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Capital Management, Inc.

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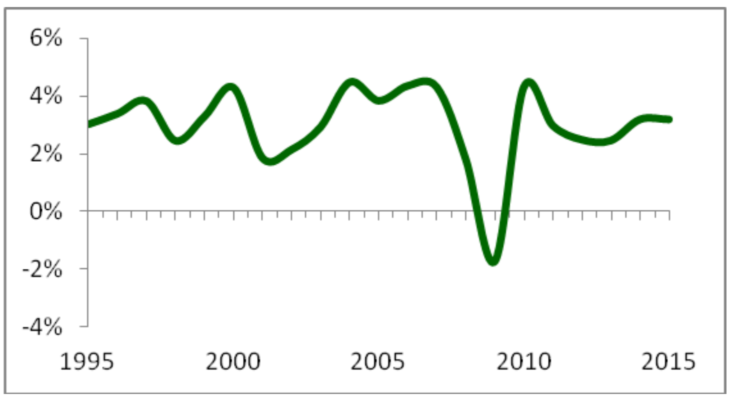
The World in Pictures

It's finally summer (even in Wisconsin) and we want everyone to enjoy it. So rather than droning on with prose, we thought that we could succinctly present the investment landscape in pictures. If a picture paints a thousand words we just saved 18,000 words and you should be back outside in no time!

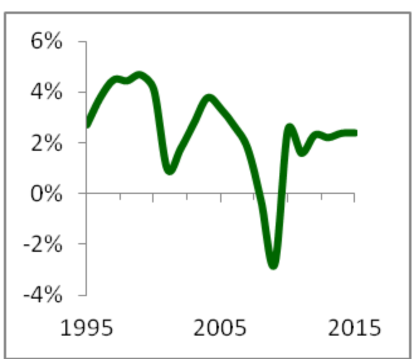
Global growth is modest.

Global GDP

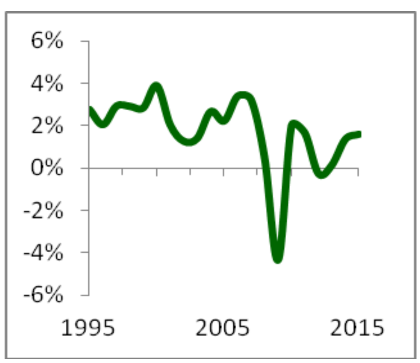


US growth stands out among developed regions, but Europe is seeing some improvement.

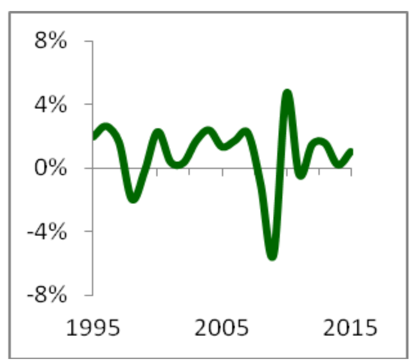
U.S. GDP



European GDP



Japanese GDP



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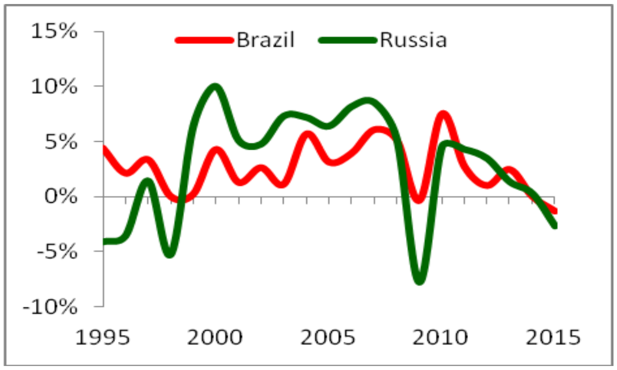
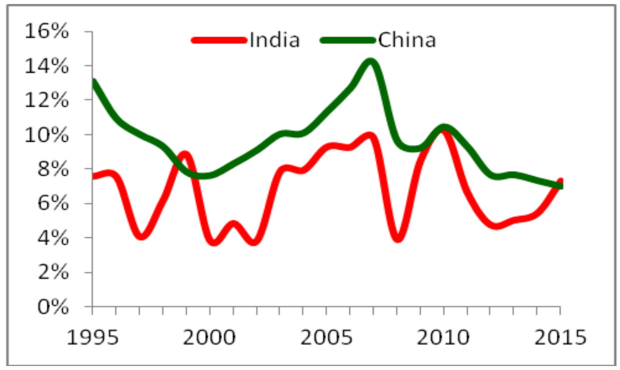
Growth of developing economies is mixed at best, with half of the "BRIC" countries floundering. Chinese growth continues to decelerate while India is seeing renewed optimism.

Brazilian and Russian GDP

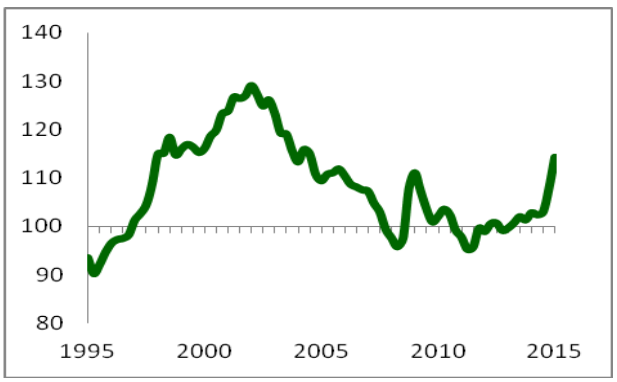


Indian and Chinese GDP



The recent strength of the dollar is a headwind for many US manufacturers, GDP growth, and for corporate earnings. Consumers, on the other hand, benefit from lower priced imports.

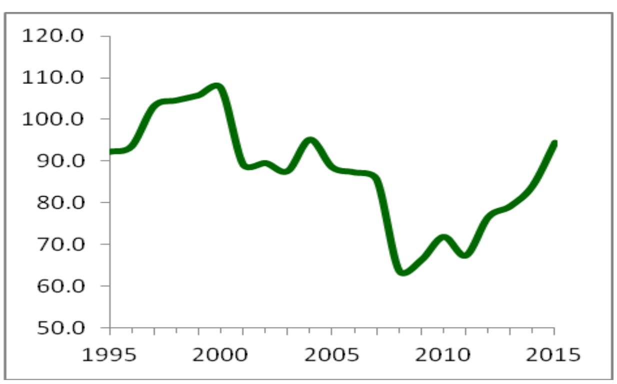
Trade Weighted Dollar (1997 is base)



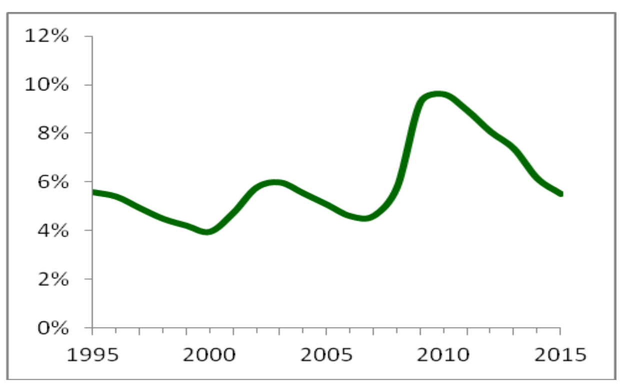
U.S. Dollar/Euro

Rising Consumer Confidence and the declining Unemployment Rate are also encouraging for US consumer spending. Since consumer spending accounts for more than two thirds of GDP, we expect the economy to recover from a weak first quarter and grow at a moderate pace. That growth should allow the Fed to finally raise short-term interest rates late this year.

Consumer Sentiment

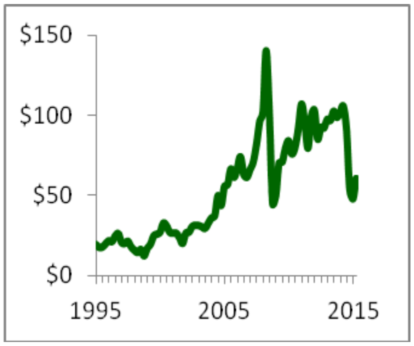


Unemployment Rate

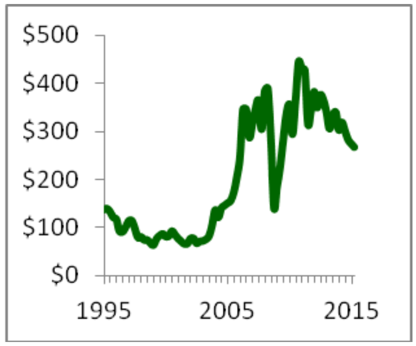


Sluggish global growth and additions to supply have pressured commodity prices (which consumers are enjoying at the gas pump and elsewhere).

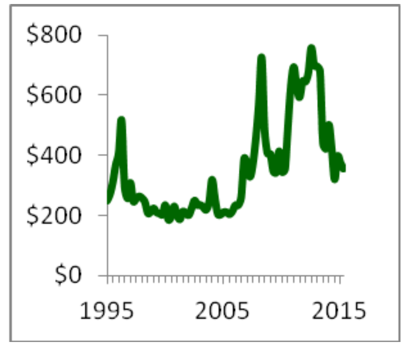
Price of Oil



Price of Copper

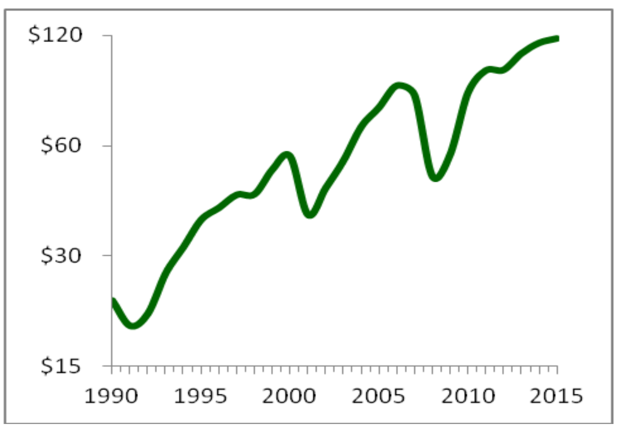


Price of Corn

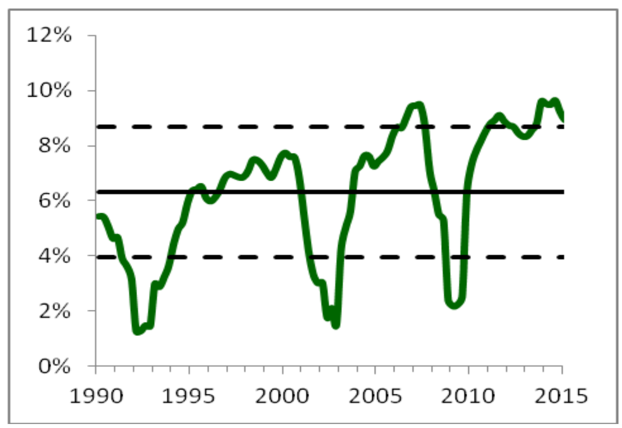


Given the charts above highlighting middling global growth and the resurgent dollar, it should be no surprise that corporate earnings growth has slowed, yet lower interest rates and tax rates have contributed to profit margins remaining near historical highs.

S&P 500 Earnings

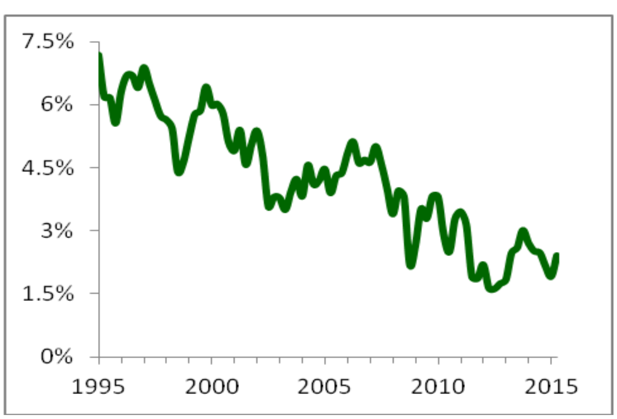


Corporate Profit Margin (S&P)

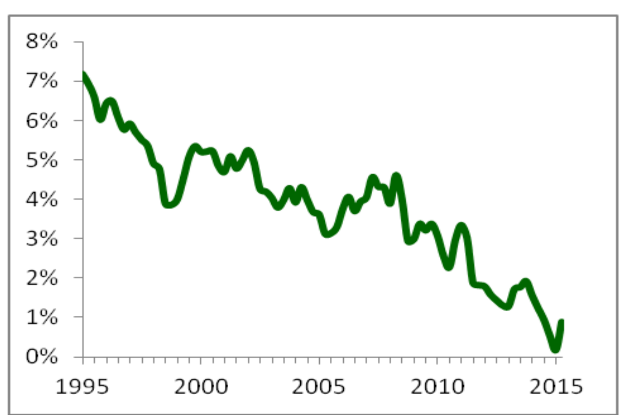


Ten-year government bond yields have bounced up lately, but are still at painfully low levels.

Ten Year U.S. Treasury Bond Yield

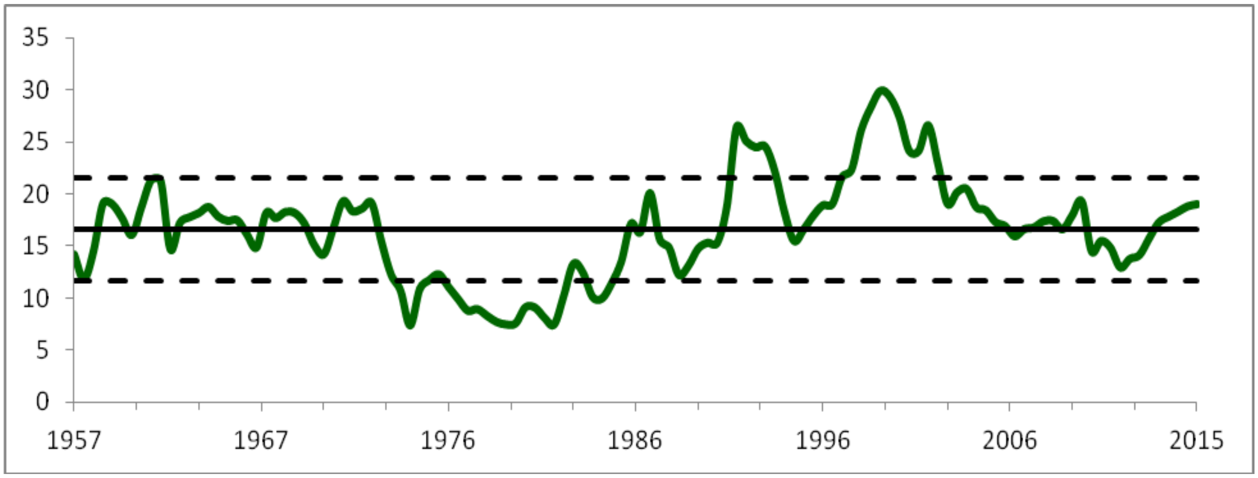


Ten Year German Bund Yield



With little competition from bond yields and after a six year bull market, the P/E (price to earnings ratio) for stocks has risen to an above median level that only looks reasonable relative to the market blow-off of the dotcom era from 1997 through 2000. With profit margins and earnings at historic highs, it is hard to make the case that the market is cheap.

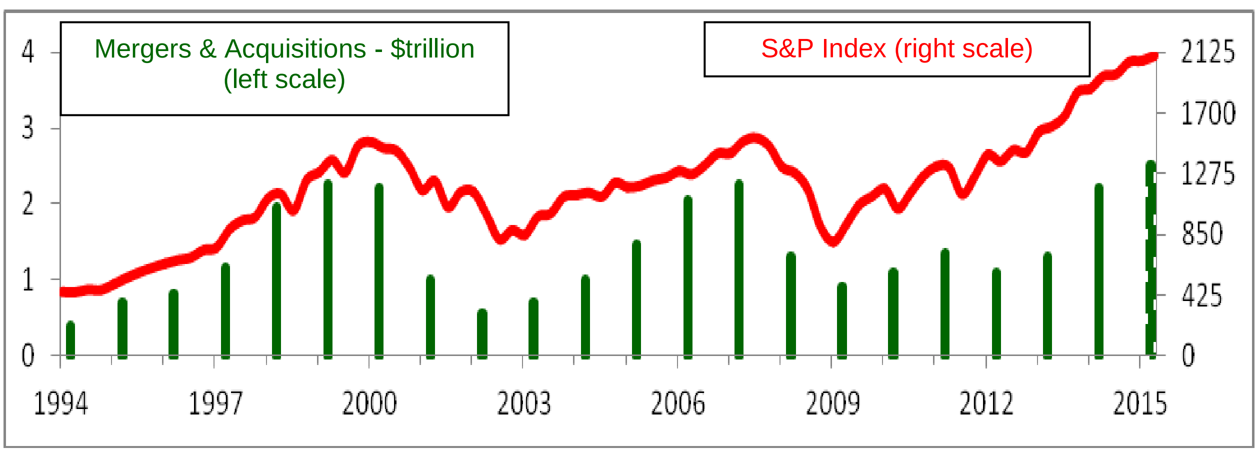
S&P 500 P/E Ratio (TTM- Operating Earnings)



In fact, we argue that the overall market is fully valued and therefore, the environment requires shooting with a rifle rather than a shotgun to avoid pricey stocks and bonds. We also are carrying some cash for any bumps ahead.

One of the signposts that implies that we are later in the market cycle is the record level of mergers and acquisitions. Thus, with slow earnings growth, full valuations, the Fed threatening to finally raise short-term interest rates and signs such as this, **it is a time for patience, discipline and…the beach!**

North American M&A Compared to the S&P Index. 2015 M&A is estimated at 2.5 trillion.



Enjoy the summer!