MURRAY
INVESTMENT MANAGEMENT

2nd Quarter 2015 Update

Economic Review

After contracting (-.2%) during the 1st quarter of 2015, the U.S. economy rebounded somewhat during the 2nd quarter with expectations for growth around 2%.

Employment has remained strong and averaged 221,000 new jobs per month during the 2nd quarter while the unemployment rate fell to 5.3%. This is the lowest unemployment level since 2008.

As expected, the Federal Reserve kept interest rates at historically low levels. The Fed will continue to monitor employment, inflation and other economic data to determine when to raise rates, and investors will remain focused on Fed comments to determine when this rate increase will occur.

Equity Market Performance

	QTD	YTD
S&P 500	0.28%	1.23%
MSCI EAFE (International index net return)	0.62%	5.52%
Rusell 2000 (small cap)	0.42%	4.75%

The broad U.S. equity markets produced modest returns during the quarter. The healthcare and consumer discretionary sectors were among the better performers while the utilities sector lagged. International stocks have outperformed domestic stocks so far this year.

Bond Market Performance

	QTD	YTD
Barclays US Aggregate Bond (Broad Bond Market)	-1.68%	-0.10%
Barclays Municipal	-0.89%	0.11%
Barclays US Treasury Long	-8.30%	-4.67%
Barclays US Corporate	-3.16%	-0.92%
Barclays US Corporate High Yield	0.00%	2.53%

The U.S. bond market was under pressure during the quarter as the 10 year Treasury rate increased from 1.94% to 2.35%. Long Treasuries were among the weaker performers and were down -8.30% for the quarter.

Economic Outlook

As noted in the 1st quarter report, the Fed will likely raise rates at some point this year as the economy improves. There will be a great deal of speculation on when this will occur, and currently, a rate increase in the fall seems to be a reasonable estimate. Rate increases are expected to be modest and rates will likely remain relatively low in the near term. As it determines the pace of rate increases, the Fed will be balancing an improving U.S. economy and better labor market conditions against moderate inflation expectations.

Market Outlook

The market outlook has not changed much since last quarter. A better employment situation, cheaper oil prices, limited inflation and a patient Fed are a good combination for equities. Weighing against these positive factors are U.S. equity market valuations, which remain somewhat elevated. As such, we are not likely to get further (P/E) multiple expansion from these levels, and corporate earnings will need to be strong to drive markets higher.

On the earnings front, a strong dollar and weak earnings from energy companies will weigh on earnings growth, but stronger consumer spending should serve to drive earnings higher. Taken all together, earnings growth will not likely be robust, which could translate into a grind-it-out type of market with modest returns. If / when the Fed raises rates, volatility will likely increase, but this could create some investment opportunities if there is an overreaction to this news.

Consistent with what we have seen over the last several years, interest rates remain low, and opportunities remain limited in the fixed income space. The risk / reward profile for many fixed income securities is not very favorable with very few attractive options. If rates increase, however, this view could change, and portfolios would be adjusted accordingly. Currently, holding a larger level of cash and shorter term securities in the fixed income allocation seems to be a reasonable approach.

Murray Investment Management

If you would like help with establishing an investment plan or would like to schedule a portfolio review, please give us a call. Also, please pass along our name to anyone that may be in need of investment advice.

Source: bls.gov, frbatlanta.org, Morningstar, bea.gov, Bloomberg and treasury.gov
The performance data shown represents past performance, which is not a guarantee of future results.
Return data is as of 06/30/2015. Except as noted, index returns are total returns.

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