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CYPRESS TRUST COMPANY

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Executive Summary

- Long-term investors should not be overly concerned with short-term volatility deriving from Greece potentially exiting from the European Union. The risk of contagion is low as Greece is now a small fraction of the global economy and markets. The Greek drama is diverting attention away from the relevant factors: soft earnings growth, global deflationary pressure and extended market valuations.

- Corporate aggregate earnings growth is projected to fall 4.3%, year on year, which would be the first drop since the third quarter of 2009. Headwinds to earnings growth are: the strong dollar that reduces overseas profits; and wage growth together with weak productivity growth is likely to put upward pressure on unit labor costs and in turn erode profit margins.

- Inflation remains restrained as a result of global disinflation and lower oil and import prices. Wage gains should support a modest pickup in inflation, but typical late-cycle inflationary pressures remain absent. Ample credit availability and good corporate profitability should support the current mid-cycle expansion.

- Less attractive valuations together with the slowdown in earnings growth, and the general softness in global economies, warrant a more cautious stance with reduction of higher beta and more cyclical shares in favor of non-cyclical, high-quality and defensive stocks with attractive valuations and resilient profitability.

- Expectations of a Fed's lift-off after six years of "zero" rates have made bond investors very anxious. Rather than trying to engage in interest rate forecasting and market timing, we believe that a balanced, strategic approach to fixed income allocation based on an investor's horizon and goals is more likely to generate favorable long-term outcomes.

Economic Outlook

The global economic growth has moderated in recent months largely due to a slowdown in the world's two largest economies – the U.S. and China. While the U.S. appears to be able to maintain a reduced but still positive growth trajectory, China confronts more enduring challenges stemming from deteriorating competitiveness and the aftermath of credit excesses.

U.S. Real GDP fell at a 0.7% annual rate in the 2nd estimate for 1Q15. A closer look beyond the headline GDP figure reveals some relevant details. First, GDP growth was restrained by a sharp fall in net exports . This was due to the recent dollar strength which has created a headwind for manufacturers that compete in the global arena.

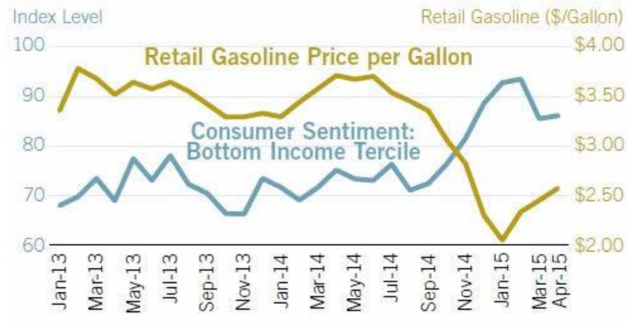
Nevertheless, other growth measures, such as gross domestic income and final sales were positive. The drop in oil prices was expected to fuel a rise in consumer spending in the first half of 2015, but apparently consumers may have viewed the decline in gasoline prices as temporary and have been reluctant to unleash their gas pump savings.

However, consumers patterns have varied across categories. For example while restaurants and auto sales rose in the high single digits, department store and electronics and appliances sales were down in the low single digits.

Overall, at this point of the cycle we would expect to see a pick-up in consumer spending, a decrease in the savings rate and an increase in debt leverage. All this is happening at a much more contained pace than in past economic recoveries. This is not necessarily a negative development, as prudent consumer spending may be more sustainable and have a positive long-lasting impact on the current expansion.

Although spending currently remains soft, labor market improvements, lower gas prices, muted inflation, and a strong dollar continue to support the purchasing power and real income outlook of the U.S. consumer (Chart 1). The slow revival of the housing market is also an important supporting element of consumer spending and psychology.

Chart 1. Gas Price and Consumer Sentiment



Source: Fidelity

As the labor market continues to improve we are finally seeing a pick-up in wages, although from a very low point. Wage inflation tends to lift consumer spending but can also be a main driver of inflation throughout the broader economy. The pace of wage growth is closely scrutinized by the Fed and will be a major determinant of monetary policy decisions and the course of interest rates.

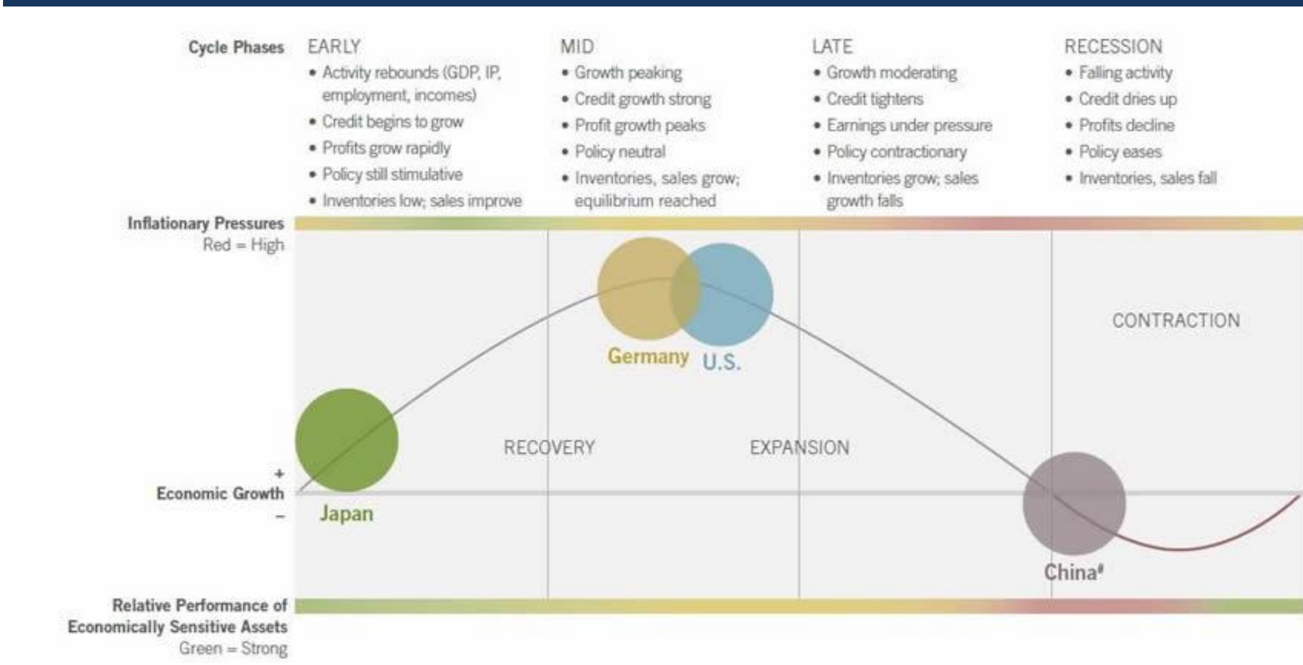
In June, 15 out of the 17 senior officials at the Fed expect that conditions will warrant an initial hike late this year. However, as Chairman Janet Yellen indicated, the timing of the first hike in short-term interest rates is much less important than the pace of tightening beyond that first move. Moreover, the Fed will continue to follow their data-dependent approach and if the economy stumbles, they will slow the pace of the rate increases. Finally, the markets should not over-react to rate increases given the Fed's pledge that "*…the stance of monetary policy will likely remain highly accommodative for quite some time after the initial increase in the federal funds rate..*" (press conference following the conclusion of the U.S. central bank's two-day policy meeting on June 17).

Investors tend to see rate cuts as "good" and rate hikes as "bad." However, rate and monetary policy actions should be judged based on their ability to achieve an even economic growth trajectory. Historically, during the accelerating phase of the economic expansion the Fed steps in by increasing rates to avoid economic overheating. This allows the Fed to maintain the right balance between economic growth and inflationary pressure.

Global Business Cycle

Recent U.S. economic data has been mildly disappointing, particularly the global industrial manufacturing sector negatively impacted by the stronger dollar and a generally weaker external environment. However, these trends have strengthened the outlook for consumer spending and support the current low inflation, mid-cycle expansion. Accelerating wage inflation is a crucial cyclical indicator for the U.S. economy, as worker compensation is by far the largest cost for companies in today's service-oriented economy. Wage inflation is therefore a major determinant of inflationary pressures for the overall economy and, as a result, has a considerable impact on the outlook for corporate profits, monetary policy and, ultimately, on the evolution of the business cycle.

Chart 2. Global Business Cycle Evolution



Source: Fidelity

Inflation remains restrained as a result of global disinflation, lower oil and import prices, and lukewarm domestic wage gains. Wage gains should support a modest pickup in inflation, but typical late-cycle inflationary pressures remain absent. Ample credit availability and solid corporate profitability are supportive of the current mid-cycle expansion.

The global economy remains on a slow, steady growth trend boosted by extremely accommodative monetary policies. The global expansion remains slothful, but better conditions in several major developed economies support an improving outlook. Ultra-low interest rates and continued monetary expansion in advanced economies are expected to increasingly gain traction given that private sector deleveraging has gone a long way in a number of important economies.

This steady, low-inflation environment bolstered by easy global monetary policies continues to provide a reasonably positive backdrop for most asset markets. Europe should continue towards its cyclical recovery. Current higher market valuations portend more modest expected returns. In this context, cyclical asset allocation tilts should be more restricted and balanced with a more defensive posture at this point in the cycle.

U.S. Equity

According to S&P Capital IQ, aggregate Q2 2015 S&P 500 operating EPS estimates are projected to fall 4.3%, year on year, which would be the first drop since the third quarter of 2009. Most of the blame goes to Energy, which is seen declining 63%. Indeed, excluding Energy, Q2 S&P 500 EPS would be up 3.8% (Chart 3).

Chart 3. EPS Growth Estimates by Sector

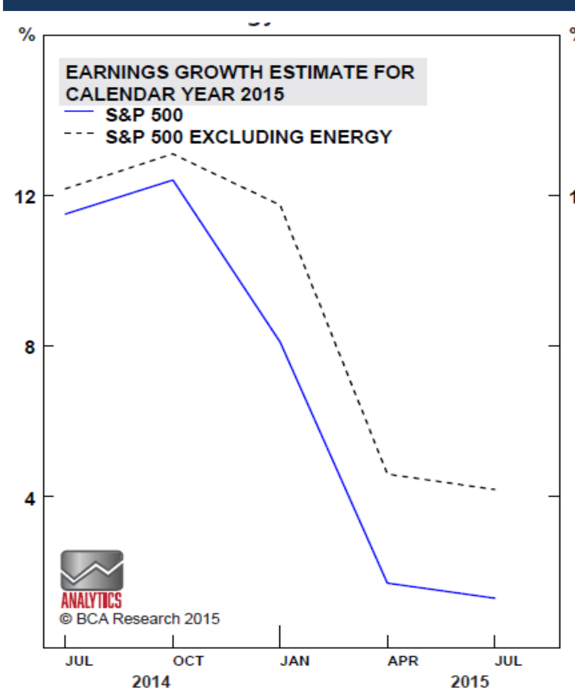
S&P 500 EPS Growth Estimates as of 7/2/15

	EPS % Changes			
S&P 500 Sector	Q2 '15	Q3 '15	Q4 '15	2015e
Cons. Discretionary	6.4	14.7	14.1	11.1
Consumer Staples	(2.7)	(0.3)	3.2	1.0
Energy	(63.1)	(59.5)	(40.3)	(55.5)
Financials	5.2	9.9	10.8	10.9
Health Care	6.9	8.1	9.5	11.2
Industrials	2.5	4.8	3.4	4.7
Info. Technology	2.2	4.6	1.4	4.1
Materials	4.4	(1.3)	5.1	1.8
Telecom. Services	5.9	6.6	14.5	6.9
Utilities	(0.5)	2.0	5.5	1.7
S&P 500	(4.3)	(1.0)	3.0	0.2

Source: S&P Capital IQ

As Chart 4 shows, growth expectations have been ratcheted progressively down over the last many months from 12% growth last October to a low single digit this month.

Chart 4. 2015 EPS Estimates Trend



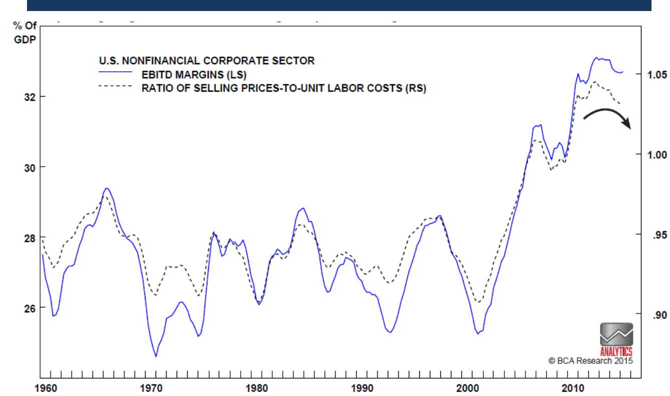
Source: BCA Research

A number of factors are likely to weigh on earnings growth. First, the strong dollar will continue to erode overseas profits, which now account for over one third of overall S&P 500 earnings.

Second, wage growth should continue to pick up slowly as the economy moves closer to full employment. This, together with weak productivity growth, is likely to put upward pressure on unit labor costs. As Chart 5 illustrates, historically there has been a tight correlation between changes in unit labor costs and changes in profit margins.

Third, while low interest costs have until recently helped the bottom line by reducing interest expenses, going forward, however, low borrowing rates may incentivize sub-optimal capital investments which, by definition, may generate a negative return on incremental invested capital. This over-investment behavior is not visible yet but it is typical of the expansion phase of the business cycle and has historically preceded the peak in the corporate earnings cycle. Monitoring these trends at both the macro and company-specific level may help investors to identify turning points and evaluate individual equity investments.

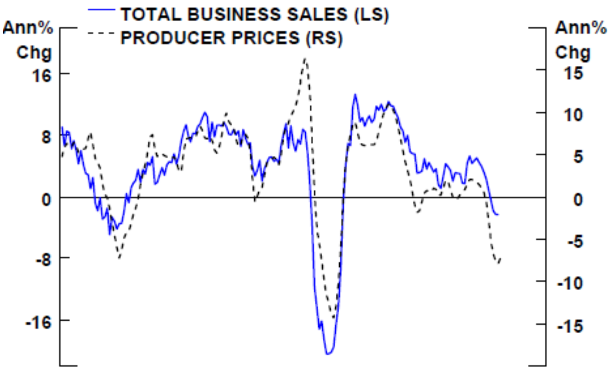
Chart 5. Correlation of Margins with Labor Costs



Source: BCA Research

Deflation represents a threat to corporate profits. Sales growth's downward trajectory is worrisome and based on the plunge in the producer price index, further weakness seems warranted (see Chart 6). The U.S. will continue to import deflation from abroad if the U.S. dollar remains strong into the onset of the Fed tightening cycle, given divergently easier monetary policy abroad.

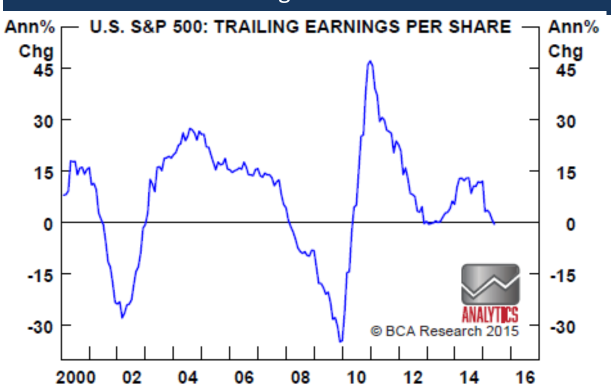
Chart 6. Business Sales and Producer Prices



Source: BCA Research

With corporate earnings on the verge of sliding into negative territory (Chart 7), a potential Fed tightening would definitely be deleterious to equity investors, as in the past cycles, when those rare periods characterized by a combination of negative growth and increasing rates resulted in dismal stock returns.

Chart 7. S&P 500 Trailing EPS

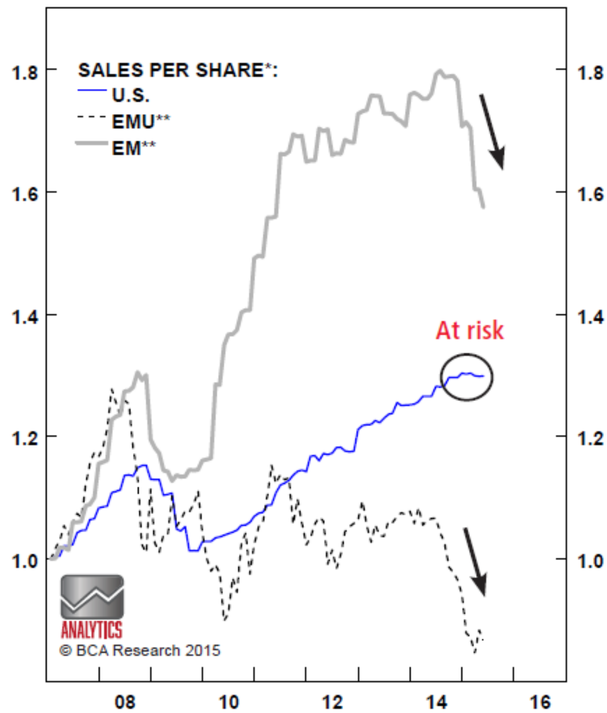


Source: BCA Research

Significantly, weak domestic demand seems to be a global phenomenon with revenue per share growth contracting in both the Euro area and emerging markets (Chart 8), despite weakness in those currencies, which should be favorable to growth in these regions.

Thus, to summarize, although in the near term, we expect markets to become choppier as we approach the first rate hike by the Federal Reserve, we still believe in the intermediate/long term the major risk to the equity markets is deflationary pressure and lack of demand.

Chart 8. Sales per Share



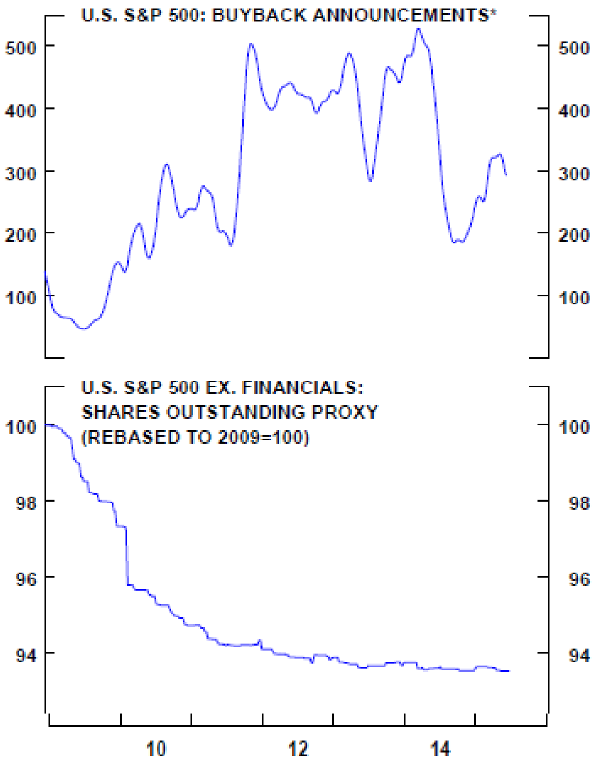
Source: BCA Research

Despite these headwinds, we don't expect a major collapse in corporate profits, as we believe the current expansion has legs supported by a still very favorable monetary policy and interest rate environment, robust corporate profitability and lack of economic imbalances and market excesses that have triggered past recessions. It is plausible that equity investors may consider this profit deceleration as temporary and discount a profit rebound.

Indeed, cyclical headwinds should continue to diminish, providing an improving outlook for real incomes and consumer spending. Recent upward revisions to retail sales and other data suggest that perhaps we are already witnessing the resumption of stronger consumption trends after a disappointing start to the year.

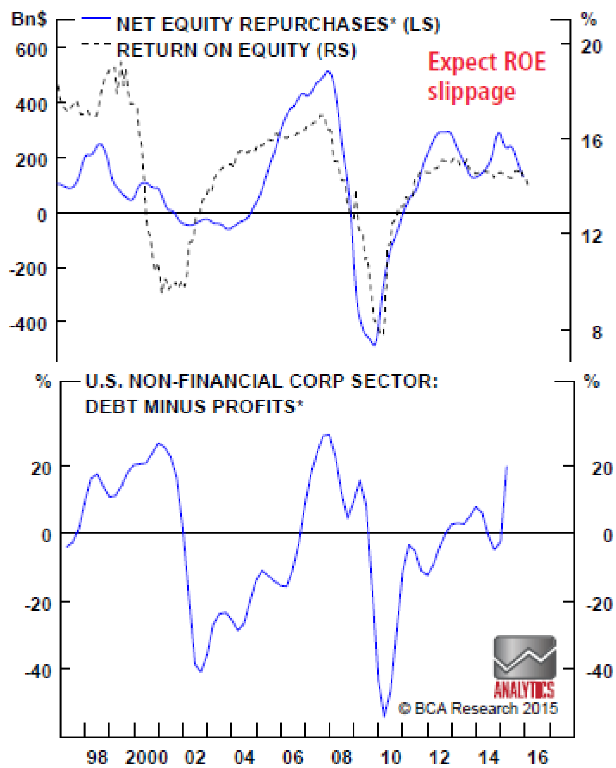
This suggests to us that the U.S. economy could be on a firmer footing than perceived, and that U.S. stocks tied closely to the improvement in the household sector could continue to benefit from a positive fundamental backdrop.

Chart 9. Shares Buybacks



Source: BCA Research

Chart 10. Repurchases, Leverage and ROE



Source: BCA Research

Ultra-low interest rates and central banks-driven global liquidity have supported strong shares buyback activity by U.S. corporations. Chart 9 shows both the number of share repurchase announcements and the actual shares count for the S&P 500 companies ex-Financials.

Sizeable reduction in shares outstanding has been a significant contributor to earnings growth over the past six years. This, in turn, has also been driving and supporting the equity market advance.

However, the recent spike in corporate bond yields and fuller equity valuations are reducing the incentive to debt-financed share buybacks.

In addition, as the business cycle matures and corporate debt growth starts to outpace profit growth (see Chart 10), we expect corporations to increasingly redeploy internally generated cash flow towards capital expenditures rather than to share repurchases.

Companies' managements do not have a good track record in timing share repurchases as the historical evidence shows that they "buy high" and "sell low" – repurchase activity picks up as the market moves higher and it is absent at market bottoms, just when shares are most attractive.

This pro-cyclical behavior reflects management high confidence during expansion phases even in the face of higher valuations.

A dearth of buybacks is not good news for the market. In fact, buybacks not only increase earnings per share but, by decreasing the equity capital base, also support return on equity and therefore market valuations (Chart 10).

Ebbing buybacks amid current stretched market valuations and expectations of rising rates represent a downside risk to the market.

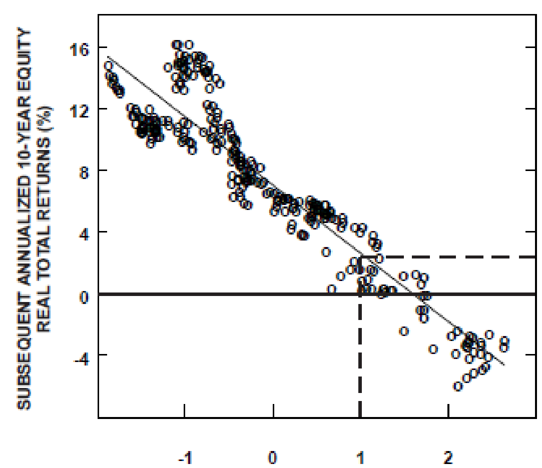
In fact, current valuations, although not frothy, are clearly above historical averages.

For example according to BCA Research, the S&P 500 was recently trading 75% above its post-1960 median based on price-to-sales, 40% above based on price-to-book, 66% above based on market cap-to-GDP, and 34% above based on the Shiller P/E (see Chart 12).

Market valuations have displayed historically long-range forecasting power with low future realized returns associated with high initial valuations.

A blended measure of valuation constructed based on the ratios on Chart 12, predicts currently a meager real total return of 2% over the next 10 years (see Chart 11).

Chart 11. Composite Valuation Indicator

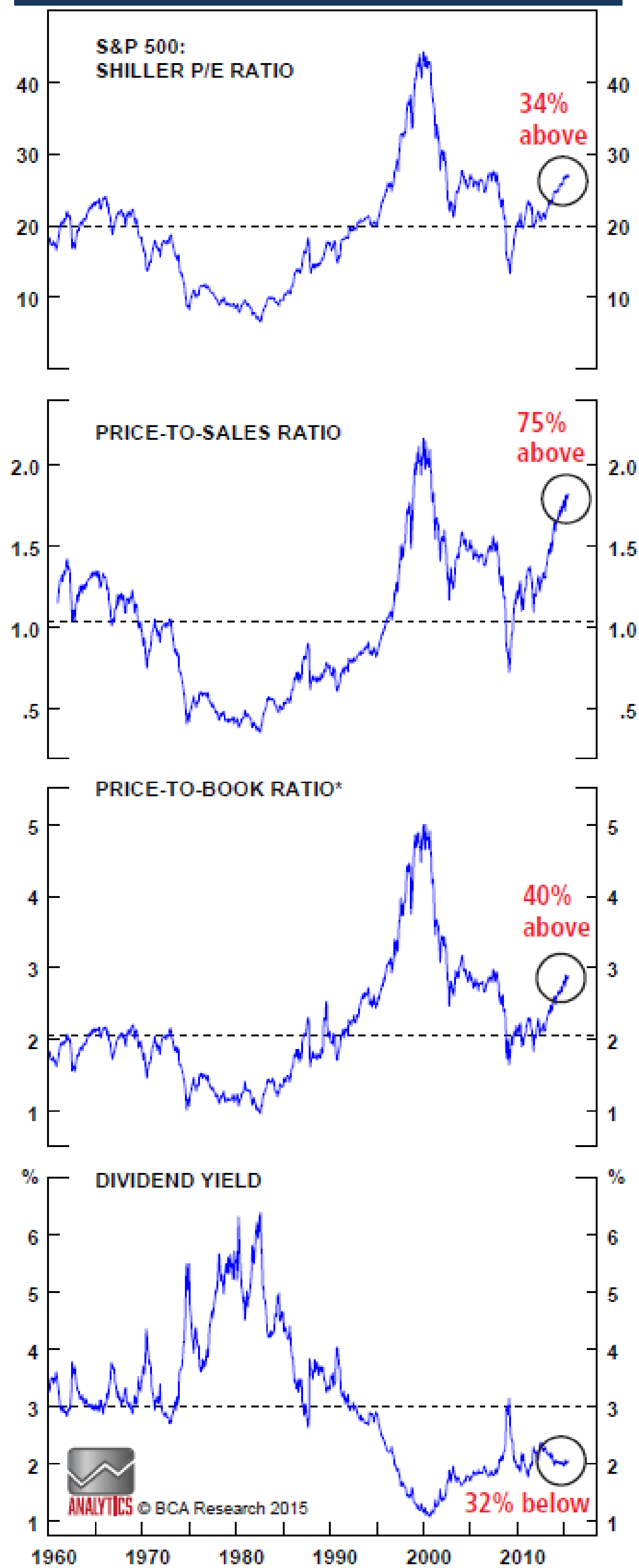


Source: BCA Research

The counter-argument to the above bleak valuation analysis relies on the belief that current market valuations reflect the earnings growth that will be achieved over the next several quarters of the ongoing economic expansion.

Less attractive valuations together with the slowdown in earnings growth, and the general weakness in the global economy, warrant a more cautious stance with reduction of higher beta and more cyclical shares in favor of non-cyclical, high-quality and defensive stocks with attractive valuations and resilient profitability.

Chart 12. Valuation Metrics



Source: BCA Research

So You Think You May Need a Trust – *By Jane Goble, Trust Officer, Cypress Trust Company*

There are so many different types of trusts that we could discuss but just for now let's focus on the Revocable Living Trust since it is the most common. This document is nothing more than a set of instructions for your trustee outlining what you want to happen during your lifetime and upon your demise. Within this type of document you can get as creative as you want within certain very broad parameters of the law.

Mr. and Mrs. Smith want to benefit their children during their lifetimes with income and some discretionary principal but they want the balance of the funds to go to their grandchildren on the death of the children. The Smiths know that all their children are doing well with their careers and they all have very busy lives. They also understand that placing their children as trustees may create difficulties between siblings so they chose a corporate trustee to manage the trusts. Many times the corporate trustee is called in upon the death of the parents to make it easy for the beneficiaries.

When would it be beneficial to have a trust? Trusts are not just for the very wealthy but for those who want to make the disposition of assets easy for their beneficiaries and to make sure they are cared for during their lifetimes as they desire. There is normally language in a Revocable Living Trust that often times will name the Grantor (person who establishes the trust) as his/her own initial trustee. The trust goes on to say that if the Grantor/Trustee should become incapacitated then they select another person or entity to take over for them, called a successor trustee. This is the person or entity that will be called upon to work with the Healthcare Surrogate to arrange for your ongoing care. The benefit to setting this up in a trust fashion is that there would be no need for a Guardianship and there would be no need for court intervention. Many times a corporate trustee is named when other family members are very busy with their own families and careers. There is always the option to also name a child as a co-trustee to work together with a corporate trustee.

The selection of your corporate trustee can be a daunting task and we would encourage you to consider the following:

- Schedule a face to face meeting with the Administrator and Portfolio Manager.
- Ask whether the trust will be administered locally or sent to a service center where you may not talk with the same administrator each time you call.
- Find out what fees are involved.
- Do you feel comfortable with the managers?
- Have you discussed their investment philosophy and does it match yours?

We at Cypress Trust Company stand ready to assist you as part of your estate planning team - Attorney, Accountant and Trust Administrator.

Fixed Income

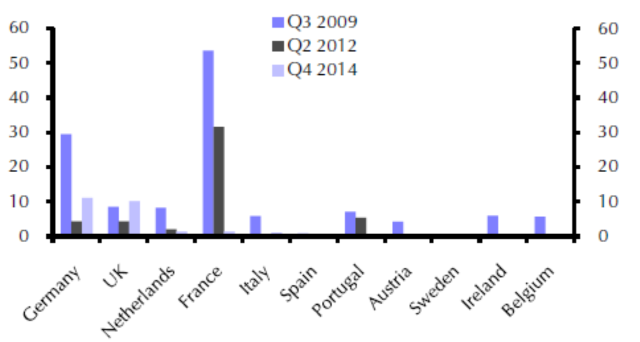
Greece and Puerto Rico risks dominate the near-term outlook for U.S. bonds. Greece impacts the global markets while Puerto Rico impacts mostly U.S. retail investors. Both of these apparently unrelated cases have the same genesis and potential outcome: unsustainability of long-standing debt with the possibility of default. They both increase the risks for fixed income investors as their timing potentially coincides with the inflection point in U.S monetary policy – namely the lift-off of rates from virtually zero.

Although both these events are grabbing headlines and increasing market volatility, their direct effect on fixed income markets should be limited over the longer term. According to Morningstar, as much as 80% of Puerto Rico's $70 billion debt has found its way into municipal bond funds, and 180 mutual funds in the U.S. and elsewhere have at least 5% of their portfolios in Puerto Rican bonds. Thus, retail investors may have some exposure to potential bond defaults in their portfolios but we don't believe defaults will have a systemic impact.

Conversely, Greece's potential exit from the European Union could have wide-ranging implications for global markets and investors. After failing to repay its national debt and voting "no" through a referendum to the fiscal and structural reforms set out by its creditors as conditions for additional aid, Greece is at risk of leaving the Eurozone. A Greek exit could endanger the very Eurozone's existence and the stability and commitment of the participating nations. This would increase the risk premium that investors would attach to some other European countries (e.g. Italy and Spain), causing issues for those countries and the Eurozone as a whole. Over the long term the only way to overcome these concerns is through true fiscal harmonization and monetary policy coordination. From an investor's standpoint, the crucial question is whether a Greek exit from the Eurozone could cause a crisis in the global banking system or affect the economies of Europe or the United States.

We believe the economic fallout from "Grexit" should be fairly limited. Greece's share of world GDP has fallen from only 0.6% in 2008 to just 0.3% this year. Indeed, its economy is now smaller than those of countries such as Romania and Peru.

Chart 13. Banks' Claims on Greece by Country



Source: Capital Economics

The links between Greece and the rest of the Eurozone, let alone the wider world economy, are now even smaller than they were back in 2012, when Greece last came close to exiting. According to Capital Economics, exports to Greece from the major advanced economies are minimal. Less than 1% of Italy's exports are shipped to Greece and the equivalent shares for the other G7 economies are even smaller. Exports to Greece from most advanced economies are also very small as a share of GDP. And even the exposure of emerging economies to Greece is small.

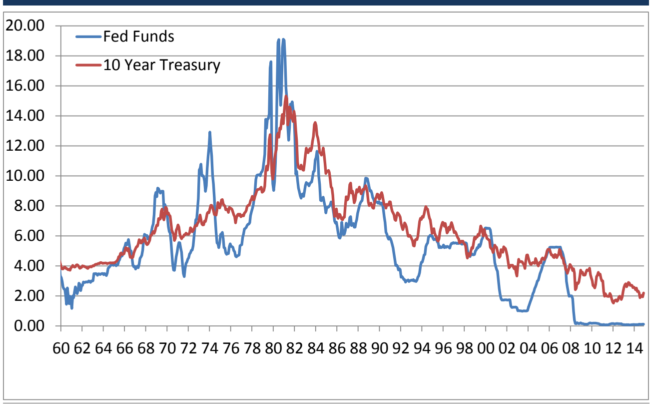
Chart 14. Foreign Banks Exposure to Greek Debt

Source: Fidelity, BIS

Importantly, the financial links between Greece and the rest of the world have diminished too. The bulk of Greece's public debt is now held by official creditors (IMF, ECB) that are better placed to bear any losses than the private sector and should not be a channel for contagion. The exposure of European banks to Greece has been slashed to just $50bn at the end of 2014. And crucially, the ECB is in a far stronger position to contain the fallout of Greece's crisis than it was in 2012 because it has established "firewalls," such as the European Financial Stability Facility.

Many investors and analysts expect a lift-off from current historically low rates to occur before the end of the year. This would represent a turning point after more than six years of a "zero" Fed funds rate, an unprecedented level set by the Fed as part of its attempt to provide maximum stimulus to the economy in the aftermath of the 2008 financial crisis (Chart 15). Now with the economy well into the recovery/expansion phase, with unemployment dropping and wages rising, it appears the turning point of monetary policy has finally arrived. As we have said earlier in this report, investors should be less concerned with the timing of the first hike than the speed of the subsequent potential increases. Moreover, the Fed's data-driven decision process to raise rates and its transparency in communicating its intentions should not catch the markets off guard when the Fed does raise rates.

Chart 15. Fed Funds and 10-Year Treasury Yield

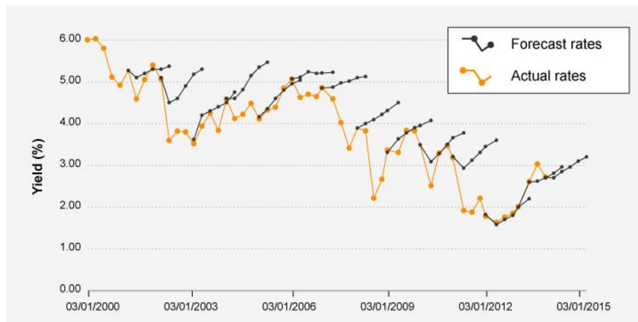


Source: Federal Reserve

It is also important to remember that the Fed has the ability to raise short rates as a tool of monetary policy, but long-term rates may stay low or even go lower than current levels as they tend to reflect the level of economic activity and inflation and are market driven.

Investors' fixation with forecasting interest rates does not serve them well. Chart 16 shows that the track record of economists in forecasting interest rates is very poor. Therefore investors should not base their bond (or equity) portfolio strategy on rates expectations but rather focus on the role of fixed income in a diversified portfolio in relation to their objectives and risk profile.

Chart 16. Median Forecast of 10-Year Note Yield



Source: Fidelity, Philadelphia's Fed

Indeed, we believe that bonds' main roles are capital preservation and diversification. A secondary role is income generation. It is also important to understand that different fixed income instruments behave differently in relation to the overall economy and interest rate trends. It's generally well understood that rising rates are negative for bond prices. Individual bonds and bond exchange-traded funds see price losses while bond funds' asset values decline. On the other hand, as rates increase, bonds should generate more income, and over a long enough period, this additional income can help offset the price losses. Generally, lower-yielding, longer-maturity and higher-quality bonds tend to have higher durations, and therefore greater price sensitivity to rising rates. Perhaps surprising to some, lower-quality, higher-yielding bonds that are exposed to the issuer's credit risk ("junk bonds") are more resilient to rising rates, as higher rates generally signal economic strength and therefore benefit distressed companies more than strong, established ones. Rather than trying to engage in market timing, we believe that a balanced, strategic approach to fixed income allocation based on an investor's horizon and goals is more likely to generate favorable long-term outcomes.

If the investor's main goal is to offset equity beta (stock market losses and volatility) he or she should consider long-duration, high-quality bonds. These investments are sensitive to interest rate increases but they may perform well (preserve capital) during challenging economic conditions such as bear markets.

•If the main objective is to generate income, in addition to more traditional bonds, investors should consider high yield and emerging market bonds together with other income-generating instruments such as dividend-yielding stocks, REITs, convertibles, and preferred stocks.

•Finally, if the ultimate goal is to achieve simultaneously a combination of capital preservation, income generation and overall diversification, investors should consider a broadly diversified portfolio of exchange traded funds and mutual funds that invest in various segments of the fixed income markets.

As Chart 17 shows, over time the asset allocated portfolio* tends to provide the most consistent performance in comparison to the individual asset classes.

Thus, such a portfolio will provide a more consistent diversification and potentially offer greater total return over the long-term than a single fixed income sub-asset class.

Chart 17. Fixed Income Sector Returns

											10-yrs. '05 - '14	
2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	YTD	Cum.	Ann.
EMD USD 10.2%	EMD LCL. 15.2%	EMD LCL. 18.1%	Treas. 13.7%	High Yield 58.2%	EMD LCL. 15.7%	TIPS 13.6%	EMD USD 17.4%	High Yield 7.4%	Muni 8.7%	High Yield 2.5%	EMD USD 111.5%	EMD USD 7.8%
EMD LCL. 6.3%	High Yield 11.8%	TIPS 11.6%	MBS 8.3%	EMD USD 29.8%	High Yield 15.1%	Muni 12.3%	EMD LCL. 16.8%	MBS -1.4%	Corp. 7.5%	EMD USD 1.7%	High Yield 110.7%	High Yield 7.7%
Asset Alloc. 3.1%	EMD USD 9.9%	Treas. 9.0%	Barclays Agg 5.2%	EMD LCL. 22.0%	EMD USD 12.2%	Treas. 9.8%	High Yield 15.8%	Corp. -1.5%	EMD USD 7.4%	TIPS 0.3%	EMD LCL. 90.4%	EMD LCL. 6.7%
TIPS 2.8%	Asset Alloc. 5.7%	Barclays Agg 7.0%	Muni 1.5%	Corp. 18.7%	Corp. 9.0%	Corp. 8.1%	Corp. 9.8%	Asset Alloc. -1.9%	MBS 6.1%	MBS 0.3%	Corp. 71.4%	Corp. 5.5%
Treas. 2.8%	MBS 5.2%	MBS 6.9%	Asset Alloc. 0.1%	Asset Alloc. 14.7%	Asset Alloc. 7.9%	Asset Alloc. 8.1%	Asset Alloc. 7.4%	Barclays Agg -2.0%	Barclays Agg 6.0%	Muni 0.1%	Asset Alloc. 70.3%	Asset Alloc. 5.5%
Muni 2.7%	Muni 4.7%	Asset Alloc. 6.7%	TIPS -2.4%	TIPS 11.4%	Barclays Agg 6.5%	Barclays Agg 7.8%	TIPS 7.0%	Muni -2.2%	Asset Alloc. 5.5%	Treas. 0.0%	Muni 64.4%	Muni 5.1%
High Yield 2.7%	Barclays Agg 4.3%	EMD USD 6.2%	Corp. -4.9%	Muni 9.9%	TIPS 6.3%	EMD USD 7.3%	Muni 5.7%	Treas. -2.7%	Treas. 5.1%	Asset Alloc. 0.0%	MBS 59.0%	MBS 4.7%
MBS 2.6%	Corp. 4.3%	Corp. 4.6%	EMD LCL. -5.2%	Barclays Agg 5.9%	Treas. 5.9%	MBS 6.2%	Barclays Agg 4.2%	EMD USD -5.3%	TIPS 3.6%	Barclays Agg -0.1%	Barclays Agg 58.4%	Barclays Agg 4.7%
Barclays Agg 2.4%	Treas. 3.1%	Muni 4.3%	EMD USD -12.0%	MBS 5.9%	MBS 5.4%	High Yield 5.0%	MBS 2.6%	TIPS -8.6%	High Yield 2.5%	Corp. -0.9%	Treas. 53.5%	Treas. 4.4%
Corp. 1.7%	TIPS 0.4%	High Yield 1.9%	High Yield -26.2%	Treas. -3.6%	Muni 4.0%	EMD LCL. -1.8%	Treas. 2.0%	EMD LCL. -9.0%	EMD LCL. -5.7%	EMD LCL. -4.9%	TIPS 53.4%	TIPS 4.4%

Source: J.P. Morgan Asset Management, Barclays Capital

* The "asset allocated portfolio" assumes the following weights: 20% in MBS, 20% in Corporate,15% in Municipals, 5% in Emerging Debt USD, 5% in Emerging Debt LCL, 10% in High Yield, 20% in Treasuries, 5% in TIPS. Asset allocated portfolio assumes annual rebalancing.

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Important Notes