Dear Friends: July 10, 2015

2nd Quarter 2015 Newsletter

Greece failed… to not disappoint the EU, IMF, and global markets!

News out of Greece threw markets into a tailspin on June 29th as major indices fell over 2% for the day. In our last newsletter we held out hope that Greece would make a deal with the ECB to stabilize the region - the current discussions between Greece and its creditors are not what we had in mind. Much of the concern over the Greek bailout is what effect it will have on the other troubled European nations (Portugal, Italy, Ireland, and Spain). Since it is unlikely that Greece will emerge from this crisis in any type of fighting shape, it seems doubtful that the PIIS nations will be inclined to follow Greece down the proverbial rabbit hole. Additionally, we need to keep the Greece situation in perspective. Greece is a small piece of the European economy (2% of Euro Zone GDP) and plays a de minimis role in worldwide economic growth.

Despite this implosion at the end of June, most of the quarter was fairly uneventful with markets remaining relatively calm in April and May. This is in stark contrast to the volatility experienced in the first quarter of 2015. As in the first quarter, the focus remained on economic data, with particular attention paid to its effect on the Fed's decision of when to raise rates. As with Greece, the long term effects of rate raises are generally mild and many economists are actually yearning for a more normalized yield curve. With rates at historic lows, slight increases should not have a dramatic effect on U.S. economic expansion. Furthermore, the Fed will be sure to raise rates at a slow pace to stymie any market panic due to the raises.

Overall, economic data was positive throughout the quarter. April's Housing Starts was one of the strongest on record up 20% from March with a 10% surge in New Permits. Consumer Sentiment is very strong and is finally translating into consumption as shown by a strong May Retail Sales figure (up 1.2%). Despite recent strong advances in unemployment, the 2nd quarter saw no major changes in the unemployment or wage level figures. This was seen as a key reason that the Fed did not look to accelerate its rate rise.

It is interesting to note that while the U.S. contemplates raising rates, most countries around the world are slashing rates and providing stimulus to their economies. The ECB, Japan, and China are all stimulating their economies through asset purchases and/or rate reductions. The stimulus seemed to please investors as the MSCI EAFE index was up 5.5%, MSCI Emerging Markets index was up 2.5%, and MSCI China index was up 9% before the Greek crisis caused the markets to decline in late June and they finished the quarter in negative territory.

While equity markets have dominated the headlines, the yield on the 10 Year Treasury bond rapidly increased during the quarter from 1.93% on March 31st to 2.47% in mid-June. Many analysts were predicting that we would end the year with the 10 Year Treasury yielding 2.5% but very few would have predicted we would get there by the 2nd quarter. This rise caused bond prices to fall with the Barclays Aggregate Bond Index down 2.38% for the quarter.

Index	**Index Close**	**Quarter Price Return (%)**	**YTD Price Return (%)**
S&P 500	2,063.11	-0.23%	0.20%
DJIA	17,619.51	-0.88%	-1.14%
NASDAQ	4,986.87	1.75%	5.30%
Barclays Aggregate Bond	108.78	-2.38%	-1.22%
MSCI Europe-Australasia-Far East	63.49	-1.06%	4.36%
MSCI Emerging Markets	39.62	-1.27%	0.84%

One topic that does not seem to be receiving much attention is the Trans-Pacific Partnership (TPP). Often overshadowed by developments in Greece and at the Fed, the TPP has the ability to bring together some of the most powerful nations in the world in a trade agreement that could enhance the long-term growth prospects of all involved. However, a notable absentee from this list of TPP nations is China. This absence coupled with China's substantial influence in the Asian Infrastructure Investment Bank (which the U.S. is not a member of) does not do anything to quell tensions between the U.S. and China. The situation in China is a complex one and we will continue to keep one eye turned towards the East.

At Locust Capital we stress a long term view of the markets and do not get flustered by increased market noise. Locust Capital reduces the risk of its client's portfolio through its investment manager selection and its diversification across multiple asset classes. Locust Capital believes that investing for the long term requires discipline and patience and we thank our clients for their trust in our process.

We hope you all are enjoying the summer and look forward to speaking with you in the near future.

All the best,

Locust Capital Management, LLC