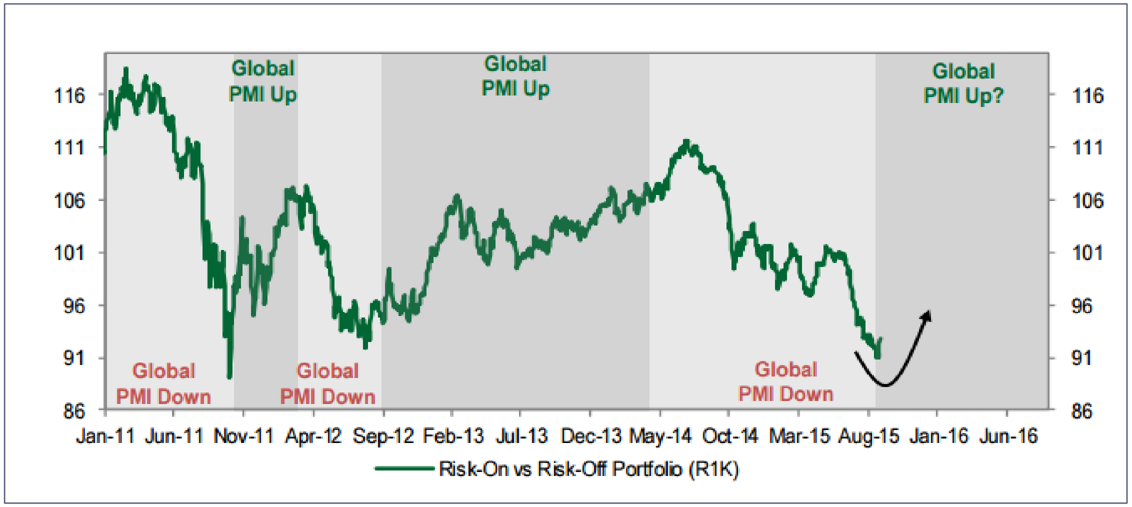
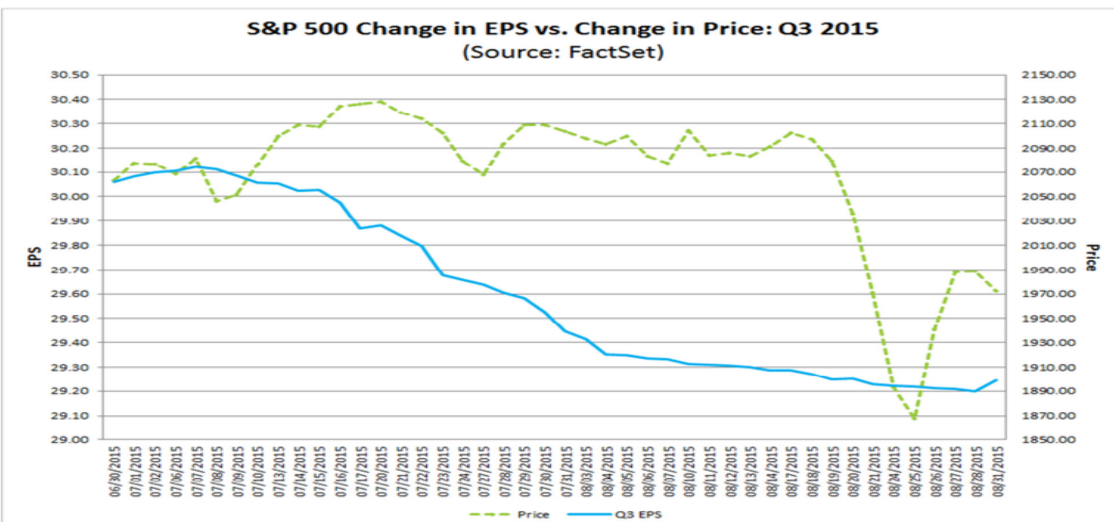
Market Recap

Global Growth Outlook Impacts The Performance of Portfolios



Source: Cornerstone Macro

Rate of Decline in Earnings is Slowing



Source: Factset

The Purchasing Managers Index (PMI) is an indicator of economic health within the manufacturing sector and is based on five major components: new orders, inventory levels, production, supplier deliveries, and the employment environment. Historically, there has been a strong, positive correlation between the PMI and the performance of risk-on investments (e.g. consumer discretionary names). Looking deeper into this correlation, we have also seen outperformance from risk-on assets about 89% of the time in periods during which both U.S and Euro Zone PMI's are increasing. However, this correlation has not held up so far in 2015: risk-on assets have lagged even though Developed Market PMI's have increased. This is because struggling Emerging Market economies have driven the Global PMI down, overshadowing the health of the U.S. economy, at least as it relates to certain sectors.

Analysts lowered their earnings estimates for S&P 500 companies during the first two months of the third quarter by 2.7%. While disappointing to, once again, see downward earnings revisions, the silver lining is that the rate of decline appears to be slowing. Over the past four quarters, earnings estimates have been revised downward during the equivalent time periods by 4.1%. The five- and ten- year comparisons are 2.5% and 3.4%, respectively, making this quarter's revisions among the most limited of the last decade. This may signal good news for earnings in the third quarter as analysts appear to have a higher degree of confidence in U.S. companies to achieve their earnings targets. With an optimistic earnings forecast, it is hoped that the outlook for stocks will, likewise, improve.

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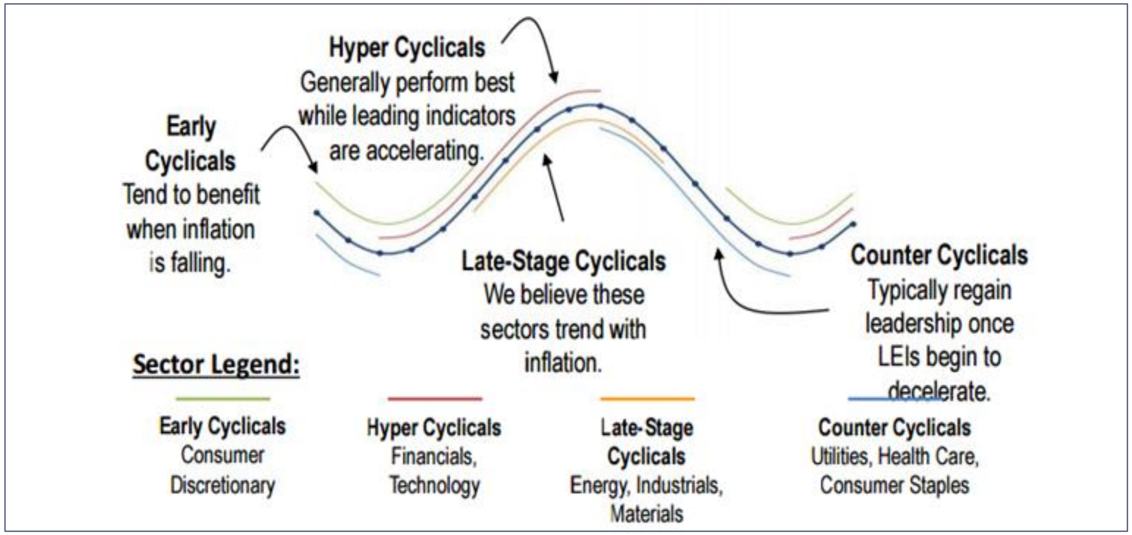
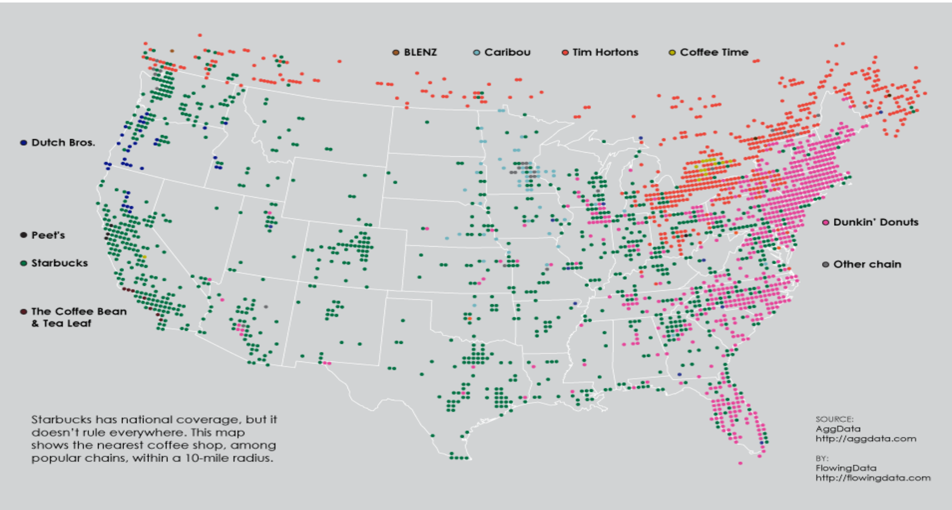
Early vs. Late Stage Cyclicals



Source: Cornerstone Macro

Where Do You Buy Your Coffee?



Source: Huffington Post

The business cycle approach to investing holds that the economy will continually cycle through a similar pattern of stages over time. This cycle can be affected both in terms of duration and significance by stimulus/tightening, as well as by deeper macro trends. The stages of the cycle often bring predictable levels of performance for certain kinds of stocks. Accordingly, the key to outperformance over time is anticipating turning points in leading indicators before the market does. Early Cyclical (e.g. Consumer Discretionary) stocks tend to outperform months before a turning point toward recovery or accelerating growth. While we are not technically in a recession today, there has been a slowdown over the past year and, in early 2015, Early Cyclical stocks appear to have bottomed. This, in tandem with existing stimulus and improving economic conditions, indicates that we may imminently see a recovery with subsequent market upside.

If you thought Starbucks was, hands-down, America's favorite coffee chain, you may be mistaken. In fact, if you assumed the clear choice would be between Starbucks (with over 10,000 locations)and Dunkin' Donuts (with over 7,000 locations), you may also be incorrect…at least in some parts of the country. A recent study proves regional influences and preferences; in short, "the best coffee" depends on where you live. In the Northeast and up and down the East Coast – areas of highest coffee shop density - Dunkin' is the clear choice. If you live in the Midwest, it appears your favorite is Caribou Coffee. And, Tim Hortons is not only Canada's favorite, but also that of coffee drinkers in the Great Lakes area. As one might expect, Starbucks dominates the rest of the country, including the Pacific Northwest where the brand began.

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