking to delay payments on the island's \$72 billion debt load for a "number of years" as part of a plan to bolster the commonwealth's finances and revive its economy.

The MSCI EAFE Index of developed markets outperformed the broad U.S. markets, gaining 0.62% in the second quarter. Emerging markets also advanced 0.69%, as measured by the MSCI Emerging Markets Index. Frontier markets dipped 0.05%, according to the MSCI Frontier Market Index.

Major international markets were mixed in the second quarter, with the Stoxx Europe 600 Index leaping 11.32% to 381.41. Germany's DAX Index plunged 8.53% to 10,944.97, and France's CAC-40 Index declined 4.84% to 4,790.20. The UK London FTSE 100 Index closed at 6,520.98, losing 3.72%.

In Asia, the Dow Jones Asia-Pacific TSM Index gained 0.81%, to finish the quarter at 1,523.53. Japan's Nikkei stock average moved up 5.36% to 20,235.73, and China's Shanghai Composite Index soared 14.12% to 4,277.22.

Top performing countries for the second quarter based on the S&P Dow Jones Global Industry Groups in US dollars were Russia (+24.3%), Hungary (+21.3%), and Denmark (+16.4%). Laggards included Cyprus (-25.5%), Bulgaria (-19.3%), and Colombia (-17.4%).

The dollar continued to strengthen against the Yen and the Euro, with the Yen (USD/JPY) finishing at 122.50, down 0.85% against the dollar and the Euro (EUR/USD) at 1.1141, off 3.78% vs. the dollar.

World Bond Markets

Bond market returns were lower in the second quarter. The Barclays U.S. Aggregate Bond Index slid 1.68%, the Barclays Municipal Index lost 0.89%, and the Barclays U.S. Treasury TIPS Index dipped 1.06%. The U.S. 10-year note yield rose 41 basis points to 2.34% at the quarter's close. Yields remained paltry for money funds, with the 7-day yield on retail money funds at 0.02% according to iMoneyNet.

Yields on foreign bonds also moved higher in the second quarter, with the 10-year bond yielding 2.13% in the United Kingdom, 1.77% in Canada, 0.84% in Germany, and 0.46% in Japan.

Commodities

Commodities rebounded in the second quarter, returning 4.66% as measured by the Bloomberg Commodity Index. The more energy-laden S&P Goldman Sachs Commodity Index climbed 8.73% over the same period. Crude oil vaulted 24.94% to \$59.47/barrel, and natural gas jumped 7.27% to end the quarter at \$2.832MMBtu. Gold fell 0.98% to 1,171.50 per troy ounce.

Mutual Funds/Exchange-Traded Funds

The average domestic stock fund lost 0.11% in the second quarter, and the average taxable bond fund dropped 1.52%, according to Morningstar. Real estate funds fell hardest, declining 9.35% for the period.

The latest release from the Investment Company Institute showed that the combined assets of the nation's mutual funds stood at \$16.3 trillion at the end of May—representing a 5.4% increase over the previous year. Money markets remained at \$2.6 trillion, an increase of 1.0% over the past 12 months. Exchange-traded fund assets at \$2.1 trillion have increased 19.3% over the prior year. The number of ETFs continues to climb and at 1,465 represents a growth of 119 funds (8.8%) in the past year.

MUTUAL FUNDS OVERVIEW AS OF JUNE 30, 2015

Category	Total Returns			Annualized Returns		
	2nd Quarter	Year-to-Date	One Year	Three Years	Five Years	Ten Years
Municipal Bond Intermed.	-0.93	-0.19	1.91	2.31	3.74	3.60
Short Taxable Bond	-0.05	0.74	0.47	1.28	1.88	2.92
Intermed. Taxable Bond	-1.52	0.00	1.04	2.31	3.73	4.22
Long Taxable Bond	-5.93	-3.25	2.48	3.36	6.62	5.88
High Yield Bond	0.13	2.38	-1.14	6.01	7.61	6.53
World Bond	-1.93	-2.41	-5.27	0.71	2.81	3.88
Small-Cap Stock	-0.13	3.51	3.46	16.72	15.96	7.93
Mid-Cap Stock	-0.68	2.52	3.85	17.40	15.96	8.03
Large-Cap Stock	-0.11	1.06	5.48	16.50	15.85	7.27
World Stock	0.51	3.43	0.60	13.45	12.29	6.65
Foreign Stock	1.13	5.90	-3.24	10.84	8.92	5.18
Natural Resources	-1.15	-2.37	-22.36	0.49	3.93	4.29
Real Estate	-9.25	-5.34	3.90	8.18	13.50	6.31

Source: Morningstar, Inc.

Index definitions and other disclosures

Gross Domestic Product (GDP) is a measure of output from U.S. factories and related consumption in the United States. It does not include products made by US companies in foreign markets. The **Federal Open Market Committee (FOMC)**, a committee within the Federal Reserve System is charged under United States law with overseeing the nation's open market operations (i.e., the Fed's buying and selling of United States Treasury securities). Real Gross Domestic Product (real GDP) is a macroeconomic measure of the value of economic output adjusted for price changes (i.e., inflation or deflation). The S&P/Case-Shiller Home Price Indices are the leading measures of U.S. residential real estate prices, tracking changes in the value of residential real estate both nationally as well as in 20 metropolitan regions. **S&P 500 Index** is an index of 500 of the largest exchange-traded stocks in the US from a broad range of industries whose collective performance mirrors the overall stock market. The **Dow Jones Industrial Average** is a widely watched index of 30 American stocks thought to represent the pulse of the American economy and markets. The **NASDAQ** is an index that tracks the cumulative results on a market capitalization basis of all stocks trading in the NASDAQ system. An investment concentrated in sectors and industries may involve greater risk and volatility than a more diversified investment. The **S&P SmallCap 600 Index (S&P600)** covers roughly the small-cap range of US stocks, using a capitalization-weighted index. The index covers roughly three percent of the total US stock market. The **S&P MidCap 400 Index (S&P400)** is a stock market index from S&P Dow Jones Indices. The index serves as a barometer for the US mid-cap equities sector and is the most widely followed mid-cap index in existence. To be included in the index, a stock must have a total market capitalization that ranges from roughly \$750 million to \$3.3 billion. The **Russell 1000 Index** is a capitalization-weighted price-only index which is comprised of 1000 of the largest capitalized US-domiciled companies whose common stock trade in the United States on the New York Stock Exchange, American Stock Exchange and NASDAQ which are included in the Russell 3000 Index. This large cap market-oriented Index is highly correlated with the S&P 500 Index. **Russell 2000 Index** is a market-value-weighted index representing the 2,000 smallest companies in the Russell 3000 index, representative of the US small capitalization securities market. **Morgan Stanley Capital International Index (MSCI) EAFE** is a market capitalization-weighted index of the leading stocks in Europe, Australasia and Far East. Membership of the index is selected by MSCI and designed for leading stocks roughly to match market sector weights. The **MSCI Emerging Markets Index** is an index created by Morgan Stanley Capital International (MSCI) that is designed to measure equity market performance in global emerging markets. It is a float-adjusted market capitalization index that consists of indices in 21 emerging economies: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey. **International investing** involves special risks, including the possibility of substantial volatility due to currency fluctuation and political uncertainties. The **STOXX Europe 600 Index** is derived from the STOXX Europe Total Market Index (TMI) and is a subset of the STOXX Global 1800 Index. The **CAC 40 Index** is a benchmark French stock market index. The index represents a capitalization-weighted measure of the 40 most significant values among the 100 highest market caps on the Paris Bourse (now Euronext Paris). The **DAX Index** is a blue chip stock market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange. The **FTSE 100** is a share index of the 100 companies listed on the London Stock Exchange with the highest market capitalization. The **DJ Asia-Pacific Index** represents the leading stocks by dividend yield traded in the Asia/Pacific region. The **Nikkei Index** is a stock market index for the Tokyo Stock Exchange (TSE). The **Shanghai Composite Index** is a stock market index of all stocks (A shares and B shares) that are traded at the Shanghai Stock Exchange. The **MSCI Frontier Markets Indexes** provide broad representation of the equity opportunity set while taking investability requirements into consideration within each market. MSCI classifies 34 countries as Frontier Markets, 26 of which are included in the MSCI Frontier Markets Index. **Barclays Aggregate Bond Index** is made up of the Lehman Brothers Government/Corporate Bond Index, Mortgage-Backed Securities Index, and Asset-Based Securities Index, including securities that are of investment grade quality or better, have at least one year to maturity, and have an outstanding par value of at least \$100 million. The **Barclays Municipal Bond Index** is a market value weighted index of investment grade municipal bonds with maturities of one year or more. The **Barclays Capital US Government Inflation-linked bond index (US TIPS)** measures the performance of the TIPS market. TIPS form the largest component of the Barclays Capital Global Inflation-Linked Bond Index. Inflation-linked indices include only capital indexed bonds with a remaining maturity of one year or more. Bloomberg LP and UBS today announced a strategic partnership that will result in Bloomberg Indexes being responsible for governance, calculation, distribution and licensing of the bank's market leading commodity indexes. The indexes will be renamed from the "Dow Jones-UBS Commodity Index Family" to the "**Bloomberg Commodity Index Family**" as of July 1. The **S&P Goldman Sachs Commodity Index (S&P GSCI)** serves as a benchmark for investment in the commodity markets and as a measure of commodity performance over time. It is a tradable index that is readily available to market participants of the Chicago Mercantile Exchange. The **Investment Company Institute (ICI)** is the national trade association of US investment companies, which includes mutual funds, closed-end funds, exchange-traded funds and unit investment trusts. An investment in a money market fund is not insured or guaranteed by the FDIC or any other government agency. Although a money market fund seeks to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in the fund. An exchange-traded fund (**ETF**) is a security that tracks an index, a commodity or a basket of assets like an index fund, but trades like a stock on an exchange. Investors cannot invest directly in an index.

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