C Y P R E S S

ASSET MANAGEMENT, INC.

MARKET COMMENTARY **July, 2015**

Q2 Market Overview

The 2nd quarter of 2015 was full of political gyrations driven mainly by the drama related to Greece and its lingering financial failure within the European Union. Even so, domestic equity returns held steady: the performance of the S&P 500 during the second quarter ended June 30, 2015 was essentially flat. The ten year US Treasury rate rose from about 2.0% to almost 2.5% during the quarter as the markets began to anticipate a rise in interest rates in the second half of 2015. Oil prices rose modestly but the outlook for a robust recovery in price remains unlikely as production continues to exceed demand. Weak Chinese growth and perturbations in its financial markets continue to plague a global recovery and, along with the struggles of the Euro zone, pose a stubborn barrier to the anticipated increase in American interest rates later in 2015.

2015 YTD 6/30 Market Returns*	%
United States S&P 500	**1.2**
Dow	0.1
Nasdaq	5.3
MSCI World Index**	**4.6**
Euro Stoxx 50 Index**	**11.7**
MSCI Emerging Markets**	**5.8**
MSCI World Ex U.S.**	**7.9**
Bond & Currency Index Returns	**%**
U.S. Dollar Index (DXY)	**5.5**
Dollar vs Euro	**8.4**
Long Term Treasury	**-5.1**
U.S. Corporate Investment Grade	**-0.5**

*Index returns include dividend reinvestment

** Local Currency

Commodities	Units	12/31/2014	6/30/2015	YTD %	*7/15/2015*
NYMEX Crude	$/Bbl	53.2	59.5	11.8%	***51.4***
Brent Crude	$/Bbl	55.7	61.4	10.1%	***56.3***
Nat Gas	$/Mmbtu	3.0	2.8	-7.4%	***2.9***
Gold	$/troy oz	1184	1172	-1.0%	***1147***
Copper	$/lb	282.4	261.5	-7.4%	***252.2***
Iron Ore Fines	$/net ton	69.3	61.5	-11.3%	***53.3***

GDP Growth Forecasts versus S&P Earnings	2013	2014	*2015 (jan est.)*	2015 (jun est.)
Global Real GDP Growth (y/y rate)	3.3%	3.2%	*3.5%*	**3.3%**
U.S.	2.2	2.4	*3.1*	**2.5**
Euro Area	-0.4	0.8	*1.2*	**1.5**
Japan	1.5	0.2	*1.4*	**1.1**
Developing Asia	6.6	6.0	*6.2*	**6.0**
China	*7.7*	*7.3*	*7.1*	**7.0**
Latin America	2.5	0.8	*1.7*	**0.5**
Emerging Market & Developing Economies	4.7	4.4	*5.0*	**4.2**
S&P 500 Aggregate EPS	109.0	118.0	*125.0*	**120.0**
Earnings (y/y rate)	12.6%	8.3%	*5.9%*	**1.7%**
PE Ratio (6/30 price 2,063.12)		17.5	*16.5*	**17.2**

Sources: IMF, ISI Group, BAML, Capital IQ

Global Economic Growth Expectations Remain Muted

The market environment continues to be shaped to an extraordinary degree by underlying macro forces: low growth, relative U.S. economic and dollar strength, below norm interest rates and low inflation, and the increasing prospect for an extended period of lower oil and commodity prices. These trends remain firmly in place as we look into the second half of the year, and, as we have discussed in recent commentaries, will likely be with us for many years to come.

The continued growth slowdown in emerging markets is going to take some time to turn around. It reflects several factors, including low commodity prices, geopolitical turmoil, policy dysfunction and corruption, and a capital spending slowdown and consumer rebalancing in China. Structural reforms to raise productivity are ultimately needed to return to growth. For different reasons, we see a similar picture in the developed world, where demographics are perhaps the most influential factor. The outlook for continued decline in the labor force in the industrialized nations (Japan, Europe and, to lesser extent, the U.S.) and soon even China – courtesy of 35 years of its "one child" policy – significantly limits growth in economic output. Low growth becomes the norm, and even then is dependent on rising productivity. Of course, slow but steady growth is not all bad. It is more sustainable and the economy is much less prone to "overheating", so recessions should be less frequent occurrences. The ISI Group has forecast that the next recession in the U.S. is probably 5 years away.

The Euro Zone Drama: The Road to Disunity is Paved with Good Intentions

Developments in Europe are not likely to be resolved soon and will probably continue to trouble financial markets from time to time over the foreseeable future. To a considerable extent these risks are at least temporarily offset by the European Central Bank and its extraordinarily aggressive QE stimulus. So for the near-term future, the Euro Zone will live to play another day, with or without Greece, and its markets and its big multinational companies even benefit from a weaker Euro currency and accommodative monetary policy. For a longer term prognosis, we turn to something written by Milton Friedman all the way back in 1997 two years before the Euro Zone adopted a single currency:

> *"The drive for the Euro has been motivated by politics not economics. The aim has been to link Germany and France so closely as to make a future European war impossible, and to set the stage for a federal United States of Europe. I believe that adoption of the Euro would have the opposite effect. It would exacerbate political tensions by converting divergent shocks that could have been readily accommodated by exchange rate changes into divisive political issues. Political unity can pave the way for monetary unity. Monetary unity imposed under unfavorable conditions will prove a barrier to the achievement of political unity."*
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> – Milton Friedman, "The Euro: Monetary Unity to Political Disunity", August 28, 1997.

The Silver Lining: Slow Growth Has Imposed Capital Discipline and Enhanced Relative Valuation within the Equity Markets

A silver lining to these developments is that slow but steady growth, anchored by the U.S. domestic economy, provides a pretty favorable environment for stocks. While no longer cheap, equity valuations remain reasonable and continue to provide attractive returns. Moreover, if interest rates and inflation remain below norm for longer than expected, stock valuations are actually "cheap" by fundamental quantitative measures. Finally, slow global growth and diminished opportunities for capital investment have the salutary benefit of focusing corporate boards and management teams on returning cash to shareholders. The Cypress portfolios are well positioned to benefit from shareholder friendly distribution growth, and hopefully price appreciation, as these companies differentiate their returns in a slow topline growth environment.