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THE ECONOMIC MONTH IN REVIEW AND OUTLOOK – JUNE

US Markets and Economy: US stocks completed a surprisingly strong first half of the year with a rally in June that brought the Dow Jones Average very close to another record milestone of 17,000. The tech-heavy NASDAQ rallied more strongly, reaching numerous multiyear highs not seen since 1999-2000. The stock rally this year has been driven by continued low interest rates and numerous signs that the April-June quarter witnessed a sharp turn back to growth after a weather-driven decline in first-quarter GDP. Hiring continues to strengthen, unemployment continues to tick down, corporate profits continue to rise, and American households are now wealthier than ever. The Federal Reserve reported early in the month that the net worth of Americans reached $81.8 trillion in the first quarter of the year, up 2% over the prior quarter. Increases in stock and real estate prices drove the increase. Some of this incremental wealth is eventually spent by consumers, which supports GDP growth, since consumption spending is almost 70% of GDP in the U.S.

The Federal Reserve's easy money and low interest rate policy also supported stocks in June. Although it is likely that the Fed will end its Quantitative Easing (QE) in 2014, short-term interest rates are likely to remain very low until at least mid-2015. Some members of the Fed's policymaking Federal Open Market Committee (FOMC) gave speeches in June arguing that the Fed needs to keep interest rates low for years to come, given subpar growth in the economy and very low inflation. These monetary "doves," which likely include Fed Chair Janet Yellen, have so far carried the day against the monetary "hawks" on the FOMC, who fear that aggressive monetary policy will soon lead to inflation or financial instability. **As long as inflation stays low the doves will stay in control of monetary policy, and easy money is good for stocks.**

World Markets and Economy: Most European bourses made little headway in June, with small gains in the markets of Spain and Italy offset by small losses in Greece, Portugal and Germany. The situation in eastern Ukraine has put a damper on all of these markets, since Europe has sizeable trade with Russia, and also imports significant amounts of natural gas through Ukraine. **The Russians have not hesitated to use natural gas availability and pricing as an economic and political weapon**. Even without the additional uncertainty surrounding Putin's political objectives and strategy, the European economy remains weak. Although most economies are no longer in decline, the recovery remains feeble. Unemployment in the Eurozone remains over 10%, and is still at depression levels in countries like Greece and Spain. In early June, the European Central Bank (ECB), worried about stagnant growth and very low inflation, announced new policies to stimulate the economy. These included, for the first time, a negative interest rate on bank reserves held at the ECB, which is designed to pressure banks to lend to businesses. Other measures were also designed to force interest rates lower, and thus to weaken the Euro, which could also stimulate the Eurozone economy. But since monetary policy affects the economy with a lag that is often 6-12 months, the ECB may not know if its new easing is working until the beginning of 2015.

Asian stock markets were also mixed for the month. China managed a small gain, although Chinese stocks remain near their multi-year bear market lows. The Chinese continue to grapple with a necessary slowdown in their breakneck pace of economic growth. In June, The IMF revised its 2015 forecast for Chinese growth down to 7%, on the assumption that China will do more to control real estate bubbles, and to free up interest rates and the still-undervalued yuan. The world's second largest economy is still mostly state-controlled, but the role of markets must increase if China is ever to join the ranks of the rich world.

Japanese stocks managed a small gain for the month, but the Nikkei remains down for the year. Prime Minister Abe is committed to getting the Japanese growth engine firing on all cylinders again, and his June announcement of structural reforms (the so-called "third arrow") should boost economic growth in the long run. June unemployment in Japan hit a 16-year low as the economy continued to show signs of renewed growth. However, the rising political tensions between China and Japan could keep markets in both countries on the defensive.

The star performance in Asia was turned in by India, whose stock market boomed by 6% in June, pushing first-half gains to 20%. There is no mystery here: the Indian economy, which has long been hobbled by excessive regulation, terrible infrastructure, and endemic corruption, may finally be put back on a path to fast growth by Narendra Modi, the new Prime Minister.

OUTLOOK: In the short term, US stocks could make further gains, as the US economy strengthens and interest rates remain low. But every bull market is punctuated with sharp and often unexpected corrections, which can occur at any time.