Second Quarter Financial Market Commentary

"Ninety Days in Ninety Seconds"

June 30, 2015

Greece - A Sideshow Makes Headlines

- The biggest near-term uncertainty for the global financial markets revolves around Greece. Fears of default, contagion and a potential exit from the Euro have received overwhelming media attention. These are legitimate concerns, but they should be counterbalanced with the fact that economic stress is hardly a new or unexpected "crisis" for Greece. The country has already defaulted twice since 2010 and the ratio of its government debt relative to economic output has escalated almost seven-fold since 1980. An overly simplistic observation is that the estimated market value of Greek stocks held by Americans is approximately $5 billion. To put this in perspective, it is about the same size as the market capitalization of Dunkin' Donuts!

- In early July the Greek people voted to reject a package of economic reform proposals. The ultimate repercussions from this election cannot be forecasted with any certainty, but global monetary authorities learned a significant lesson from the bankruptcy of Lehman Brothers and undoubtedly stand ready to pump liquidity into the system in order to prevent a large scale financial panic.

Domestic Job Creation And Economic Growth - The Main Event

- Nonfarm payrolls have increased by almost 1.3 million jobs in the first half of this year. At the same time, the unemployment rate has declined from 5.6% at the end of 2014 to 5.3% as of June. Consumer spending should accelerate in the second half of the year as a result of these newly created jobs, as well as the continuing benefit of lower energy costs. The jobs recovery in the U.S. is a much more important macroeconomic development than the Greek vote.

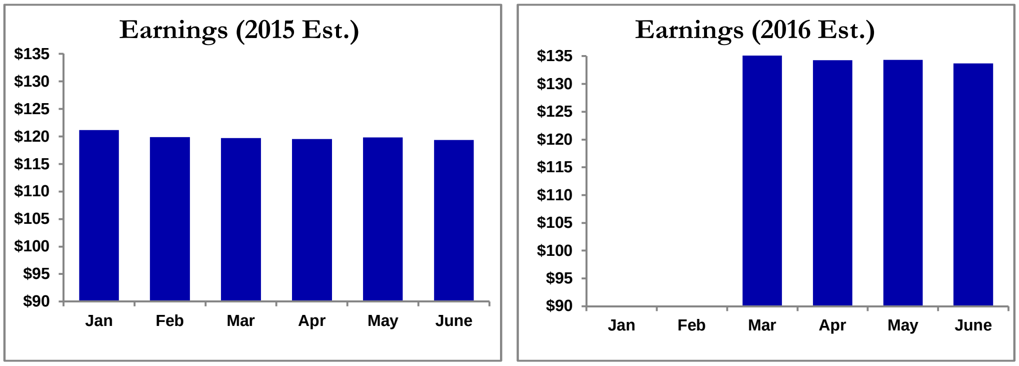
Federal Reserve Policy - How Will "Liftoff" Impact The Market?

- The Federal Reserve has been very clear that sustained job growth is the primary precondition for an increase in the target range for the federal funds rate. A continuation of healthy job market data is expected to result in the announcement of the initial rate hike later this year.

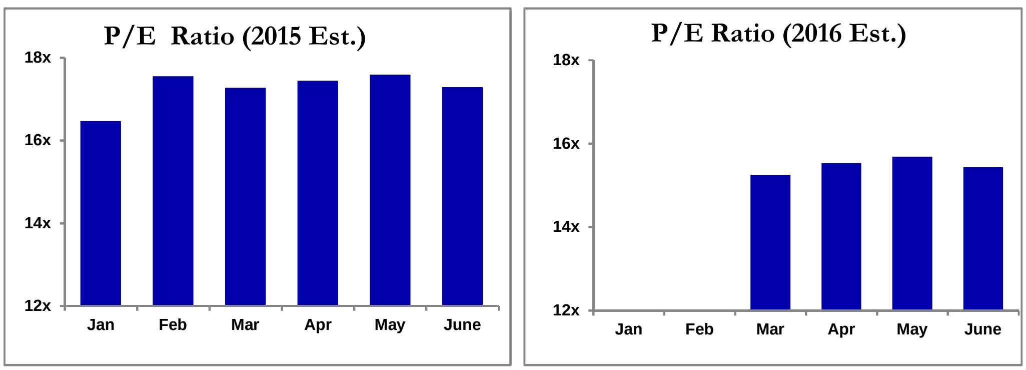
- The financial media have adopted the aerospace term "liftoff" to describe the first interest rate hike. During prior interest rate cycles, rate increases have been characterized by mechanical patterns of hikes that propelled fed funds targets higher at each committee meeting. However, Fed Vice Chair Stanley Fischer recently stated that rather than using the term "liftoff", he preferred to describe the expected pace of future interest rate increases as "crawling". The upcoming shift in interest rate policy is broadly anticipated by investors and should not be a disruptive force in the economy or in the financial markets.

EARNINGS AND VALUATIONS

S&P 500 Earnings Estimates



S&P 500 P/E Ratios



- Earnings estimates for 2015 have stabilized over the past three months with slight increases in six economic sectors and modest declines in the remaining four sectors. So-called "preannouncements", in which company managements acknowledge meaningful earnings or revenue shortfalls, have been scarce in advance of the upcoming earnings season. We interpret this as a positive factor and anticipate that favorable domestic economic trends will provide a tailwind for earnings in the second half of the year.

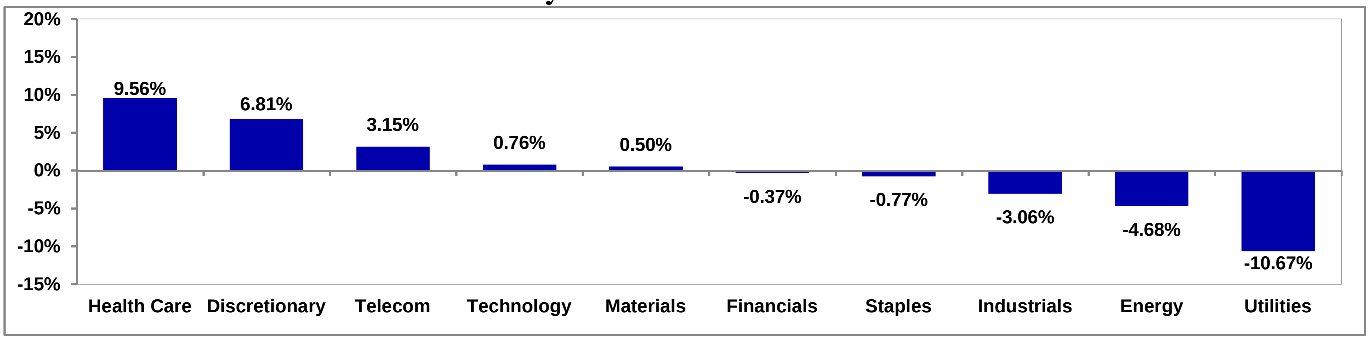
MERGER & ACQUISITION ACTIVITY ACCELERATES - AGAIN

- The first quarter trend of widespread merger activity continued to snowball in the second quarter. Domestic merger volume rose 50% to $1 trillion in the first half of the year. This is not a passing fad. The debt markets are very receptive to corporate activity and most deals have substantial strategic merit and cost synergies. If the tenor of merger activity begins to resemble the ill-conceived takeover of AOL by Time Warner from the dot com era, then we will need to sound the alarms. However, this does not appear likely in the foreseeable future.

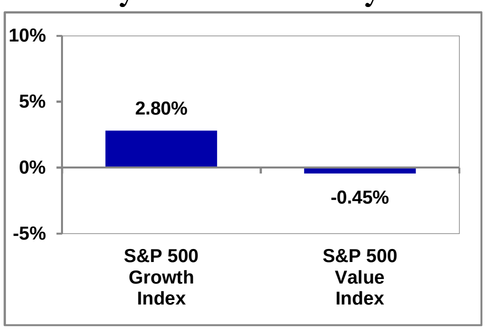
- Deal-related confidence among chief executive officers has been supplemented by investor enthusiasm that not only drives up the price of the target, but often the stock price of the acquirer rises as well.

Year-to-Date Investment Performance (including income)

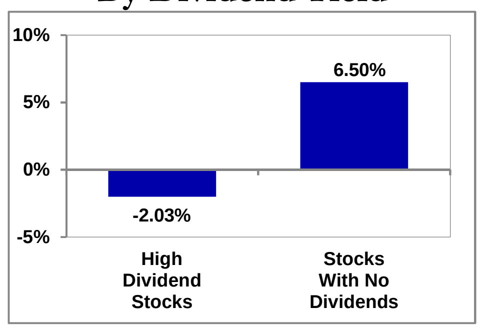
By Economic Sector



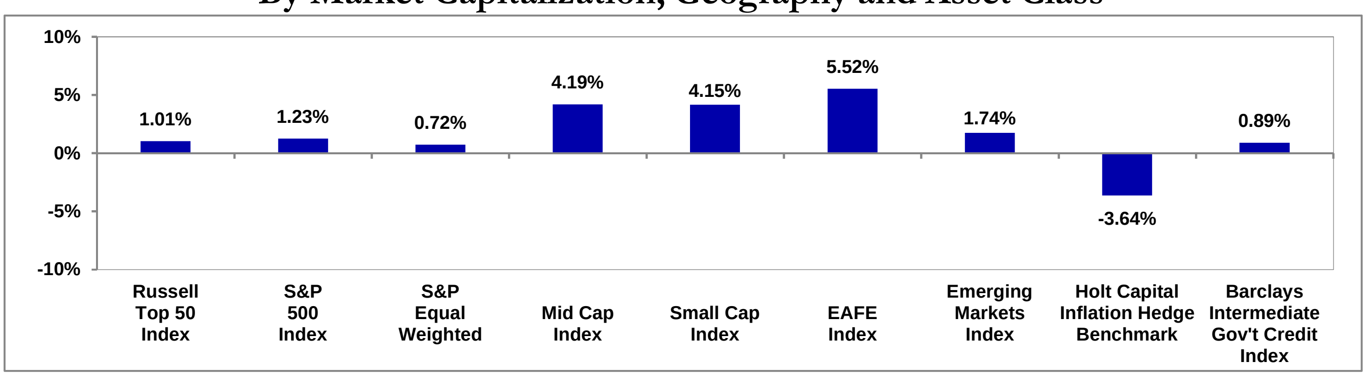
By Investment Style



By Dividend Yield



By Market Capitalization, Geography and Asset Class



- Leadership in the stock market on a year-to-date basis has been largely concentrated in the health care and consumer discretionary sectors. Health care performance was driven by merger activity and rising earnings estimates. Within the discretionary sector, e-commerce companies such as Netflix and Amazon were the best performers, but solid consumer spending also provided a favorable tailwind.

- Organic sales growth has been difficult to achieve over the past several years. Health care, small caps, mid caps and some non-dividend payors are industry groups that have demonstrated the ability to deliver solid growth and they have tended to outperform. The expectation of higher interest rates hindered the utilities sector and other stocks with above average dividend yields.

Conclusion

- The fundamental backdrop for the domestic economy continued to improve during the first half and as a result, the U.S. has become an especially attractive destination for global capital. Steady job creation, strong auto sales and low energy prices are supportive of consumer spending gaining momentum. Earnings expectations for the second half appear to be very achievable and the normalization of interest rates by the Federal Reserve should be viewed as a positive consequence of a successful economic recovery.