Commentary - July 1, 2015

For the first six months of the year 2015 the S&P 500 was up a paltry 0.2%. After achieving a 3.2% YTD return and reaching a record level in May, the index relinquished almost all of these gains by the end of June as equity investors became concerned about Greece defaulting on its debts, an imminent rise in interest rates and the U.S. economy remaining mired in a sluggish growth mode.

The Greek debt standoff came to a fore during the final week of June, whipsawing capital markets and leaving investors considering the prospect that the country will depart the Eurozone. Many in the investment community feel that without deep structural reforms, any agreement on a bailout package is just another instance of all parties “kicking the can down the road”. It may be difficult to appreciate how a country with 11 million people can cause such havoc, but no one truly knows what a Greek exit would mean to Europe’s economic and political stability.

Janet Yellen has stated that the Federal Reserve Bank will raise short term rates only gradually in the coming years, as the U.S. central bank edges cautiously towards tighter monetary policy. The Fed chairwoman said there are signs that our economy has regained some momentum after a dismal start to 2015, and Fed officials adhered to projections that the first rate increase could come as soon as September. Ms. Yellen, however, said the Fed wanted to see more conclusive evidence of the strength of the economy before taking such an important step, as any signal of the first increase in rates since 2006 might spark a market tantrum and be an impediment to continued albeit slow growth.

The first half of 2015 demonstrated once again the importance of diversifying, as the EAFE Index measuring international market returns appreciated 4.3%, and the Russell 2000 recording the performance of domestic small cap stocks rose 4.1%. Some investment analysts favor international stocks going forward, as their valuations are not as high as U.S. issues, and the European and Japanese central banks are moving to lower interest rates (always a positive for stocks) while the U.S. Federal Reserve is expected to start raising rates here.

As always, I invite you to contact me and am available to meet at your convenience.