



## **Dear Clients & Friends of Patriot Investment Management**

Overall, the second quarter proved unremarkable for U. S. markets. Domestically, fundamentals remain strong; both the Dow and Standard & Poor's 500 indexes set new highs again, only to finish the quarter near where they started. This was largely due to short-term, emotional reactions to news abroad - headlines have been dominated by Greece, China and Puerto Rico's financial turmoil and difficulties, and the volatility those headlines generated.

### U. S. Economy:

Economic fundamentals are strong and continue to show slow but steady improvement. The U.S. economy added 223,000 jobs in May, further reducing the unemployment rate from 5.5% to 5.3%, and consumer inflation increased 0.4% in May. This increase was mainly due to a rise in gasoline prices, as oil climbed to \$59 a barrel during the quarter. Despite this one-month increase, inflation remains flat for the last 12 months.

The housing market continued its recovery, as sales of existing homes increased 5.1% in May, which was 9.2% higher than a year ago, and median home prices rose for the 39<sup>th</sup> consecutive month. In addition, new home sales were up 10.5%.

The dollar's rapid rise leveled off, and it has maintained its strength through the quarter, providing cheaper imports for U. S. consumers, while increasing the cost of exports. Commodities prices, recently punished by the strengthening dollar, have stabilized. Consumer spending increased 0.9%, the largest increase since August of 2009, and personal income increased 0.5% consecutively in April and May.

For now, the Fed is likely to raise rates incrementally in the fall, but may choose to wait until early 2016 due to the continued low inflation and unemployment, and the potential for China to slip into a recession if their growth rate continues to slow down. Increased volatility abroad will lead to short-term increases in Treasury yields.

### Global Markets:

While Greece has dominated headlines in recent days and created volatility in the U. S. stock market, the GDP of Greece is far less than the output of many major U. S. cities, and it is unlikely to have any long-term effect for either the U. S. or Europe. Despite the short-term volatility, Europe continues to grow with pent-up consumer demand and the European Central Bank's liquidity programs.

In Asia, China is experiencing slowing growth. As the second largest economy in the world, and the largest economy in Asia, China's lower demand for oil and reduction in trade has negatively impacted its neighboring Asian economies and is creating a ripple effect in Asia and emerging

markets. Whether economic reforms and monetary easing will be enough to avoid a Chinese recession remains to be seen.

In Summary:

Going forward, we are likely to see slow to modest growth in developed economies, with an increase in volatility due to weakening fundamentals in China. Deflationary pressures in the U. S. are likely to fade, and emerging markets will remain challenging for the foreseeable future.

2015 Second Quarter Returns

S&P 500 + dividends	0.28%
Dow Jones Industrial	-0.88%
Russell 2000	0.42%
Emerging Markets	-0.37%
Barclays Aggregate Bond Index	-1.68%

Returns are price-only unless otherwise noted

10 year Bond yield as of 06/30/15      2.34%

Inflation                      0.0% thru May 2015

Unemployment              5.3% in June 2015

*Sources: Broadridge Investor Communications Solutions, Inc.  
Patriot Investment Management, Inc.*

**Thank You!**

We value the confidence and trust you have placed with us, and we welcome your questions and comments. Our goal is to be our clients' trusted resource for all things financial.

Do you know someone who could benefit from our expertise? We appreciate your introductions and the opportunity to help your friends and colleagues meet their financial goals.