

Weekly Market Commentary

June 29, 2015

The Markets

Not quite as popular as Branjelina and Kimye, ‘Grexit’ (short for Greek Exit) has gained traction as a nickname during the past few months. The British press appropriated a variation, Brexit, when they discovered that the Bank of England was researching the potential risks of renegotiating membership in the European Union, or possibly even leaving the group—but that’s another story.

This is about Greece, and it’s a Grexhausting tale. Last week, *The Economist* explained the state of affairs this way,

“...euro-zone finance ministers failed for the third time in four days [on June 25] to find a breakthrough in their talks over Greece's bail-out...But four days before its twice-extended bail-out expires and a €1.5 billion (\$1.7 billion) payment to the [International Monetary Fund] IMF falls due, Greece and its far-left prime minister, Alexis Tsipras... still have no deal.”

By Saturday, a deal was off the table. After days of negotiations, *CNN Money* stated, “Prime Minister Alexis Tsipras...could not accept the terms being offered by Europe and the IMF. He said he would recommend that Greeks vote against them in a referendum on July 5.” The move was perceived to be a delaying tactic and, when Greece requested bailout extension, European finance ministers refused.

Greece owes about 1.5 billion euros to the IMF, and a payment is due on Tuesday. In the meantime, the European Central Bank (ECB) has been providing emergency funding—a line of credit currently worth about \$95 billion—to keep Greek banks from collapse.

It’s unclear whether Greece will be able to make the payment due to the IMF this week. If it does not, *Bloomberg Business* reported the country is at risk of joining a rather disreputable club: countries that have failed to repay the IMF on time. Current membership includes Sudan, Somalia, Zimbabwe, Cuba, Cambodia, and Honduras.

CNN Money explained that Greeks are queuing at ATMs, banks are strapped for cash, and the European Central Bank may decide to curtail emergency funding. On Sunday, in an attempt to manage the financial fallout, Greece decided to keep its banks closed on Monday and close the Athens stock exchange.

One expert cited by the *International Business Times* suggested that a Greek default could make international credit markets unavailable to the country for many years. In addition, Greece may experience rapidly accelerating inflation and economic decline.

If the economic effects of default prove less dire than anticipated, other debt-strapped Eurozone countries such as Italy, Spain, and Portugal, may decide to follow suit. The possibility has many worried about the future of the Euro.

There is a good chance markets will be volatile this week as events play out.

Data as of 6/26/15	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	-0.4%	2.1%	7.4%	16.8%	14.4%	5.8%
Dow Jones Global ex-U.S.	0.7	5.6	-4.0	9.8	5.3	3.4
10-year Treasury Note (Yield Only)	2.5	NA	2.5	1.6	3.0	3.9
Gold (per ounce)	-2.7	-2.4	-10.8	-9.4	-1.5	10.3
Bloomberg Commodity Index	1.3	-3.1	-25.8	-8.3	-4.6	-4.4
DJ Equity All REIT Total Return Index	-2.5	-4.2	6.1	10.9	13.4	7.3

S&P 500, Dow Jones Global ex-US, Gold, Bloomberg Commodity Index returns exclude reinvested dividends (gold does not pay a dividend) and the three-, five-, and 10-year returns are annualized; the DJ Equity All REIT Total Return Index does include reinvested dividends and the three-, five-, and 10-year returns are annualized; and the 10-year Treasury Note is simply the yield at the close of the day on each of the historical time periods.

Sources: Yahoo! Finance, Barron's, djindexes.com, London Bullion Market Association.

Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. N/A means not applicable.

HAS YOUR CAR JOINED THE INTERNET OF EVERYTHING? Auto buyers have mixed feelings about cars and connectivity.

A *McKinsey & Company* survey found that more than 25 percent of participating car buyers in Brazil, China, Germany, and the United States prioritized automobile connectivity ahead of traditional features like engine power and fuel efficiency. Thirteen percent wouldn't even consider purchasing a vehicle unless it had Internet access.

At the other end of the spectrum, 37 percent of respondents said they would not buy a car that was connected to the Internet — although here were significant regional differences. Concerns about potential privacy violations were highest in Germany (51 percent), the United States (45 percent), and Brazil (37 percent). Just 21 percent of Chinese respondents said digital safety and data privacy was an issue.

Of greater concern to respondents was the chance that connected vehicles could be hacked. Fifty-nine percent of Germans and Brazilians were worried that others could take control of connected vehicles and manipulate them. Fifty-three percent of the Chinese shared this concern, and 43 percent of Americans.

Hacking is a serious issue. Last summer, a group of automobile engineers, policy-makers, security experts, and high school and college students had a confab. The topic of discussion was the security of connected automobiles. *Autoblog* wrote that a student was tasked with remotely infiltrating a car; an assignment some security experts predicted would take months of planning. They were wrong. The student spent \$15 on equipment, built his own circuit board, and took control of the car.

After a technician from the National Highway Traffic Safety Administration laboratory used his mobile phone to switch off the engine of a test car being driven by a representative from *Consumer Reports*, the magazine cautioned readers against plugging any unknown or unsecured devices—even thumb drives with music—into their cars' USB or OBD-II diagnostic ports.

Connected cars are here, but there are a few bugs to be worked out.

Weekly Focus – Think About It

“Beware of little expenses. A small leak will sink a great ship.”

-- Benjamin Franklin, *Founding Father of the United States*

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- * The Standard & Poor’s 500 (S&P 500) is an unmanaged index. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment.
- * The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.
- * Gold represents the afternoon gold price as reported by the London Bullion Market Association. The gold price is set twice daily by the London Gold Fixing Company at 10:30 and 15:00 and is expressed in U.S. dollars per fine troy ounce.
- * The Bloomberg Commodity Index is designed to be a highly liquid and diversified benchmark for the commodity futures market. The Index is composed of futures contracts on 19 physical commodities and was launched on July 14, 1998.
- * The DJ Equity All REIT Total Return Index measures the total return performance of the equity subcategory of the Real Estate Investment Trust (REIT) industry as calculated by Dow Jones.
- * Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.
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