Market Commentary

The current global economic situation looks more volatile than it actually is, with several factors contributing to the perception of instability. The reality, however, is a stable, if somewhat anemic global growth picture. Factors driving this perception include the current crisis in the Middle East, the debt crisis in Europe, and the current level of interest rates in the U.S.

In the Middle East, ISIS remains a powerful force that continues to hold large portions of Iraq and Syria. This has caused Iraq to ramp up the production of oil to 4 million barrels a day to create a short term influx of cash. This has combined with Saudi Arabia also increasing oil production to compete with American fracking, and Libya also beginning to export large amounts of oil despite the absence of a centralized government. All of this contributes to continued low oil prices, which may temporarily curtail the fracking boom in the U.S.

Here in the US, the downside

of lower oil prices, such as job cuts in the oil sector, has already been felt, while the benefit of lower prices to the consumer has yet to be fully realized.

The E.U. market remains stagnant, with low growth and continuing division among member states. Greece remains at the forefront of the crisis, and looks increasingly likely to pull out of the E.U. all together. The current hard-line leftist Syriza Party delayed a 300 million euro payment to the European Central Bank, and remains defiantly opposed to reducing government spending, particularly on pensions, which are clearly unsustainable in future years. As a result of an inability to find common ground, the I.M.F. has recently left negotiations, making it look even more likely that Greece will default on its loans and leave the euro. However, as most global banks have managed to dispose of their Greek debt over the last 5 years, the impact of Greek default on global markets should be limited to “headline risk”.

Interest rates remain low as U.S. economic growth continues to be weak. A severe winter, port strike in Los Angeles, strong dollar, and low oil prices combined to dampen growth. The I.M.F. recently scaled back the U.S.'s growth forecast to 2.5%, and recommended that the Fed hold off on raising interest rates until 2016. Still, there were some signs of improvement as jobless claims continued to fall, with unemployment reaching 5.4%. It appears that consumers are finally leaving behind the enforced confinement of Old Man Winter, and retail sales have rebounded in May (+1.2), with the months of March and April being revised upward. We expect the trend of moderately higher wage growth established in recent months to continue as the job market slowly tightens.

Jared Maloney

Market Correspondent

M&R Capital Management