MONTHLY ECONOMIC UPDATE

July 2015

MONTHLY QUOTE

"There is nothing new under the sun, but there are lots of old things we don't know."

– Ambrose Bierce

MONTHLY TIP

Did the first two quarters of 2015 bring any major changes to your life? The middle of the year is a good time to review your taxes (and your degree of withholding) in light of births, deaths, marriage or divorce and business or career developments.

MONTHLY RIDDLE

I have a lot of problems, but I have no voice and I never complain, even when I am cracked open. To a student I may cost a princely sum, but not as much as some of the sums written inside me. What am I?

Last month's riddle: How many times can you subtract the number 9 from the number 36?

Last month's answer: Once, because after that you will be left with 27 rather than 36.

THE MONTH IN BRIEF

June brought a significant loss for the S&P 500 (2.10%) and two major news developments. In Europe, Greece defaulted on its International Monetary Fund loans, opening the door to a potential exit from the European Union. Stateside, Federal Reserve policymakers seemed less inclined to make multiple interest rate hikes this year. While global stock and commodities markets slumped, our leading indicators showed the U.S. economy pulling out of its first-quarter lethargy, with home sales being a particular bright spot.[1]

DOMESTIC ECONOMIC HEALTH

Was the economy healthy enough to warrant multiple interest rate hikes in the second half of 2015? In the eyes of some Federal Reserve officials, apparently not. The June 17 Fed policy statement contained an interesting development – more Fed officials now felt the central bank should raise rates just once this year, and two thought interest rates should stay at historic lows until 2016. Fed chair Janet Yellen stated that she and her colleagues wanted "more decisive evidence that a moderate pace of economic growth will be sustained" before making any move. While many analysts see the Fed raising rates in September, futures markets see a December adjustment.[2]

Stocks may have stumbled in June, but the news from Main Street was largely positive. May was another terrific month for job growth: non-farm payrolls expanded by 280,000 positions. The headline jobless rate ticked north to 5.5% due to more labor force participation; the U-6 rate measuring both unemployment and underemployment stayed at 10.8%. Labor Department data showed 120,000 of the new jobs in the leisure & hospitality and service industry sectors, but the health care sector also expanded by 47,000 hires.[3]

On the manufacturing front, the Institute for Supply Management's May purchasing manager indices reflected a dip for the U.S. services sector (57.8 to 55.7) and a welcome rise for the manufacturing sector (51.5 to 52.8). Durable goods orders were off 1.8% in May, yet up 0.5% minus volatile transportation orders. The federal government also improved Q1 GDP in its final estimate (-0.2% compared with the previous -0.7%).[4,5]

Consumer confidence improved. The University of Michigan's household sentiment survey advanced 1.5 points during June to a mark of 96.1, its best reading since January. The Conference Board's June survey topped the century mark again at 101.4, a whopping 6.8 points north of its May reading.[4,6]

May also saw consumers spend more. Personal spending rose an impressive 0.9% in the fifth month of the year, with wages up 0.5% for a second straight month according to the Commerce Department. Retail sales were correspondingly up, with the Commerce Department announcing a 1.2% May increase.[5,7]

Consumer prices rose 0.4% during May, the biggest monthly ascent since February 2013; the core Consumer Price Index also rose 0.3%. In annualized terms, that put headline consumer inflation at 2.1% and core consumer inflation at 2.0%, in line with the Fed's target. The Producer Price Index retreated 0.2% in May after gains of 0.6% in April and 0.5% in March; the core PPI was flat in May.[8]

GLOBAL ECONOMIC HEALTH

Two stories overshadowed everything else last month. On June 29, Greek government officials told Reuters that the nation would default on its €1.5 billion debt to the International Monetary Fund in 24 hours. That admission came as Standard & Poor's cut Greece's credit rating all the way to CCC- and put its chances of leaving the eurozone at 50%. Hours later, the CBOE VIX was up 36% while the

Dow Jones Industrial Average was down 1.95% (350.33 on the day). U.S. investors had to contend with more bad news on June 29: the governor of the commonwealth of Puerto Rico announced a default on its $72 billion of debt.[9]

On June 30, eurozone finance ministers (the Eurogroup) rejected Greece's request for an extension, a debt haircut or a new bailout agreement and let its existing bailout program expire. Greece resumed negotiations as July began, but the Eurogroup said it would only consider further bailout proposals after the July 5 national referendum scheduled by the ruling Syriza party, in which the Greek electorate would vote whether or not to stay in the euro.[10,11]

June also saw Chinese stocks slide into a bear market. They had rollercoastered dramatically through the first half of 2015 – at one point, the Shanghai Composite was up more than 60% YTD, but from June 12 to June 29 it dropped 21.5%, including a 7.4% plummet on June 26. Even with all that, the index was still up about 25% YTD when June ended, having gained more than 150% in 12 months. The nation's recent interest rate cuts could not stave off growing fears that Chinese shares were overvalued, nor dismiss the reality of China's slowing economic growth.[12]

WORLD MARKETS
Global worries about Greece helped send the world's key indices down last month. European exchanges were particularly hard hit. The DAX fell 4.11%, the CAC 40 4.35%, the RTS 2.98%, the IBEX 35 3.99%, the FTSE 100 6.64% and the ISEQ 1.75%. The STOXX 600 sank 4.64%.[1]

The Shanghai Composite lost big, sinking 7.25% in June. Other major Asia Pacific indices also pulled back: the S&P/ASX 200 retreated 5.51%, the Hang Seng 4.28%, the Jakarta Composite 5.86% and the Nikkei 225 1.59%. The Sensex lost just 0.17% while Pakistan's KSE 100 actually rose 4.06% for June. In the west, Mexico's IPC All-Share gained 0.78%, Brazil's Bovespa 0.61%; Canada's TSX Composite fell 3.07%.[1]

June was a rough month for the broad Dow Jones indices. The DJ Americas fell 2.04%, the Asia Dow 2.88%, the Europe Dow 3.46% and the Global Dow 2.76%. As for the MSCI World and Emerging Markets indices, the World fell 2.46% for the month, the EM 3.18%.[1,13]

COMMODITIES MARKETS
June may have been a lousy month for stocks, but it was certainly a great month for ag futures. Wheat jumped 26.15%, corn 17.57%, cocoa 6.05%, cotton 6.28%, coffee 3.32% and soybeans 12.31%; sugar was a notable exception, losing 1.01%.[14]

The U.S. Dollar Index fell 1.32% for the month, closing at 95.71 on June 30. Gold ended June at $1,171.80 on the COMEX, silver at $15.66; gold fell 1.61% for June, silver 6.14%. Copper futures lost 5.00% last month while platinum futures retreated 2.52%.[14,15]

In the energy sector, natural gas was the leader in June, rising 6.85%. Heating oil sank 3.35%, unleaded gasoline fell 1.73% and oil slipped 1.89%. WTI crude wrapped up the month at a price of $59.09 a barrel.[14]

REAL ESTATE
In a month marked by some troubling headlines, the news from this sector was a relief. Improving 5.1% in May, existing home sales reached an annualized rate of 5.35 million, the best pace since November 2009 according to the National Association of Realtors. NAR also measured housing contract activity up 0.9% for May via its pending home sales index. New home sales rose 2.2% further in May, bringing the year-over-year gain to 19.5%. The Census Bureau said that put the sales pace at a level unrecorded since February 2008.[4,16]

NAR announced a median resale value of $228,700 in May, up 7.9% in 12 months.

Even with that annualized rise, 32% of May's existing home buyers were first-timers – the most since September 2012. The April edition of the S&P/Case-Shiller national home price index displayed a 4.2% year-over-year advance. Another housing sector gain came in building permits – they were up 11.8% in May.[4,17,18]

Not all the news was so positive. Housing starts declined 11.1% in May according to the Census Bureau, while Freddie Mac charted three of four mortgage types growing costlier in June. The average interest rate on the 1-year ARM held steady at 2.50% between Freddie's May 28 and June 25 Primary Mortgage Market Surveys, but that interval also saw mean interest rates on 30-year fixed home loans rise 0.15% to 4.02%, mean rates on 15-year fixed mortgages increase 0.10% to 3.21% and mean rates for the 5/1-year ARM rise 0.08% to 2.98%.[18,19]

LOOKING BACK…LOOKING FORWARD

What U.S. index outperformed all others last month? The unsurprising answer: the CBOE VIX. The "fear index" gained 31.72% for June to rise to 18.23. The Russell 2000 actually advanced in June, improving 0.59% to 1,253.95. With a 2.17% June loss, the Dow went negative YTD as it slipped to 17,619.51. The aforementioned 2.10% June setback for the S&P 500 left it at 2,063.11 at month's end. The Nasdaq ended June at 4,986.87, losing 1.64%.[1]

% CHANGE	Y-T-D	1-YR CHG	5-YR AVG	10-YR AVG
DJIA	-1.14	+4.71	+16.05	+7.15
NASDAQ	+5.30	+13.13	+27.29	+14.24
S&P 500	+0.20	+5.25	+20.03	+7.32
REAL YIELD	6/30 RATE	1 YR AGO	5 YRS AGO	10 YRS AGO
10 YR TIPS	0.48%	0.27%	1.15%	1.67%

Sources: wsj.com, bigcharts.com, treasury.gov – 6/30/15[1,20,21,22]
Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly. These returns do not include dividends. 10-year TIPS real yield = projected return at maturity given expected inflation.

As we enter July, the Greek debt crisis is lingering but Wall Street appears to be recovering. Greek prime minister Alexis Tsipras certainly sent a mixed message to the world on July 1, agreeing in writing to most of the conditions necessary for additional bailout money but then going on television and urging the Greek people to vote against the bailout package being offered. Even with such theatrics in Europe, American investors seem to be entering the third quarter with reasonable confidence. A good June jobs report and a series of decent-to-positive domestic economic indicators would do a lot to buoy the markets. It is worth noting how well U.S. stocks have recovered from disruptions like this: after the "flash crash" in May 2010, the S&P 500 gained back the 3.2% it had lost in just four days, and even after the stunning tragedy of September 11, the S&P took only 20 days to recoup its 4.9% decline. This crisis may seem more like a blip on the radar of Wall Street by the time the year ends; hopefully, it will impede the market less this month.[23]

UPCOMING ECONOMIC RELEASES: Here is the roll call across the rest of the seventh month of the year: the June ISM services PMI (7/6), the June FOMC minutes (7/8), May wholesale inventories (7/10), June retail sales and May business inventories (7/14), May industrial output, June's PPI and a new Federal Reserve Beige Book (7/15), June housing starts and building permits, the preliminary July consumer sentiment index from the University of Michigan, and the June CPI (7/17), June existing home sales (7/22), the June leading economic indicators from the Conference Board (7/23), June new home sales (7/24), June durable goods orders (7/27), the Conference Board's July consumer confidence index and the May edition of the S&P/Case-Shiller home price index (7/28), a Fed policy statement and June pending home sales (7/29), and lastly the initial estimate of Q2 GDP from the Bureau of Economic Analysis (7/30).

Please feel free to forward this article to family, friends or colleagues.
If you would like us to add them to our distribution list, please reply with their address.

We will contact them first and request their permission to add them to our list.

Citations.

1 - wsj.com/mdc/public/page/2_3023-monthly_gblstkidx.html [6/30/15]
2 - washingtonpost.com/blogs/wonkblog/wp/2015/06/17/federal-reserve-rate-hike-likely-before-year-end/ [6/17/15]
3 - tinyurl.com/p2joeax [6/5/15]
4 - marketwatch.com/economy-politics/calendars/economic [6/30/15]
5 - briefing.com/investor/calendars/economic/2015/06/22-26 [6/26/15]
6 - briefing.com/Investor/Calendars/Economic/Releases/mich.htm [6/26/15]
7 - briefing.com/Investor/Calendars/Economic/Releases/retail.htm [6/11/15]
8 - kitco.com/news/2014-06-17/May-US-Consumer-Price-Index.html [6/17/15]
9 - tinyurl.com/ox9yrgh [6/29/15]
10 - tinyurl.com/pboqjqr [6/30/15]
11 - tinyurl.com/pjht52t [6/26/15]
12 - americasmarkets.usatoday.com/2015/06/29/market-mauling-chinese-stocks-in-bear-market/ [6/29/15]
13 - msci.com/end-of-day-data-search [6/30/15]
14 - money.cnn.com/data/commodities/ [6/30/15]
15 - investing.com/quotes/us-dollar-index-historical-data [6/30/15]
16 - nasdaq.com/article/us-new-home-sales-climb-to-sevenyear-high-in-may-20150623-00645 [6/23/15]
17 - housingwire.com/articles/34260-first-time-buyers-boost-existing-home-sales-51-in-may [6/22/15]
18 - tradingeconomics.com/united-states/housing-starts [6/16/15]
19 - freddiemac.com/pmms/archive.html [6/29/15]
20 - bigcharts.marketwatch.com/historical/default.asp?symb=DJIA&closeDate=6%2F30%2F14&x=0&y=0 [6/30/15]
20 - bigcharts.marketwatch.com/historical/default.asp?symb=COMP&closeDate=6%2F30%2F14&x=0&y=0 [6/30/15]
20 - bigcharts.marketwatch.com/historical/default.asp?symb=SPX&closeDate=6%2F30%2F14&x=0&y=0 [6/30/15]
20 - bigcharts.marketwatch.com/historical/default.asp?symb=DJIA&closeDate=6%2F30%2F10&x=0&y=0 [6/30/15]
20 - bigcharts.marketwatch.com/historical/default.asp?symb=COMP&closeDate=6%2F30%2F10&x=0&y=0 [6/30/15]

20 - bigcharts.marketwatch.com/historical/default.asp?symb=SPX&closeDate=6%2F30%2F10&x=0&y=0 [6/30/15]
20 - bigcharts.marketwatch.com/historical/default.asp?symb=DJIA&closeDate=6%2F30%2F05&x=0&y=0 [6/30/15]
20 - bigcharts.marketwatch.com/historical/default.asp?symb=COMP&closeDate=6%2F30%2F05&x=0&y=0 [6/30/15]
20 - bigcharts.marketwatch.com/historical/default.asp?symb=SPX&closeDate=6%2F30%2F05&x=0&y=0 [6/30/15]
21 - treasury.gov/resource-center/data-chart-center/interest-rates/Pages/TextView.aspx?data=realyield [6/30/15]
22 - treasury.gov/resource-center/data-chart-center/interest-rates/Pages/TextView.aspx?data=realyieldAll [6/30/15]
23 - money.cnn.com/2015/07/01/investing/greece-stocks-markets/index.html [7/1/15]

84475.VN070215