VANTAGE CONSULTING GROUP
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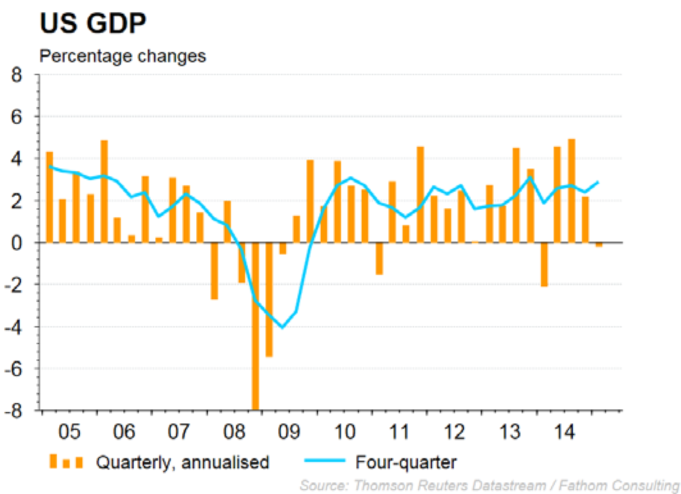
Market Review

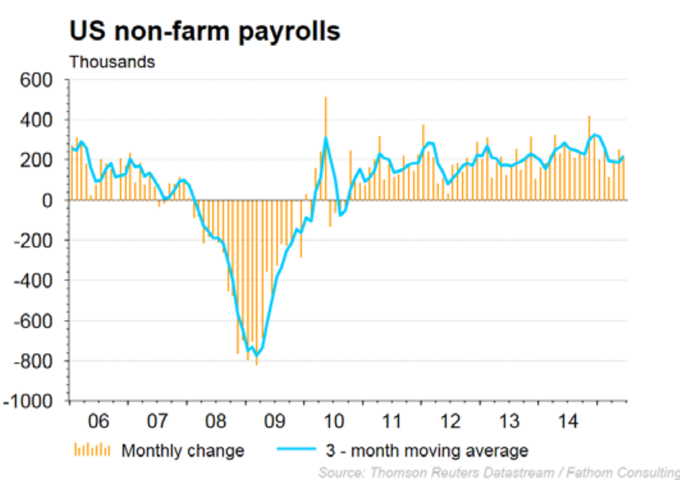
June 2015

Economic Review

US first quarter real GDP declined at a 0.2% annualized rate (a.r.), according to the third estimate released by the Bureau of Economic Analysis (BEA). This is an improvement over the previous estimate of -0.7% as personal consumption and gross private domestic investment were stronger than prior reports. Real GDP has increased 2.9% year-over-year (YoY). Economists expect second quarter GDP growth to be in the 2% to 3% range.

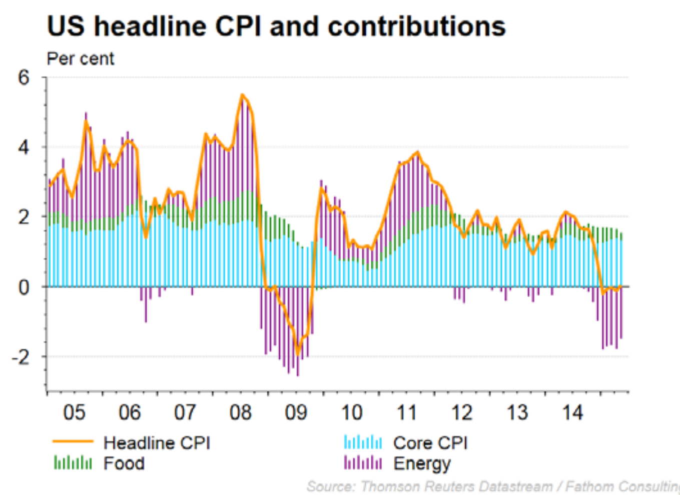


Employment data were positive as payrolls beat expectations, increasing 280,000 in May, compared with an average monthly gain of 251,000 over the prior 12 months. The unemployment rate increased to 5.5% from 5.4% and the Labor-force-participation-rate increased to 62.9% from 62.8%. The participation rate has been range-bound between 62.7% and 62.9% since April 2014. Average hourly earnings rose by 8 cents in May to $24.96 and have grown by 2.3% over the year.



Existing home sales rose +5.1% month-over-month (MoM) to 5.35 million units during May, the highest level since 2009, leaving a 5.1-month inventory at the current pace. Existing home sales are up 9.2% YoY. New home sales rose 2.2% MoM to 546,000 units, leaving 4.5 months of supply at the current rate. Housing starts declined 1.1% MoM to 1.04 million. Building permits increased 11.8% MoM to 1.28 million.

The US Consumer Price Index (CPI) rose 0.4% MoM and is now flat for the year. Core CPI, excluding food and energy, rose 0.2% MoM and is up 1.7% YoY. The Personal Consumption Expenditure (PCE) deflator, another measure for inflation, increased 0.2% YoY. Core PCE was up 1.2% YoY. Personal spending grew faster than personal income in May, leading to a decline in the savings rate.



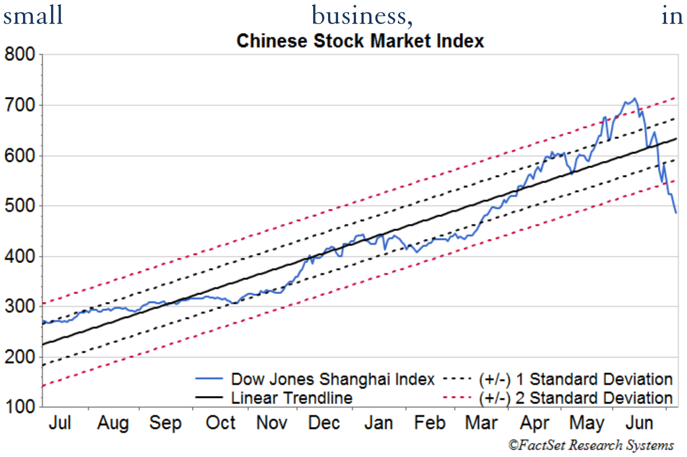
The Federal Open Market Committee (FOMC) noted the uptick in second quarter economic activity relative to first quarter in a statement released after the mid-June FOMC meeting. The statement provided a fresh set of economic and interest rate projections that market participants interpreted as dovish. The FOMC next meets on July 28 and 29 and the timing of the much-anticipated first rate hike since 2006 remains data dependent.

International economic headlines in June were dominated by Greece's debt crisis. Bailout negotiations between Greece and representatives from the "troika" (the European Commission, the European Central Bank, and the International Monetary Fund) stalled at month-end leading to a surprise call for a plebiscite in early July. Greek politicians, led by recently elected Prime Minister Alexis Tsipras, are asking for debt forgiveness and resisting deeper welfare cuts and larger tax hikes demanded by the troika. Greece has implemented strict capital controls designed to prevent total economic collapse, including shuttering the country's banks indefinitely and limiting ATM withdrawals to €60. At the end of June, Greece missed a $1.7 billion payment to the International Monetary Fund (IMF), becoming the first developed country to default to IMF since its founding in 1945.

Eurostat's estimate of May inflation in the Eurozone was 0.3% on a year-over-year basis, as inflation returned to the region after 5 months of stagnation or deflation readings. The core inflation rate, which strips out food and energy prices, was up 0.9% in May, compared to 0.6% in April. In addition, unemployment in the Eurozone fell to a three-year low of 11.1% in April, according to Eurostat. The unemployment rate has been slowly falling since peaking at over 12% in 2013. The falling jobless rate for the Eurozone masks the imbalance in joblessness between countries; Germany boasts a 4.7% rate, while Spain and Greece have unemployment rates of approximately 25%.

In the UK, the Office of National Statistics' (ONS) estimate of unemployment was 5.5% in April, in line with the previous estimate. Wages rose 2.7% while inflation registered only 0.1%. The Bank of England (BOE) kept monetary policy steady, holding its benchmark interest rate at a record low of 0.5%. The BoE also kept the size of its bond purchases unchanged at £375 billion.

In Asia, China's government continued to take actions to try to boost the economy and stabilize their domestic stock markets. The People's Bank of China (PBOC) cut its one-year benchmark lending rate to 4.85% and its one-year deposit rate to 2%. The PBOC also cut the reserve requirement for Chinese banks that lend to farmers and small business, in

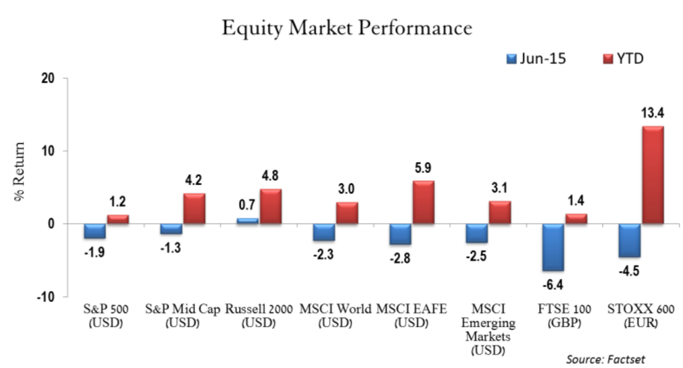


hopes that increased lending will provide an economic boost. In addition, the Chinese government has taken steps designed to arrest a freefall in Chinese equity markets, including freezing the IPO pipeline and allowing municipal pensions to invest in stocks for the first time. The Shanghai Index fell 5.87% in June, and losses have accelerated in early July (down over 10% as of July 7). Overall, the Shanghai Index has lost 32% from its June 12 peak through July 7. The China Shenzhen Chinext Composite (a high-growth, high-tech index comparable to the NASDAQ in the U.S.) has fallen over 40% in the same period.

Equity Markets

Global equities fell in June, with the MSCI World Index returning -2.3% in USD terms. Domestic large cap stocks, as measured by the S&P 500, lost 1.9% in June, and are now up only 1.2% in 2015. Domestic mid-cap stocks, as measured by the S&P 400 returned -1.3% but the Russell 2000 small-cap index finished the month up 0.7%. The headline indices for Europe (STOXX 600) and the UK (FTSE 100) returned -4.5% and -6.4%, respectively in local currency terms. At the sector level, Utilities led the market lower, losing 6.0% in June; Utilities are down over 10% in 2015, as bond yields have climbed and the Fed seems poised to hike interest rates.

The S&P 500 traded mostly flat throughout the month until June 24th. In June's final days, concerns over the Chinese stock market and an approaching deadline in Greece's debt talks sent the market down over 2%. Market volatility, as measured by the CBOE Market Volatility Index (VIX), finished June significantly higher at 18.23, up from 13.84 at the end of May. The VIX surged over 34% on June 29th as a Greek default appeared imminent. The June closing value is still below the VIX's long-run average of 20. The volatility of European stocks, as measured by the Euro Stoxx 50 VIX Index, spiked to 32.31 in June, driven by a 37% increase over the last 5 trading days of the month.



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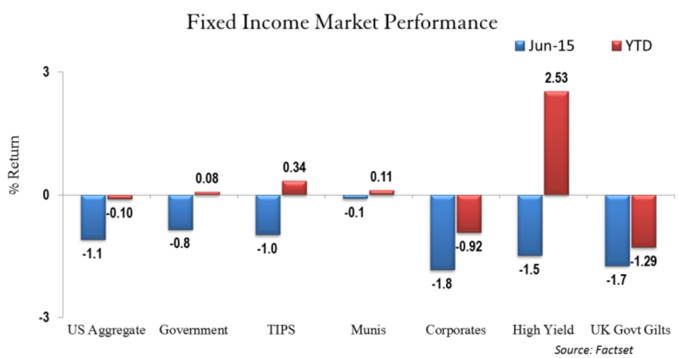
Bond Markets

The bond markets sell-off that began in early February continued in May on expectations of a rate hike by the Fed, better US economic performance and stabilizing oil prices. By late June, long dated Treasury yields had risen to their highest levels since September before Greek news had investors seeking the safe haven assets like US Treasuries. Credit spreads widened 10 basis points in June to +137 bps over Treasuries on heavy supply of corporate debt and continued market uncertainty.

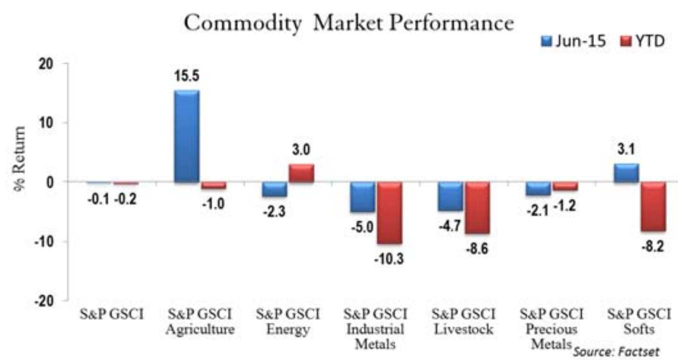


The yield on the 10-year US Treasury bond increased 23 bps to close June at 2.33%. The yield on the 30-year US Treasury bond climbed 25 basis points to close at 3.1%. The UK 10-year benchmark gilt yield increased 21 bps, to close at 2.033%. The yield on German 10-year benchmark bonds gained 28 basis points to close at 0.765% at the end of June.

Commodities

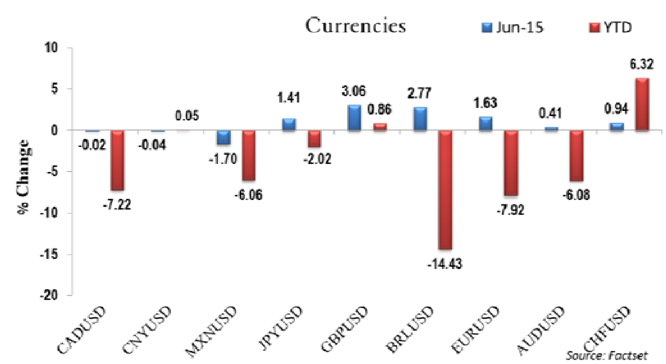
The S&P GSCI Total Return Index, a headline index of 24 commodities, returned -0.1% in June. The index has returned -0.2% year-to-date, as wild swings in energy, industrial metals, and agricultural commodities persist. The Agricultural sub-index gained 15.5% in June. Grain markets have been strong, supported by unusual weather patterns that could affect the harvest. Wheat [+27.5%] and Corn [+19.9%] prices gained in particular, as excessive rainfall in the Midwest US caused supply concerns. The Industrial Metals sub-index lost -5.0% in June, Lead (-10.0%), Zinc (-8.8%), Nickel (-5.2%), and Aluminum (-3.6%) declined amid concerns about the slowing Chinese economy.

The Energy sub-index returned -2.3% in June; the sub-index has rallied 3.0% year-to-date, and has declined 45.5% over the last 12 months. West-Texas Crude Oil opened the month at $60.23/bbl. and traded choppily throughout the month, closing June at $59.47. Oil traded down for four straight sessions (down -4.4% in total) after the US Energy Information Administration (EIA) announced that crude inventories remained at an 80 year high. In addition, progression in negotiations over Iran's nuclear program has led to concern that Iran could flood the market with additional supply in the near future.



Currencies

The US Dollar weakened versus a basket of major currencies in June in spite of the ongoing Greek saga and an anticipated Fed rate hike later this year. The US Dollar Index depreciated 1.4% in June and is up +5.8% for the year.



The Euro strengthened 1.6% against the US Dollar to close at 1.1142 USD/EUR in May while the British Pound strengthened 3.06% to close at 1.5727 USD/GBP.