Market Commentary

M&R CAPITAL MANAGEMENT, INC.

6| NEWSLETTER ISSUE 1

The current stock market plunge in China, coming on the heels of the Greek debt crisis, is still causing substantial unease in global markets. The sudden 30% drop in less than a month has caught both Chinese investors and government officials by surprise, and has led the Chinese government to unleash a flood of stopgap measures, which range from ordering state run institutions to buy shares and banning large share holders from selling stakes, to arresting short sellers and stamping down on "rumor mongering."

China's financial market is a self contained entity which is almost entirely cut off from international investors. China's mainstream economy is largely insulated from this market, and only 7% of Chinese households own stock. Of this 7%, a vast majority do not possess even a high school education, and many borrowed money and bought on margin to purchase their stocks. This lead to a rapidly inflating bubble

which burst on July 7th. The market seems to have leveled off as of a few days ago, but due to the massive, heavy handed intervention having been employed by the government, it is hard to know whether the crisis is largely over or this is simply an artificially induced "bump" which will fail to stave off further losses.

At least in the short term, China's stock crisis is not expected to have a significant impact on the global economy. The only countries that might see some fallout are China's closest regional trading partners, such as Australia and Indonesia. However, there are fears that China's economy in general is rapidly slowing down, and that the stock market crash is simply a prelude to a larger collapse. China's slowing economy has been a well known fact for years, recently highlighted by a sharp drop in commodity prices which, in a major industrial economy like China's, indicates a drop in demand. Coupled with an also well established real estate bubble which has seen the creation of famous "ghost cities," in which entire rows of apartment complexes stand empty for years, there is growing concern that China is headed for a recession. The Greek debt crisis remains in limbo, as Greece repaid a 2 billion euro loan to the IMF, and received 7 billion euro in return. Greece's prime minister Alexis Tsipras, who heads the left wing Syriza party, is attempting to get passed a series of tax hikes, spending cuts and market reforms through the Greek parliament in order to obtain a new bailout from Greece's creditors. Although elected into office largely by denouncing the austerity measures imposed on Greece, Tsipras seems determined to keep Greece in the Euro zone, and is struggling to get his own party to agree to these new measures.

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