Investment Committee Market Commentary

April 28, 2014

U.S. Equities

U.S. stocks declined last Friday, erasing the week's gains for major benchmarks, as mixed earnings news and accelerated selling in Internet stocks put investors on edge. For the week, the S&P 500 benchmark was essentially flat losing -0.06%, the Dow fell by -0.26% and the NASDAQ was lower by -0.49%.

a) ***Dow Jones -0.26% MTD -0.47% YTD -0.62%*** b) ***S&P 500 -0.06% MTD -0.37% YTD +1.43%***
c) ***NASDAQ -0.49% MTD -2.90% YTD -2.42%***

Drivers: I) ***Money managers continued to unwind last year's winning bets in shares of fast-growing social media, cloud computing and biotechnology companies, traders said.*** As these stocks fall in value, the negative sentiment is preventing investors from coming in and supporting prices. With investors taking a wait and see attitude, the ***NASDAQ Internet Index slid -4.2% to its lowest close since early November, while the Nasdaq Biotechnology Index fell 2.4%.***

II) ***Of the 48% of S&P 500 companies that have reported Q1 results, 73% have topped analysts' average profit forecast, according to FactSet.*** But highlighting the sluggish earnings expectations for the quarter, analysts are expecting that S&P 500 profits rose just +0.2% from the year-earlier period, including actual results for the companies that have already reported.

III) ***U.S. Consumer sentiment in April hit its best level in nine months, according to the latest Thomson Reuters/ University of Michigan survey, finishing at 84.1 compared to 80.0 in March and 73.2 in October 2013. April's reading is just a bit below the post-financial crisis high, reached in July 2013.*** The recent gain was due to much more positive assessment of consumers' current financial situation as well as renewed optimism about the outlook for the national economy during the year ahead. Overall, consumers in particular are looking favorably at durable goods such as cars, appliances, electronics and furniture, the survey showed, and the outlook for home ownership also improved.

IV) ***The sales pace of existing homes dropped in March to the slowest rate since July 2012, showing weakness in the early spring sales season,*** though underlying trends signal a firming in market fundamentals, economists said last week. ***The National Association of Realtors reported that the annual sales pace of existing homes declined -0.2% last month to a seasonally adjusted annual 4.59 million.*** March's result beat a consensus among economists who had expected a sales rate of 4.55 million, compared with a pace of 4.6 million in February.

V) ***Equity prices in April are lower, with Large-Cap and Value stocks along with Utilities, Energy and Healthcare leading equity price performance. The laggards for the month are Communications, Consumer Cyclicals and Financial stocks.***

Capitalization: ***Large Caps -0.07%*** (YTD +1.27%), ***Mid-Caps*** -0.44% ***(YTD +1.66%)*** and Small Caps -0.71% (YTD -1.15%). Style: ***Value*** -0.06% ***(YTD +2.45%)*** and Growth -0.31% (YTD -0.96%). Industry Groups (Leaders): Healthcare +0.84% (YTD +2.50%), ***Utilities +1.73% (YTD +13.49%),*** Basic Materials -0.58% (YTD +2.18%) and ***Energy +0.18%*** (YTD +6.22%). (Laggards): ***Communication -1.01%*** (YTD -1.92%), ***Consumer Cyclicals*** -0.79% ***(YTD -4.52%)*** and Financial Services -0.51% (YTD -2.22%)

European Equities

The Stoxx Europe 600 Index advanced last week from 332.43 to 333.50, closing up +0.32%, despite continuing concerns about the fallout from the Ukraine-Russia standoff which added pressure on European stocks at week's end, with German equities declining the most. For the year the Stoxx Europe 600 is up +1.60%.

Drivers: I) ***U.S. President Barack Obama consulted with key European leaders on the Ukraine crisis, warning Russia that they are prepared to proceed with more significant sanctions against the country.*** The President noted that the United States is prepared to impose targeted sanctions to respond to Russia's latest actions. The leaders agreed to work closely together, and through the G7 and European Union, to coordinate additional steps to impose costs on Russia. The leaders underscored that Russia could still choose a peaceful resolution to the crisis.

II) ***The European Commission said last week its preliminary measure of consumer sentiment in the euro zone rose to -8.7 from -9.3 in March. The measure was last higher in October 2007***, before the onset of the financial crisis. Consumers across the 18 countries that share the euro became more upbeat about their prospects during April, an indication that rising household spending may aid the currency area's tepid recovery over coming months.

III) ***Performance of European Indexes for the week, month-to-date and year-to-date. The EuroStoxx 600 Index rose by +0.32% for the week (MTD -0.85% YTD +1.60%).***

Asian Equities

Equity markets in Asia fell last week as South Korean stocks fell and Japanese stocks were down a bit, as Tokyo was held back by a firmer yen and investors focused on a flurry of mix earnings reports. For the week the Dow Jones Asia/Pacific Index was lower by -0.62%..

Drivers: I) ***China, Asia's largest economy grew by +7.4% in the January to March period compared with a year earlier, a bit higher than expectations of +7.3%.*** Market reaction was muted, as the figure is below the official +7.5% expansion target, and slower than the +7.7% increase seen in Q1 of last year. China also released data showing its industrial output in March gained +8.8% on-year, compared with an expected +9.0%.

II) Performance of Asian Indexes for the week, month-to-date and year-to-date. ***The Nikkei was lower by -0.60%*** (***MTD -2.45% YTD -11.43%***), the Hang Seng Index fell by -2.36% (***MTD -1.00% YTD -4.65%)*** and the ***Shanghai Composite declined by -2.92% (MTD -0.53% YTD -3.76%).***

Fixed Income

Treasury prices were higher last week after seeing four-consecutive day of advances, as investors continued to worry about the escalating violence in Ukraine.

Performance: I) ***The 10-year yield fell last week, ending at 2.666% down from 2.723%. The 30-year yield was lower last week declining from 3.521% to 3.445%.***

II) ***Last week Standard & Poor's Ratings Services cut Russia's debt ratings to one notch above junk***. "The tense geopolitical situation between Russia and Ukraine could see additional outflows of both foreign and domestic capital from the Russian economy and hence further undermine already weakening growth prospects," S&P said, warning that it could cut Russia's rating further if additional sanctions are imposed.

III) Performance for the week, month-to-date and year-to-date***. Barclays US Agg Bond*** was ***higher by +0.36%*** last week, ***MTD +0.72% and YTD +2.58%***. The ***Barclays US MBS TR rose by +0.42%*** last week, MTD ***+0.77% and YTD +2.37%***. The ***BofAML US HY Master II was higher last week by +0.19%, MTD +0.48% and YTD +3.55%.***

Commodities

The DJ-UBS Commodity Index was higher last week climbing from 137.680 to 138.050, led by the rise in agricultural prices due to the drought in Brazil which has mostly impacted coffee prices and the unrest in the Ukraine which prompted gold to rise.

Performance: I) ***Oil prices closed lower on Friday experiencing their worst weekly loss since mid-March, with traders worrying over high U.S. crude-supply levels and the uncertainty surrounding developments in Ukraine.*** West Texas Intermediate Crude for the week fell from $104.59 to $100.69 per barrel.

II) ***The ICE USD Index, a gauge of the greenback's movement against six other major currencies, fell from 79.87 to 79.77 for the week.*** The USD fell against the Yen and other major currencies as ***lower U.S. fixed income yields weakened the dollar.*** For the week the Yen was stronger rising from ¥102.43 to ¥102.14 and the Euro advanced from 1.3814 to 1.3833 against the USD.

III) ***Gold prices last week scored three-consecutive session gains, with escalating tensions between Ukraine and Russia and a broad decline in U.S. equities fueling the metal's first weekly price gain two weeks.*** For the week Gold rose from $1294.6 to $1303.6.

Hedge Funds

Hedge funds in April are mostly lower, with the core strategies Equity Hedge, Arbitrage Macro/CTA and Relative Value down for the month. Event Driven is up slightly for the month.

Performance: I) ***The HFRX Global Hedge Fund Index is lower at -0.39% MTD and YTD is up +0.72%.***
II) ***Macro/CTA is down MTD at -0.66% and is down YTD -1.70%***.
III) ***Event Driven has risen MTD +0.12%*** ***and is up YTD +2.94%.***
IV) ***Equity Hedge is lower MTD at -0.89% and is up YTD +0.35%.***
V) ***Relative Value Arbitrage has declined MTD by -0.16% and YTD is higher at +0.78%.***

Economic Data Watch and Market Outlook

Heading into the week investors will be focusing on energy and utility stocks with several big earnings reports due from sector stalwarts ExxonMobil Corp, Chevron Corp., and Dominion Resources Inc***. These reports may greatly influence the direction of the equity market over the next several weeks, as both utilities and energy stocks have been the best performers in Q1 and year.*** While the broader market has struggled to find direction, utility stocks are up +4.0% for the quarter and +13.0% for the year, while energy stocks are up +4.4% for the quarter and +4.6% for the year.

Earnings outlooks this earnings season, while still more negative than average, are slightly less negative than they were halfway through the previous season. Of the 51 S&P 500 companies that have offered a profit outlook, 36, or 70%, have guided below the Wall Street estimate at the time, according to FactSet. While this is above the 5-year average of 65%, it's below the 81% at the end of January.

Nearly half the companies in the S&P 500 have already reported this earnings season with more than 130 companies reporting in this week. By market weight, 58% of the energy sector and 66% of the utilities sector will be reporting this week, according to Goldman Sachs***. With nearly half the S&P 500 having already reported, the earnings growth rate has finally broken back into positive territory with a gain of +0.2%, following a reading of a -2,0% decline as little as a week ago. At the beginning of the year, Q1 earnings were forecast to grow by more than +4.0%, though those estimates fell over the quarter as winter weather hurt businesses.***

On the economic data front, investors will be focused on a number of key reports led by ***Nonfarm Payrolls (projected to increase from 192,000 to 218,000) and the Unemployment Rate (expected to decline from 6.7% to 6.6%) coming out on Friday.*** Other reports to keep an eye on are Consumer Confidence (estimated to rise from 82.3 to 83.2) on Tuesday, on ***Wednesday Q1 GDP (projected to decline from 2.6% to 1.0%),*** and on Thursday Personal Income (estimated to rise from 0.3% to 0.4%) and Consumer Spending (expected to increase from 0.3% to 0.6%).