SELECTOR® Money Management
2015 Second Quarter Review

The Second Quarter Saw Domestic Equities Becalmed, Except For The Next To The Last Day

After a first quarter marked by rapid reversals, domestic equity markets spent almost all of the second quarter in a relatively quiet trading range. The good news about the trading range was that market volatility was extremely low. The bad news about the trading range was that progress for domestic equities was almost non-existent. The S&P 500 Index declined by -0.59% in the second quarter and stood with a gain of +1.23% YTD. The S&P 400 Mid Cap Index dropped -1.42% in the second quarter for a mid-year gain of +4.20%, while the Russell 2000 Small Cap Index slipped lower by -0.22%, for a YTD return of +4.16%. The best performing domestic equity sector was healthcare providers, with the Dow Jones U.S. Select Healthcare Providers Index gaining +6.67%. The worst performing equity sector was real estate, as the Dow Jones U.S. Real Estate Index declined by -9.79% in the second quarter. And as for the next to the last day, on June 29th equity prices dropped sharply around the world and volatility spiked as Greece once again demonstrated its fiscal incompetence. The 30th was again quiet for domestic equities.

It Was A Very Different Quarter For Bond Markets

After doing the tango with equity markets during the first quarter, bond markets pulled back from their March and April highs and as they headed into May it appeared as though they were prepared to rally back to the top of their extended trading range. That changed abruptly the first week of June as a very broad and sharp decline pushed almost every bond index back to their 2015 trading range lows, then even lower to levels not seen since last November. The declines affected U.S. Treasuries, investment-grade corporates, high yield bonds, and even municipals as they all sank into negative territory for the year. A mid-June rally failed and prices declined back near the lows before Greece's end-of-month surprise sparked a rally in the high quality bond sectors. That improvement aside, most bond indexes ended the second quarter on negative ground. The Barclays U.S. Aggregate Bond Index fell -2.03% in the quarter to finish -0.10% YTD. The S&P National Municipal Bond Index declined -1.22% and is now -0.11% YTD. Interestingly, high yield bonds fared relatively well in the quarter and remained positive YTD. Most negatively affected was the Barclays U.S. 20+ Year Treasury Bond Index which fell -10.75% in the second quarter and is now -5.26% YTD.

International Equities Had Joined Domestic Equities' 'Slumber' But Were Rudely Awakened

After pushing to the top of the leader board during the first quarter, developed international equities, including most of Europe, had also settled into a trading range during the second quarter, albeit on a more profitable level. Eastern Asia, emerging markets and international small cap equities enjoyed a very positive April before they, too, finally settled into trading ranges during May and June. Once again, however, Greece proved to be a spoiler. The week prior, China's equity markets had already begun to decline sharply. In spite of the China-Greece combination punch, international equities still were putting up the best numbers for the second quarter and YTD. The MSCI China Index was up +6.67% for the quarter and up +14.65% YTD. The MSCI Emerging Markets Index gained +1.19% in the quarter and was up +2.95% YTD. S&P's Europe 350 Index gave up -1.07% for the quarter but remained +3.95% YTD. The broader MSCI EAFE Index surrendered -0.56% in the second quarter and was +5.52% YTD. Perhaps the response to Greece was exaggerated by the overly quiet market activity that dominated most of the second quarter. If so, the third quarter may prove to hold the key for the whole year.

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