

Economic & Market Review
~ SECOND QUARTER 2015 NEWSLETTER ~

Executive Summary

At halftime 2015, uncertainty abounds. Greece defaulted on IMF loans, China's stock market is in freefall, and Puerto Rico declared it cannot pay its debts. Adding to investor angst, the Federal Reserve's pathway to higher rates is yet unknown, and analyst estimates suggest S&P 500 earnings contracted 4.5% in the recent quarter. It is little wonder that stock markets have moved little this year and many commodities, oil included, have tumbled of late.

At first blush, considering the litany of challenges, it might be surprising that markets have hung in there as well as they have. Embodied in that observation, however, is the simple fact that not much of any of this is new news, and markets don't discount the same news twice.

For years, most have accepted the simple fact that Greece has excessive debt. The goal behind five years of bailouts, debt restructurings, emergency loans, and austerity measures was never to get Greece back on its feet. Rather, the goal was to make structural adjustments whereby the nation's debt was largely out of the hands of private investors and its budget, outside of debt payments, was in balance. Having accomplished both, the next leg of the saga begins. Does Greece leave the euro zone? How large are the debt losses? What is the ultimate workout? No one knows. Is there the potential for policy error and unintended consequences? Absolutely. Is the timing of this better now than five years ago? No doubt. Mission accomplished.

As for Puerto Rico, its declared inability to pay its debts added no new information to what has been widely known, and oft-discussed, for years. The investment play on PR has not been one of clipping coupons and receiving par at maturity. Rather, it has been 1) how long can an investor

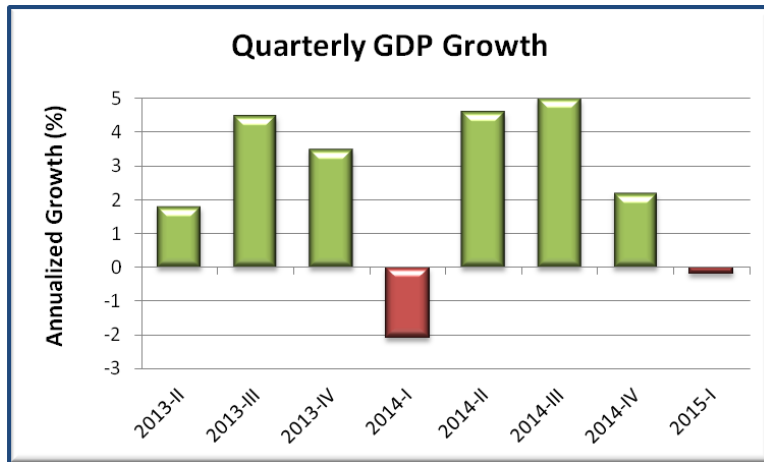
receive a fat yield before the economic house of cards crumbles and 2) can that investor receive enough in a debt workout/restructuring whereby their net return was sufficient to play investing musical chairs. At present, the music is pretty quiet, and chairs are becoming sparse.

China's stock market had been in a melt up for many months. Hard facts and anecdotal evidence all pointed to excessive exuberance and a textbook perfect example of "the greater fool theory." Valuations far exceeded any semblance of economic fundamentals, people were selling their homes to invest in stocks, and the level of margin debt was easily the *highest in the history of global equity markets* — 3.5% of GDP and at least 12% of the market capitalization of marginable stocks. In early June, China's bubble found a pin. Plans to lower margin caps and raise brokerage firm capital requirements were catalysts to the evaporation of over a quarter of the market's value in only 13 trading days. An early June bull market was in bear market territory (down at least 20%) by July. In the end, fundamentals count and valuations matter. Is the fall a harbinger of economic decline? Perhaps, but not guaranteed. Will there be a negative feedback loop into the Chinese economy? Absolutely. Frenetic trading activity at brokerage firms added an estimated 0.5% to China's GDP growth in the first quarter! Its absence could cut as much as 1% going forward. Diminished capital formation will undoubtedly be a drag as well.

Concluding with the U.S., dismal second quarter earnings have been expected for quite some time — no new news there. And the Federal Reserve is likely to be cautious with interest rates in the face of the challenges previously discussed.

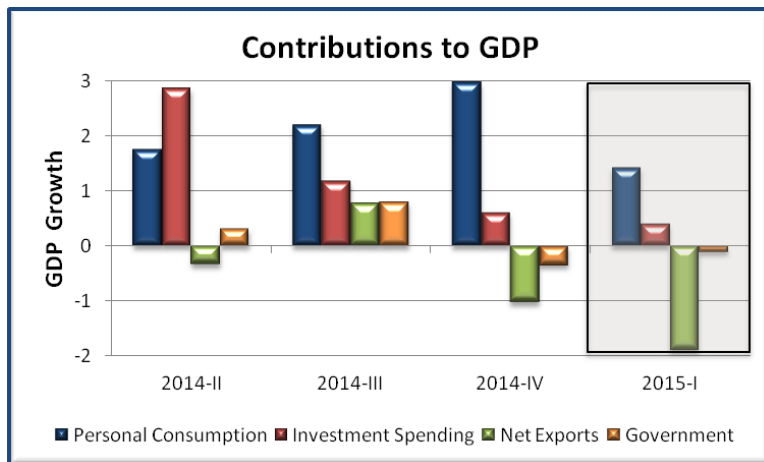
ECONOMIC REVIEW AND OUTLOOK

Key Economic Fundamentals



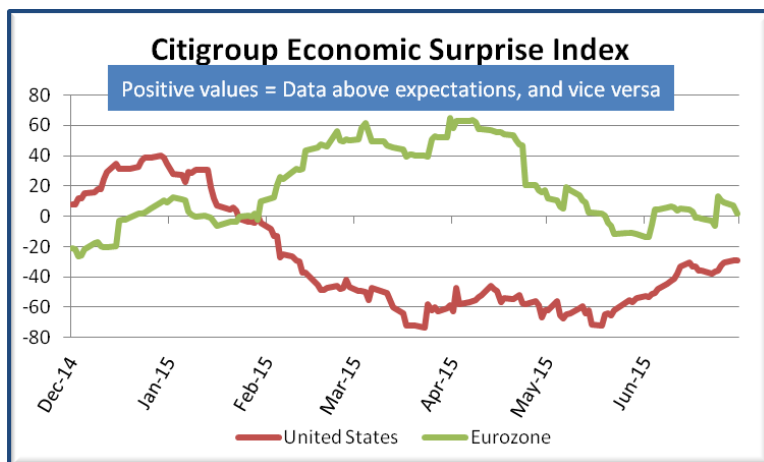
Data Source: U.S. Department of Commerce

First quarter weakness has been a recurring U.S. theme in recent years, and 2015 was no different. The U.S. economy's annualized decline of 0.2% in the period should be short-lived, however. West Coast port disruptions and harsh winter weather likely account for much of the weakness observed.



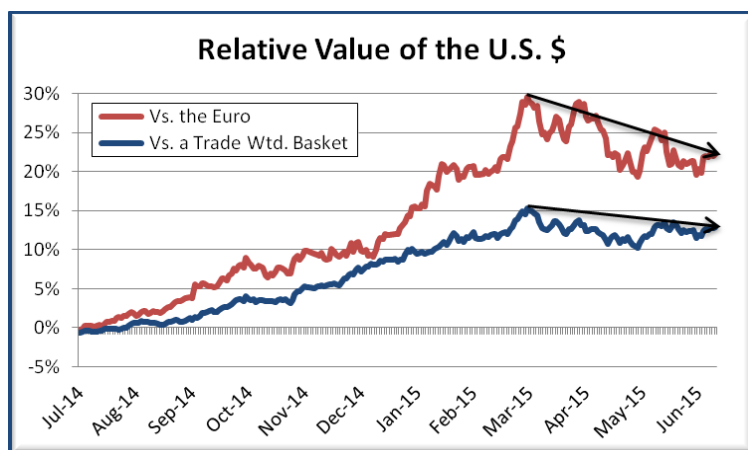
Data Source: U.S. Department of Commerce

Dollar strength in the latter half of 2014 has made U.S. goods more expensive for foreign consumers and international goods cheaper in the U.S. Exports tanked in the first quarter while imports grew at a robust pace. The net export/import imbalance resulted in a 1.9% drag on GDP growth for the period.



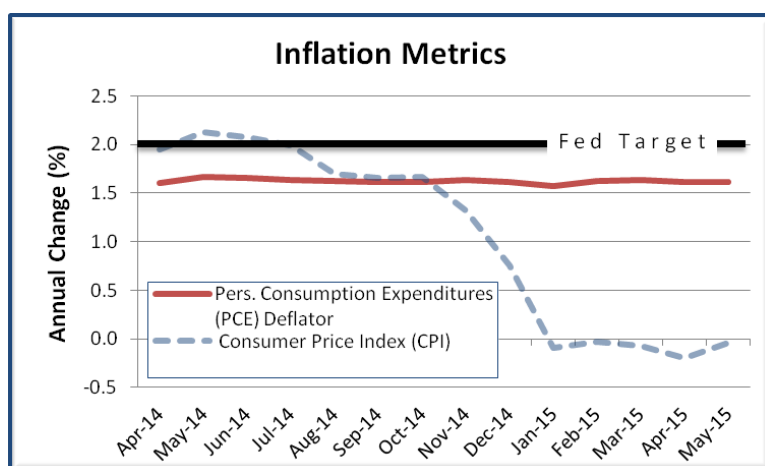
Data Source: Bloomberg

Entering 2015, investors and economists were too optimistic in regards to the U.S. and overly pessimistic toward Europe. Relatively favorable international stock market returns in the first half of the year can be explained, in part, by this disconnect. At present, expectations appear better calibrated with outcomes.



Data Source: U.S. Federal Reserve

dollar lost ground against every developed market currency with the exceptions of the Japanese yen and New Zealand dollar.



Data Source: U.S. Department of Labor

Low inflation remains a concern for many world economies, including the U.S. The Federal Reserve's preferred inflation metric, the PCE Deflator, has been below the Fed's 2% target for 38 consecutive months. Some relief is in store, however. Dollar weakness, described above, and oil price gains, illustrated later, should drive inflation higher.

Global Growth Rates¹ (%)

	Q1 2015	Q2 2015	Q3 2015	2014	2015	2016
Advanced	1.9	2.0	2.0	1.9	2.0	2.4
Euro²	1.6	1.7	2.1	0.9	1.5	1.9
U.S.²	-0.2	3.1	3.0	2.4	2.4	2.6
Japan²	3.9	0.1	1.7	-0.1	0.8	1.2
U.K.²	3.3	3.0	3.1	3.0	2.7	3.0
Canada²	0.5	1.1	2.1	2.4	1.6	2.1
Emerging	4.4	4.6	4.7	4.9	4.6	5.5
China	7.0	7.0	6.8	7.4	6.8	6.7
India	7.5	7.5	7.6	7.1	7.6	7.9
Russia	-4.7	-4.8	-3.1	0.4	-2.7	1.4
Brazil	-1.6	-1.0	-1.1	0.1	-1.2	1.2
World	3.1	3.3	3.3	3.3	3.3	3.9

Data Source: Goldman Sachs, Central Intelligence Agency

¹Q1 2015 and 2014 are actual, all others are forecasts

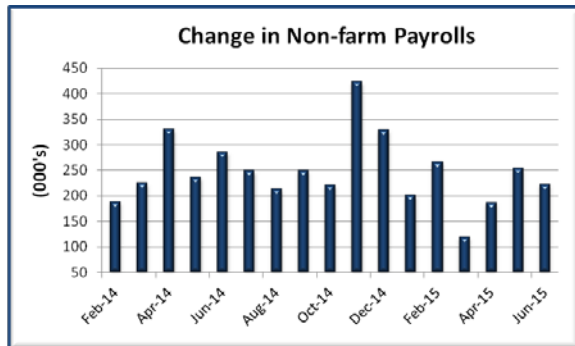
²Quarterly numbers are sequential annualized, others are year-over-year

Global growth, once expected to accelerate in 2015, is now forecast to be comparable to that of 2014. Unfortunately, risk is likely to the downside from the numbers shown at left. Greece's fiscal outlook has deteriorated, China's stock market has been in freefall, and Japan, with diminished hope for economic acceleration, recently declared their economy has stagnated.

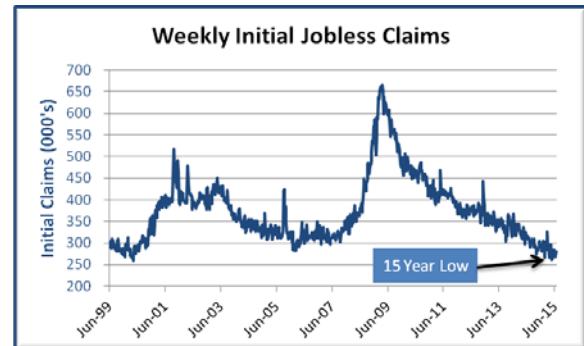
After gaining substantial ground over an eight month period, the U.S. dollar weakened in the second quarter. During the period, the

Employment

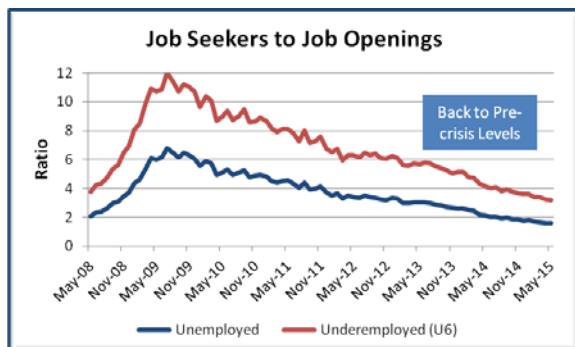
The labor market continues to improve. Payroll growth accelerated following short-lived weakness, weekly initial jobless claims hit a new 15 year low, and the ratio of job seekers to positions available is back to pre-crisis levels. Moreover, the unemployment rate ticked ever lower to what was, up until recently, the Fed's estimate of full employment. Their now revised range of 5.0 to 5.2% is only one tick below the present level. Some vestiges of the financial crisis remain, however. Underemployment, although improving, continues to be unusually high in relation to historic norms. Likewise, the portion of the population participating in the labor force, now down to a 37 year low, is both suggestive of slack and a detriment to economic growth. Wage growth, or lack thereof, is equally a point of consternation among economists, policymakers, and yes, employed workers.



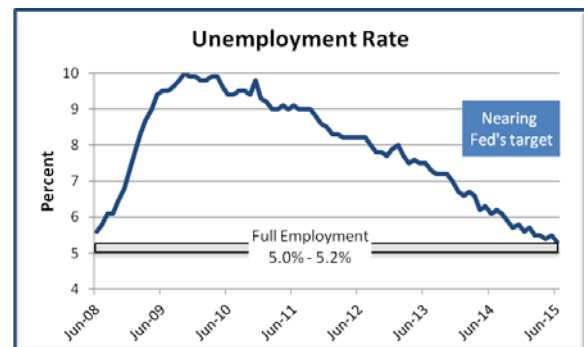
Data Source: U.S. Department of Labor



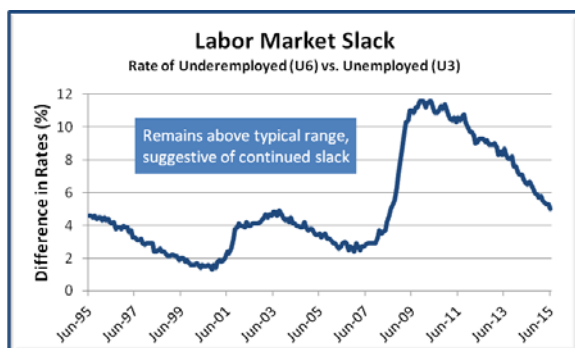
Data Source: U.S. Department of Labor



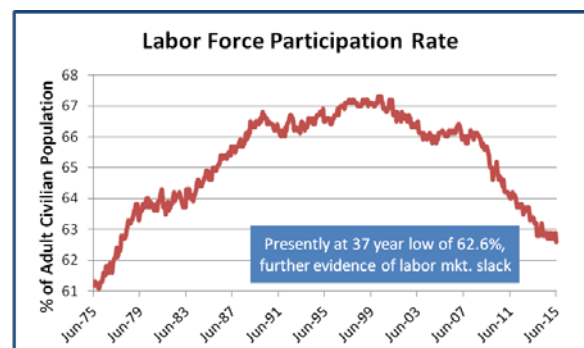
Data Source: U.S. Department of Labor



Data Source: U.S. Department of Labor



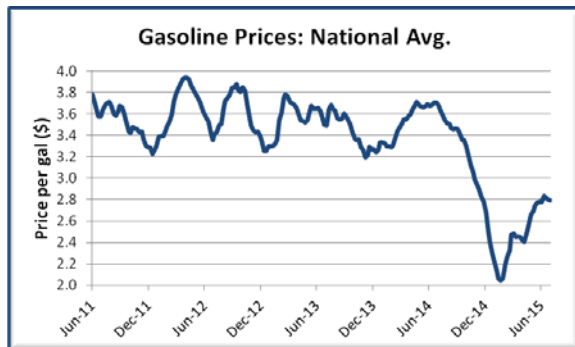
Data Source: U.S. Department of Labor



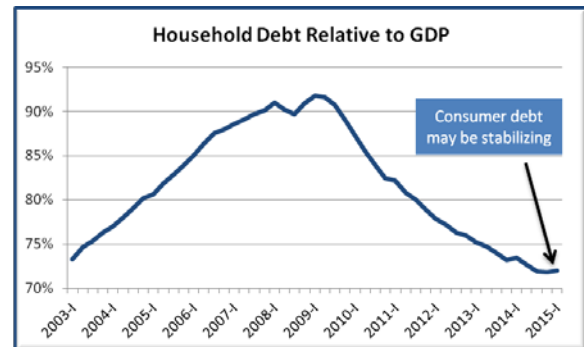
Data Source: U.S. Department of Labor

Consumer

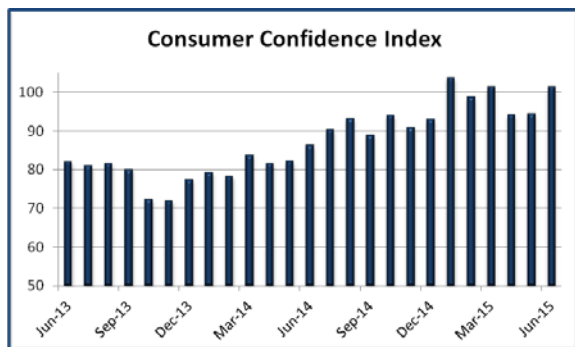
The U.S. consumer is in good shape, and economic developments in recent quarters have been beneficial. Most particularly, dollar strength improves the global purchasing power of U.S. consumers, and gasoline prices remain 25% cheaper, even after a 22% second quarter gain in the price of oil. Debt relative to GDP has plummeted to a 2002 low, associated interest costs are further depressed as a result of the low interest rate regime, and net worth is at an all-time high. It's no wonder why consumer confidence is back to pre-crisis levels and retail sales have recovered after a temporary, weather related, decline.



Data Source: U.S. Energy Information Administration



Data Sources: U.S. Bureau of Econ. Analysis/U.S. Federal Reserve



Data Source: The Conference Board



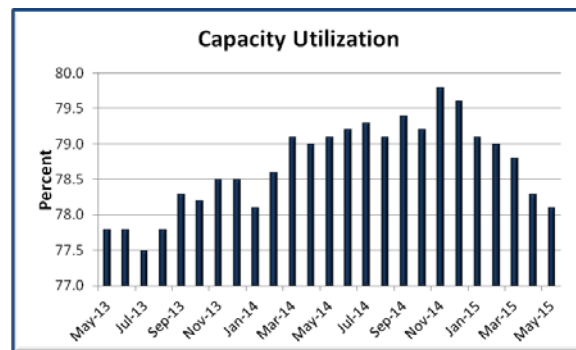
Data Source: U.S. Census Bureau

Business Activity

As shown by graphs on the following page, the manufacturing sector is showing incipient weakness. The Institute for Supply Management's Manufacturing Index has only partially recovered from a precipitous fall, and business investment was particularly weak in the first quarter. Key culprits are dollar strength, which weighs on exports, and oil price weakness, which has decimated capital investment. If anything, the Federal Reserve's gauge of capacity utilization tells an even more ominous story. The drop depicted, in both duration and magnitude, is nearly unprecedented in the absence of an outright recession. Interestingly, for those on interest rate watch, it would be highly unusual for the Federal Reserve to raise rates in the face of declining utilization. Rate increases are most commonly associated with high, and *rising*, utilization rates.



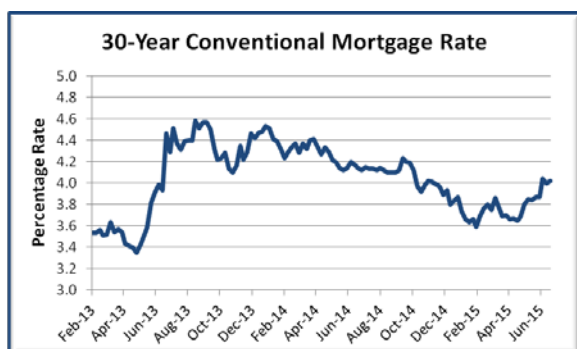
Data Source: Institute for Supply Management



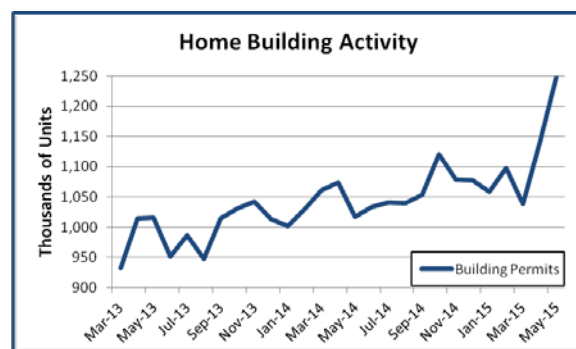
Data Source: U.S. Federal Reserve

Real Estate

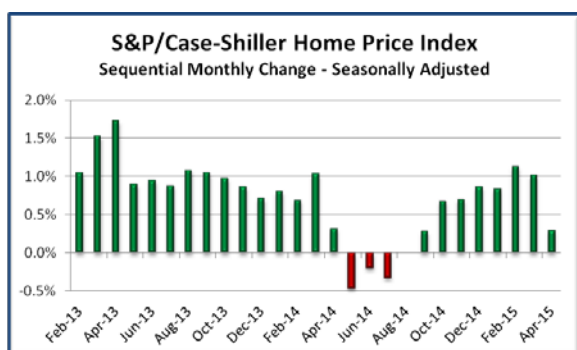
Assisted by lower mortgage rates, weak energy prices, and higher levels of employment, the housing market slowdown experienced in mid-2014 appears to have passed. Building and sales activity have rocketed higher, inventories are low, and sequential monthly price declines have given way to widespread gains across all 20 major real estate markets. Weak household formation rates, a major bugaboo for the real estate market, seem to be ebbing as well. The percentage of May's real estate transactions ascribed to new home purchasers hit 32%, up from 27% the prior year.



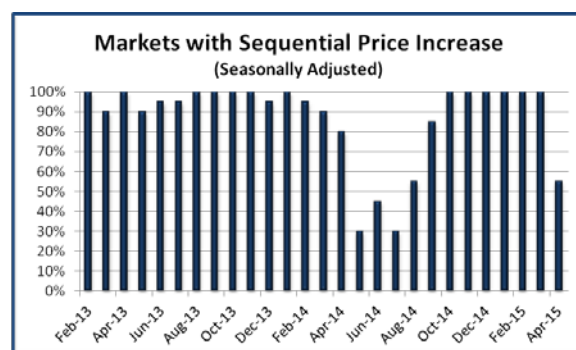
Data Source: U.S. Federal Reserve



Data Source: U.S. Census Bureau



Data Source: S&P/Case-Shiller



Data Source: S&P/Case-Shiller

CAPITAL MARKETS REVIEW

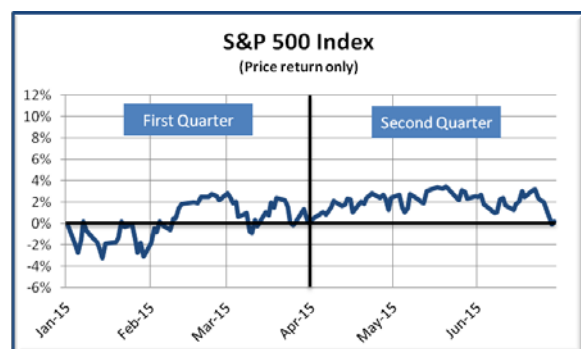
Returns

	2 nd Qtr 2015	YTD 2015
Cash and Fixed Income		
U.S. Treasury Bills	0.0%	0.0%
Barclays Aggregate Bond	-1.7%	-0.1%
Barclays Municipal Bond	-0.9%	0.1%
Barclays Gbl Agg. ex. U.S.	-0.8%	-5.4%
Hedge Funds and Alts.		
Bloomberg Commodity	4.7%	-1.6%
DJ US Real Estate	-9.1%	-5.2%
HFRI FOF Composite	0.1%	2.6%

Data Sources: Morningstar & Hedge Fund Research, Inc.

	2 nd Qtr 2015	YTD 2015
Domestic Equities		
Wilshire 5000	0.0%	1.7%
S&P 500	0.3%	1.2%
Russell 2000	0.4%	4.8%
International Equities		
MSCI ACWI ex. U.S.	1.0%	4.6%
MSCI EAFE (Developed)	0.6%	5.5%
MSCI EM (Emerging)	0.7%	5.6%

Equity Markets

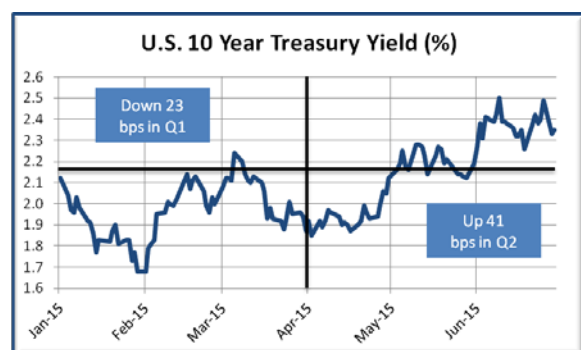


Data Source: S&P Dow Jones Indices LLC

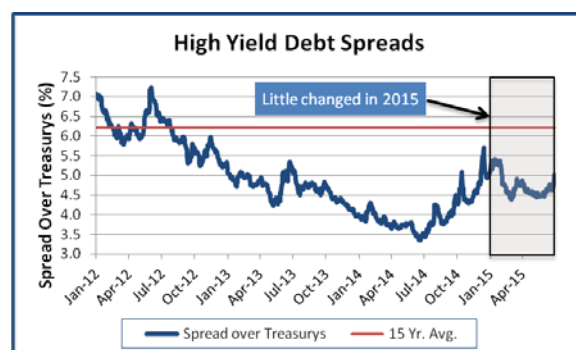


Data Source: Morningstar

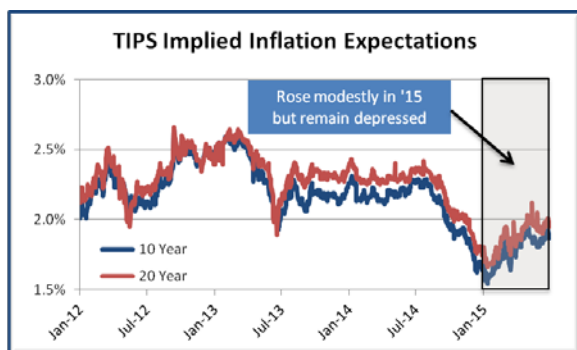
Fixed Income Markets



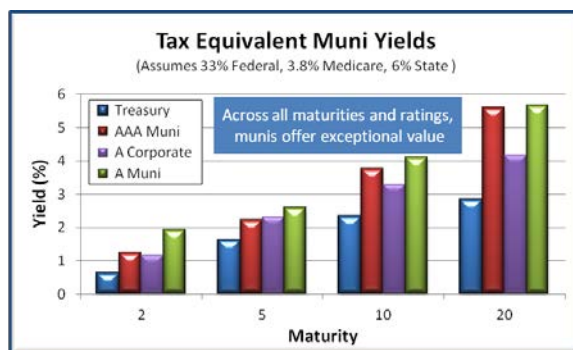
Data Source: U.S. Department of the Treasury



Data Source: BofA Merrill Lynch



Data Source: U.S. Department of the Treasury

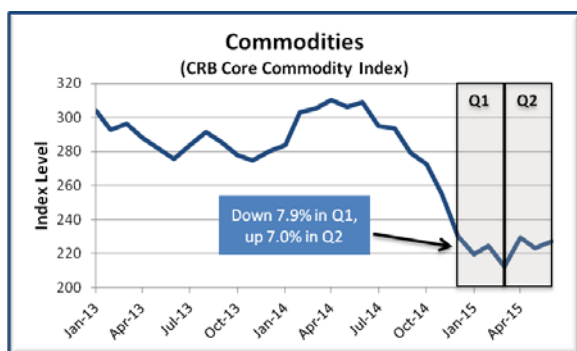


Data Sources: U.S. Department of the Treasury/BondsOnline.com

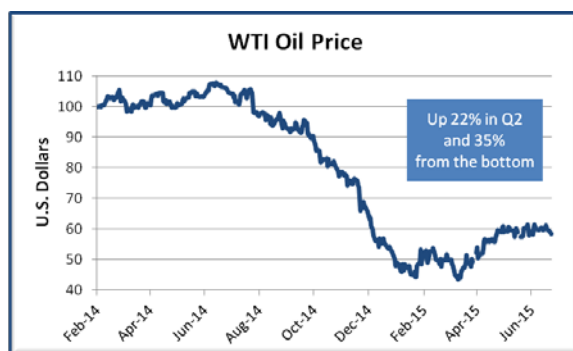
Diminished inflation expectations and attractive high real yields make TIPS a timely investment.

Tax adjusted, municipals are quite attractive against taxable bonds, for all maturities and credit ratings.

Alternatives



Data Source: Thomson Reuters



Data Source: US. Energy Information Administration

Disclaimers

This commentary was written by Robert W. Lamberti, CFA, Vice President of Investments and a Principal of Summit Financial Resources, Inc., 4 Campus Drive, Parsippany, NJ 07054. Tel. 973-285-3600, Fax: 973-285-3666. Securities and Investment Advisory Services offered through Summit Equities, Inc. Member FINRA/SIPC, and Financial Planning Services offered through Summit Equities, Inc.'s affiliate Summit Financial Resources, Inc. Sources of Performance: Morningstar®. Indices are unmanaged and cannot be invested into directly. The investment and market data contained in this newsletter is not an offer to sell or purchase any security or commodity. Standard & Poor's 500 Index (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. The Wilshire 5000 Index is a market capitalization-weighted index of the market value of all stocks actively traded in the United States. The index is intended to measure the performance of all U.S. traded public companies having readily available price data. 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. Emerging markets are considered risky as they carry additional political, economic, and currency risks. Real Estate Investment Trusts, REITs, are securities that invest in real estate directly, either through properties or mortgages. REITs receive special tax considerations and typically offer investors high yields, however, have liquidity constraints. The Barclays Capital U.S. Aggregate Bond Index is a market capitalization-weighted index comprising Treasury securities, Government agency bond, Mortgage-backed bonds, corporate bonds, and some foreign bonds traded in the U.S. Fund Category Performance is not inclusive of possible fund sales or redemption fees. Investment grade bond analysis included bonds with ratings of AAA, AA, A, and BBB. Municipal and Corporate Bonds are backed by the claims paying abilities of the issuer. TIPS are inflation-indexed securities issued by the U.S. Treasury in an effort to widen the selection of government securities available to investors. Past performance does not guarantee future results. Information throughout this Newsletter, whether stock quotes, charts, articles, or any other statement or statements regarding market of other financial information, is obtained from sources which we, and our suppliers believe to be reliable, but we do not warrant or guarantee the timeliness or accuracy of this information. Neither we nor our information providers shall be liable for any errors or inaccuracies, regardless of cause, or the lack of timeliness of, or for any delay or interruption in the transmission thereof to the reader. Opinions expressed are subject to change without notice and are not intended as investment advice or a guarantee of future performance. Consult your financial professional before making any investment decision.

The Private Client Group's founder and Senior Managing Director, Steven W. Lieberman, provides securities and investment advisory services through Summit Equities, Inc. Member FINRA/SIPC, and financial planning services through Summit Equities, Inc.'s affiliate, Summit Financial Resources, Inc. 4 Campus Drive, Parsippany, NJ, 07054. Tel. 973-285-3600. Fax. 973-285-3666.