



Economic and Portfolio Outlook 2nd Quarter 2015

(Released July 2015)

As we enter the third quarter of 2015, our sentiment remains the same as it was in the first quarter—there are market signals giving us reason to pause. And now the world macro-economic picture has deteriorated even more.

- Greece is on the verge of exiting the European Union.
- The Chinese stock market has corrected 35% over basically a one month time frame.
- Puerto Rico is teetering on default.
- First quarter GDP was -0.2%.
- Unemployment, although at 5.3%, has seen downward revisions in nonfarm payrolls and labor participation remains at 50 year lows with zero wage growth.

The first half of the year has been volatile for interest rates. The Bloomberg U.S. Corporate Bond Index now has an effective yield of 3.34% and 30 year Treasuries are yielding 3.13%, up from 2.90% in July 2014, while 10-year Treasuries currently yield 2.36%, down from 2.54% at this time last year. Although U.S. rates are historically low, they are very attractive when compared to the rates of other developed nations around the globe.

World Bond Markets				
	2-Year	5-Year	10-Year	30-Year
United States	0.640	1.640	2.400	3.190
Canada	0.459	0.779	1.665	2.314
France	-0.170	0.319	1.218	2.207
Germany	-0.264	0.086	0.732	1.529
Hong Kong	0.370	1.146	1.810	-
Ireland	0.132	0.578	1.609	2.613
Italy	0.442	1.333	2.363	3.306
Japan	0.025	0.120	0.475	1.476
Netherlands	-0.212	0.120	1.064	1.713
Spain	0.455	1.227	2.344	3.415
Sweden	-0.453	0.137	0.869	-
United Kingdom	0.546	1.463	1.972	2.724

* as of 07/06/2015 Source: Bloomberg LP, Raymond James

Our expectation for interest rates at the start of the year was that they would remain low throughout the first half and intermediate maturities would offer the best value based on our macro-economic outlook for the U.S. and the rest of the world. It turns out we were right as

economic growth has remained sluggish around the world, inflation is still benign and the most important factor to us—wage growth—is still not improving in the U.S. We believe interest rates for the second half of the year could look a lot like the first half unless we begin to see some major improvement on the economic front. If not, low rates could be here for a while longer.

Investors are still looking to the FED as to when “lift-off” for raising rates will take place. There has been speculation that the Fed will raise in September, and many analysts believe that a rate increase would cause interest rates to move higher across the curve. If they do, it will likely cause some uncertainty. It is our opinion that if they do raise rates, it will likely cause some anxiety as it could arrest the minimal growth we are currently experiencing, push us into a recession and drive rates even lower. Considering the negative first quarter U.S. GDP, inflation below the Fed’s 2.0% target rate, the Greece financial crisis, the market crash in China and Puerto Rico’s financial woes, we expect the Fed to refrain from raising rates, as they have said they will take into account what is going on globally. All the negative data gives Chairwoman Yellen the ability to not raise rates and still maintain credibility. When it comes to rate increases, we have been waiting for three years and it appears we will continue to wait on into 2016.

As previously mentioned, Puerto Rico is teetering on default and has now become one of the larger risks to U.S. investors; only their crisis has not yet grabbed the attention of the media like Greece. The U.S. island territory of Puerto Rico is dangerously close to defaulting on roughly \$72 billion in bonds. To put that into perspective, U.S. banks own about \$14 billion of sovereign Greek debt, which is approximately only 19% of what U.S. banks and mutual fund companies own of Puerto Rican debt. This is a good example of “if it’s too good to be true it probably is.” Puerto Rican rates were high for a reason and now some sort of default is likely to take place.

Amidst all the negative macro data, there may be a silver lining: The Fed most likely will be unable to raise interest rates in 2015. This would be a positive for equities as we have seen a rise in mergers and acquisitions in a lower interest rate environment. Company borrowing costs are lower and they are able to buy back shares and return capital to their shareholders.

CAPITAL MARKETS SNAPSHOT

EQUITY	As of 6/30/2015	2Q2015	YTD	12-Month Return
DJIA	17,619.51	-0.29%	0.03%	7.21%
S&P 500	2,063.11	0.28%	1.23%	7.42%
NASDAQ	4,986.87	2.03%	5.90%	14.44%
MSCI EAFE	1,842.46	0.62%	5.52%	-4.22%
RATES	As of 6/30/2015	As of 3/31/2015	As of 6/30/2014	
Fed Funds Target Rate	0.25	0.25	0.25	
3-Month Libor	0.28	0.27	0.23	
6-Month CD	0.44	0.35	0.35	
2-Year Treasury	0.64	0.56	0.46	
10-Year Treasury	2.35	1.92	2.53	
30-Year Mortgage	4.02	3.69	4.14	
Prime Rate	3.25	3.25	3.25	
COMMODITIES	As of 6/30/2015	2Q2015	12-Month Return	
Gold	\$1,171.00	-1.35%	-10.95%	
Crude Oil	\$59.47	24.94%	-43.56%	