Financial & Economic Review

The second quarter presented some new developments and several continued themes from the first quarter. For the first time in recent memory there seemed an almost tranquil sense of acceptance that short-term interest rates would begin an ascent toward normalization during the second half of the year. Corporations seemed content sitting on capital and instead focused on growing through mergers and acquisitions. The flurry of M&A activity was across several sectors with a large concentration in the healthcare and drug industries. Corporate stock buybacks were also at a peak from levels seen in recent memory. The focus on preserving capital should give insight and pause as to economic growth prospects in the near term. With an increasing number of baby boomers retiring and continued low population growth, our decreasing unemployment rate is welcomed, even if it may not precisely represent chronically unemployed in the US. In comparison to the levels in 2014, employment should necessarily slow by year end. With our employment participation rate continuing its decline to levels not seen in decades, pure demographics are holding back US growth. Conversely, lower oil prices in the past year should provide a tailwind for the US economy for the remainder of 2015. GDP showed signs of slowing in Q2 reporting at negative -0.2% versus an annual forecast of 2-2.5%. Weather and seasonal adjustment factors likely contributed to the quarterly decline as they did 2014. In Europe, the outlook for growth looks stagnant at best, as several central bankers attempted to weaken their currencies versus the strong US dollar. The Greek saga continues, as they attempt to avoid defaulting on expiring loans from the International Monetary Fund by restructuring debt and asking for additional bailout funds. Lastly, China had a hectic quarter with their economy growing at a 7% pace, the slowest in six years.

The broader markets struggled to gain in the quarter, with the S&P 500 rising 1.4%, the Dow Jones Industrial Average losing -0.9% and the NASDAQ Composite gaining 1.8%. Communication Services was the best performing sector, rising 4.9%, followed by Financial Services gaining 4.3% and Health Care up 3.2%. The worst performing sectors of Q2 were Real Estate, Utilities and Industrials losing -9.4%, -6.3% and -2.4% respectively. As we've been cautioning, rising interest rates have not boded well for US fixed income. The Barclays Aggregate Bond Index returned -2.4%, while the 10-yr Treasury Bond lost -3.1% for the quarter. Decreasing bond prices have more than offset any interest income that has been generated from those investments in the short term. With stocks fully valued and an interest rate rise imminent, we're encouraging investors to revisit risk tolerances, update sell stops on individual equities and review bond duration in their portfolios. We're cautioning that at these levels, subpar broader market investment returns are likely for the next several years.

We appreciate your business, referrals and sharing our firm's name with your family and friends, as we head into the second half of 2015. We are excited to continue growing your investments and continually earning your business and trust in the quarters and years ahead.

Very Respectfully Submitted,

Jack A. Kennedy
Chief Investment Officer

[1] Results referenced from Morningstar.com