Investment Committee Market Commentary

May 12, 2014

U.S. Equities

U.S. stocks ended a volatile week on a positive note, with the Dow Jones Industrial Average posting a record close while the Nasdaq Composite suffered its largest weekly decline in four weeks as investors continued to sell technology shares and small-cap stocks. For the week, the S&P 500 benchmark was lower by -0.05%, the Dow rose by +0.56% and the NASDAQ declined by -1.26%.

a) ***Dow Jones +0.56% MTD +0.15% YTD +0.87%*** b) ***S&P 500 -0.05% MTD -0.19% YTD +2.37%***
c) ***NASDAQ -1.26% MTD -0.95% YTD -2.51%***

Drivers: I) ***Even though stocks ended higher last Friday, technology and small-cap shares saw a sharp drop on the week***. The First Trust Dow Jones Internet experienced a 3.60% weekly decline, while the iShares Russell 2000 ETF saw a weekly drop of 1.80%. ***Last Tuesday, the small cap ETF closed under its 200-day moving average for the first time since November 2012.***

II) ***The number of job openings dropped in March to 4.01 million from 4.13 million, the Labor Department reported last Friday.*** The quits rate, a measure of worker confidence, was unchanged at 1.80% from an upwardly revised February level. The ratio of unemployed to job openings, at 2.61, rose from February's 2.54.

III) ***The U.S. service sector and other non-manufacturing companies posted faster than expected growth last month, as production and new orders picked up, according to data released last Monday. The Institute for Supply Management reported its non-manufacturing index rose to 55.2% in April***, the highest reading in six months, from 53.1% in March. Economists polled by MarketWatch had expected an April reading of 54.2%. Among 18 industries tracked by ISM, 14 reported growth last month. Growing firms were in areas such as wholesale trade, retail trade and arts, entertainment and recreation.

IV) ***The U.S. economy will end the year in better shape despite the slow start in Q1, but recent weakness in the housing market bears watching, Federal Reserve Chairwoman Janet Yellen said last Wednesday.*** "With the harsh winter behind us, many recent indicators suggest that a rebound in spending and production is already under way, putting the overall economy on track for solid growth in the current quarter," Yellen said in testimony to Congress. Yellen said the weak first quarter growth rate was "mostly due to weather. ***She added she expects growth will expand at a "somewhat faster pace" this year than the 1.9% growth rate seen in 2013.***

V) ***Equity prices in May are mixed, with Large-Cap and Value stocks along with Communication and Healthcare leading equity price performance. The laggards for the month are Technology, Consumer Cyclicals and Financial stocks.***

Capitalization: ***Large Caps -0.03% (YTD +2.27%),*** Mid-Caps -0.63% ***(YTD +2.20%)*** and Small Caps -1.47% (YTD -1.86%). Style: ***Value*** -0.36% ***(YTD +2.97%)*** and Growth -0.81% (YTD -0.17%). Industry Groups (Leaders): Healthcare +0.01% (YTD +4.29%), ***Utilities*** -0.46% ***(YTD +11.57%),*** Basic Materials -0.26% (YTD +3.08%) and ***Energy -0.20% (YTD +6.68%).*** (Laggards): Communication +1.52% (YTD +2.57%), ***Consumer Cyclicals*** -0.95% ***(YTD -4.35%)*** and Financial Services -0.56% (YTD -2.13%)

European Equities

The Stoxx Europe 600 Index advanced last week from 337.76 to 338.54, closing up +0.23%. Equities though declined

on Friday due to a string of disappointing corporate earnings reports, after the Index hit a six-year high the prior day when ECB President Mario Draghi hinted at a rate cut next month. For the year the Stoxx Europe 600 is up +3.13%.

Drivers: I) ***ECB President Draghi said the ECB's Governing Council would be "comfortable" with loosening policy at its June meeting, with the caveat that policy makers want to see the June update of staff economic forecasts.*** The comment came after the ECB kept policy on hold at its meeting on Thursday, ignoring European and international calls for action to fight off low inflation and weaken the strong euro.

II) ***Germany's exports declined in March and the country's trade surplus was lower than expected, adding to a series of weaker economic indicators for the month. German exports fell 1.80% on the month in March***, while imports declined 0.9% from February, the Federal Statistics Office's data, adjusted for the season and working days, showed Friday. In February, exports fell 1.30% on the month, while imports rose just 0.40%.

III) ***Performance of European Indexes for the week, month to date and year to date. The EuroStoxx 600 Index rose by +0.23% for the week (MTD +1.06% YTD +3.13%)***

Asian Equities

Equity markets in Asia were lower last week after a lower than expected consumer inflation reading from China, led analysts to predict further policy easing from the country's central bank. For the week the Dow Jones Asia/Pacific Index was lower by -0.48%.

Drivers: I) ***China's consumer price index rose 1.80% year-on-year in April, down from a 2.40% increase in March, according to the National Bureau of Statistics.*** The reading was slightly below expectations for 2.00% rise from a Wall Street Journal survey. Analysts attributed the fall in CPI inflation to a slowdown in the Chinese economy, predicting as a result that government and central-bank policies will be more growth-supportive in the coming months.

II) ***The HSBC Purchasing Managers' Index (PMI) in China for April printed at 48.1, weaker than the initial or "flash" reading of 48.3, though still just above the 48.0 result in March.*** Both the new export orders and employment sub-indices contracted, and were revised down from the earlier flash readings. These indicate that the manufacturing sector, and the broader economy as a whole, continues to lose momentum.

II) Performance of Asian Indexes for the week, month to date and year to date. ***The Nikkei was lower by -1.78%*** (***MTD -4.51% YTD -12.84%***), the Hang Seng Index fell by -1.79% (***MTD -1.93% YTD -6.19%)*** and the ***Shanghai Composite declined by -0.75% (MTD -0.98% YTD -4.95%).***

Fixed Income

Treasury prices fell last week, pushing the highly watched 30-year bond yield to its biggest weekly rise since early March, as the market continued to debate the merits of a recent rally in the longest-term U.S. government debt. The 10-year yield hit its lowest close since early February, nearing its lowest yield of the year.

Performance: I) ***The 10-year yield rose last week, ending at 2.625% up from 2.585%. The 30-year yield was higher last week rising from 3.368% to 3.469%.***

II) Performance for the week, month to date and year to date***. Barclays US Agg Bond*** was ***higher by +0.03%*** last week, ***MTD +0.31% and YTD +3.02%***. The ***Barclays US MBS TR rose by +0.13%*** last week, MTD ***+0.38% and YTD +2.91%***. The ***BofAML US HY Master II was higher last week by +0.28%, MTD +0.34% and YTD +4.10%.***

Commodities

The DJ-UBS Commodity Index declined last week falling from 136.670 to 135.760, as commodities pulled back in reaction to dovish comments from the ECB which ignited a rally in the USD.

Performance: I) ***Oil prices were up slightly last week prompted by the ongoing uncertainty in Ukraine, but settled back below $100 a barrel on Friday, pressured in part by a stronger U.S. dollar.*** West Texas Intermediate Crude for the week was marginally higher climbing from $99.99 to $100.03 per barrel.

II) ***The ICE USD Index, a gauge of the greenback's movement against six other major currencies, rose from 79.51 to 79.87 for the week. The USD rallied as the euro declined below the $1.38 threshold to its lowest level in a month as***

traders continued to react to the dovish tone of the ECB. For the week the Yen strengthened rising from ¥102.21 to ¥101.86 and the Euro declined from 1.3873 to 1.3758 against the USD.

III) ***Gold prices last week settled below the key $1300 level as upbeat comments on the economy from Federal Reserve Chairwoman Janet Yellen contributed to gold's losses.*** For the week Gold fell from $1300.4 to $1289.9.

Hedge Funds

Hedge funds in May are mixed, with the core strategies Equity Hedge, Event Driven, Macro/CTA down for the month, while Relative Value Arbitrage is higher.

Performance: I) ***The HFRX Global Hedge Fund Index is lower at -0.29% MTD and YTD is up +0.09%.***
II) ***Macro/CTA is down MTD at -0.22% and is down YTD -1.81%***.
III) ***Event Driven has fallen MTD -0.39***% ***and is up YTD +1.73%.***
IV) ***Equity Hedge is lower MTD at -0.72% and is down YTD -0.91%.***
V) ***Relative Value Arbitrage has risen MTD by +0.23% and YTD is higher at +1.01%.***

Economic Data Watch and Market Outlook

Heading into the week with more than 90% of the S&P 500 having already reported Q1 earnings, attention shifts to retailers, which generally close out the season. It is already a given that bad winter weather will suppress those Q1 results, so much of the attention will go to outlooks. Outside of S&P 500 earnings reports from names like McKesson Corp., the week will highlight retail earnings reports from companies like Macy's Inc., Nordstrom Inc., Kohl's Corp., J.C. Penney Co., and Fossil Group Inc.

Of the 13 retail subsectors, only four (Internet retail, home improvement, automotive retail, and drug retail) are expected to report earnings growth for Q1. Analysts forecast 1.70% growth across all of retail, according to FactSet. Q2 earnings growth for retail is expected to rise by 5.80%, but that's down from the 9.8% growth expected back in late January. The market will likely pay close attention to any guidance issued by retailers for Q2 to see what factors other than weather may or may not be driving these downward estimate revisions.

On the economic data front April retail sales will be reported Tuesday. Total sales jumped 1.10% in March, helped by surging vehicle sales. Economists believe retail activity increased again in April, but by a smaller percentage (expected 0.30%). A slew of reports covering import, producer, and consumer prices in April will be reported on Tuesday and Wednesday. ***Economists are projecting rising energy and food costs will exert upward pressure on the top-line price indexes. Within the CPI report (estimated to be flat at 0.20%), prices for food eaten at home increased a large 0.50% in February and March, the largest back-to-back increases since August-September 2011.*** Forecasters believe the core inflation rates, which exclude food and fuel, will remain tame, allowing the Fed to keep its policy on track.

In addition to the CPI report, Thursday will see a number of reports: jobless claims, manufacturing surveys for May compiled by the New York (estimated rise from 1.30% to 5.50%) and Philadelphia Feds (expected fall from 16.60% to 15.20%), industrial production (projected to fall from 0.70% to 0.20%), and the housing market index. ***All the data cover Q2 activity and will offer more clues to how fast the U.S. economy is growing, especially the important manufacturing sector.*** The Commerce Department will release the April housing report on Friday. Homebuilding stumbled during the harsh winter, but demand for new homes is also being hurt by affordability problems. Economists are forecasting total April housing starts increased 4.00% to an annual rate of 984,000, from 946,000 in March.