Investment Committee Market Commentary

May 5, 2014

U.S. Equities

U.S. stocks were higher last week as a better-than- expected jobs report outweighed continued concerns over the Ukraine. For the week, the S&P 500 benchmark was higher by +0.29%, the Dow rose by +0.35% and the NASDAQ rose by +1.19%.

a) ***Dow Jones +0.35% MTD +0.87%* YTD +0.58%*** b) ***S&P 500 +0.29% MTD +0.74% YTD +2.55%***
c) ***NASDAQ +1.19% MTD -1.96% YTD -1.26%*** ***(Note: All MTD data is through April 30, 2014)**

<u>Drivers:</u> I) The U.S. added the most jobs in April in more than two years, the latest evidence of a spring revival in the economy that offers hope of faster growth in the months ahead after a tepid Q1. ***The UE rate also sank to a nearly six-year low of 6.3% from 6.7%. The economy created 288,000 jobs last month, marking the best performance since a 360,000 gain in January 2012.*** So far in 2014 the U.S. has added an average of 214,000 jobs a month, ahead of the 2013 pace of 194,000.

II) A closer look at the jobs report shows the size of ***the labor force fell by an outsized 806,000 despite the apparent willingness of companies to hire more workers***. That is the ***largest drop in six months and the second largest decline in 32 years. As a result, the labor-force participation rate sank to 62.8% from 63.2% and matched a 35-year low.*** According to the Bureau of Labor Statistics, the rate mainly fell because far fewer people entered the labor force than usual.

III) ***GDP grew at +0.1% from January through the end of March, the weakest performance in three years. Economists had forecasted growth to slow to a seasonally adjusted +1.0% from a +2.6% pace seen in Q4 2013.*** Growth in the U.S. economy almost came to a halt in Q1, a bout of weakness spurred by one of the worst winters in years. Wall Street expected a poor number, but the weakness was even more widespread than had been forecasted. Investment in business equipment and residential home construction both declined, U.S. exports fell sharply, government spending dropped again, and companies increased inventories at a much slower rate.

IV) ***U.S. manufacturing companies expanded in April at the fastest pace since the end of last year, according to a survey of executives. The Institute for Supply Management said its manufacturing index rose to 54.9% last month from 53.7% in March, marking the highest level since December.*** That was higher than the 54.4% forecast of economists. Seventeen of the 18 industries tracked by ISM reported growth last month. The only one to record a decline was makers of nonmetallic mineral products.

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

Capitalization: ***Large Caps +0.33%*** (YTD +2.44%), ***Mid Caps*** -0.16% ***(YTD +2.77%)*** and Small Caps -1.09% (YTD -0.72%). Style: ***Value*** +0.51% ***(YTD +3.55%)*** and Growth +0.07% (YTD +0.60%). Industry Groups (Leaders): Healthcare +0.82% (YTD +4.28%), ***Utilities*** -1.24% ***(YTD +12.08%),*** Basic Materials +1.15% (YTD +3.35%) and ***Energy +0.63% (YTD +6.89%).*** (Laggards): Communication +3.01% (YTD +1.03%), ***Consumer Cyclicals*** +1.13% ***(YTD -3.44%)*** and Financial Services +0.66% (YTD -1.58%)

European Equities

The Stoxx Europe 600 Index advanced last week from 333.50 to 337.76, closing up +1.28%, rising on the positive jobs report from the U.S. and manufacturing data from the euro zone. For the year the Stoxx Europe 600 is up +2.89%.

Drivers: I) ***The euro zone's manufacturing sector expanded at a faster pace than first estimated in April, while the recovery became more broadly based and was aided by a marked acceleration in Italy***, one of the currency area's weaker economies over recent years. ***Markit reported its Purchasing Managers' Index (PMI) for manufacturing, which is based on a survey of 3,000 companies, rose to 53.4 from 53.0 in March, a slightly higher reading than the preliminary estimate of 53.3*** released last month. The economic recovery that started in the Q2 appears to be broadening, with all of the national PMIs on which the Euro zone measure is based signaling an increase in activity for the first time since November 2007.

II) ***The annual rate of inflation across the 18 countries that share the euro picked up in April, but by less than economists had expected, adding to concerns that consumer prices are rising too slowly*** and putting pressure on the ECB to respond with interest rate cuts or asset purchases. The European Union's statistics agency reported ***consumer prices rose by +0.7% from April 2013***, a pickup from the +0.5% rate of inflation recorded in the 12 months to March, but well below the ECB's target of just under +2.0%. ***April marked the seventh straight month in which the inflation rate has been below +1.0%.***

III) ***Performance of European Indexes for the week, month to date and year to date. The EuroStoxx 600 Index rose by +1.28% for the week (MTD +0.87% YTD +2.89%).***

ASIAN EQUITIES

Equity markets in Asia were mixed, as Japanese unemployment came in as expected and there was a higher-than-expected surge in household spending. For the week the Dow Jones Asia/Pacific Index was higher by +0.13%.

Drivers: I) ***The Japanese Finance Ministry reported that the March jobless rate was 3.6%, unchanged from February's level and matching the median forecast of economists. Spending was more of a surprise, with consumption by households of two or more people jumping by +7.2% in March from a year earlier, after its 2.5% drop the previous month.*** This was well ahead of economist expectations of a projected rise of 1.8%, and largely reflects consumers rushing to make purchases ahead of the April 1 increase in the national sales tax, to 8% from 5%. The key, several economists have said recently, will be how much the number drops off in the April result, reflecting the drag from the tax hike.

II) ***The Bank of Japan on Wednesday lowered its growth forecast for Japan's economy to +1.1% in the current fiscal year ending in March 2015***, while expecting the inflation to rise this year and reach around its 2% goal around fiscal 2015. In the semiannual report on economic and price forecasts, the central bank estimated that Japan will grow by 1.1% in fiscal 2014, ***down by 0.3 percentage points from the earlier forecast in January, mainly due to "a delay in export recovery."***

II) Performance of Asian Indexes for the week, month to date and year to date. ***The Nikkei was higher by +0.20%*** (***MTD -3.81% YTD -11.26%***), the Hang Seng Index rose by +0.17% (***MTD -0.71% YTD -4.49%)*** and the ***Shanghai Composite declined by -1.98% (MTD -0.23% YTD -4.24%).***

FIXED INCOME

Treasury prices were higher last week despite a jobs report that showed strong April job creation, as investors concluded the data would not shift the Federal Reserve's outlook on the economy. The 10-year yield hit its lowest close since early February, nearing its lowest yield of the year.

Performance: I) ***The 10-year yield fell last week, ending at 2.585% down from 2.666%. The 30-year yield was lower last week declining from 3.445% to 3.368%.***

II) ***Traders who try to predict the timing of Federal Reserve rate hikes moved up their forecasts for the first rate hike by one meeting to June 2015 after a strong jobs report***, according to CME FedWatch, which calculates a potential hike based on fed funds futures contracts. The probability of a rate hike during that month's meeting of the Federal Reserve policy committee rose to 50% after the report showed 288,000 new jobs created in April, which beat economist forecasts

III) Performance for the week, month-to-date and year-to-date***.*** ***Barclays US Agg Bond*** was ***higher by +0.45%*** last week, ***MTD +0.84% and YTD +2.93%***. The ***Barclays US MBS TR rose by +0.51%*** last week, MTD ***+0.92% and YTD +2.75%***. The ***BofAML US HY Master II was higher last week by +0.25%, MTD +0.63% and YTD +3.80%.***

Commodities

The DJ-UBS Commodity Index declined last week falling from 138.050 to 136.670, as a disappointing Q1 GDP report from the U.S. and rising stockpiles of oil weighted on commodity prices.

Performance: I) ***Oil prices fell -0.8% weighed down in large part due to high U.S. crude stockpiles.*** West Texas Intermediate Crude for the week fell from $100.69 to $99.99 per barrel.

II) The ***ICE USD Index***, a gauge of the greenback's movement against six other major currencies, ***fell from 79.77 to 79.51 for the week. The USD fell against the Euro and other major currencies as the U.S. economy barely grew in Q1***, in part because of the harsh winter, according to data released last week. For the week the Yen was slightly weaker falling from ¥102.14 to ¥102.21 and the Euro advanced from 1.3833 to 1.3873 against the USD.

III) Gold prices last week were down as the metal's price saw pressure from a stronger than expected monthly U.S. jobs report. For the week Gold dropped from $1303.6 to $1300.4.

Hedge Funds

Hedge funds in April closed lower, with the core strategies Equity Hedge, Event Driven, Macro/CTA and Relative Value Arbitrage all down for the month.

Performance: I) ***The HFRX Global Hedge Fund Index is lower at -0.73% MTD and YTD is up +0.38%.***
II) ***Macro/CTA is down MTD at -0.56% and is down YTD -1.59%***.
III) ***Event Driven lost MTD -0.68***% ***and is up YTD +2.12%.***
IV) ***Equity Hedge is lower MTD at -1.42% and is down YTD -0.19%.***
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 are seeing equity markets trading near all-time highs with price appreciation being driven not by earnings for Q1, but by expectations for higher earnings and revenue growth in the future. The blended S&P 500 earnings growth rate for Q1 is now 1.5%, up from the anticipated -0.4% decline at the end of the first quarter but much lower than the expected +4.4% growth rate at the beginning of the first quarter. While outlooks have not been as negative as they have been lately, it is too soon to tell if Q2 growth is accelerating.

On the plus side, analysts appear to be less negative than usual. In a recent Goldman Sachs report, the firm noted that Q2 consensus estimates have flattened out rather than declined as is customary with the progression of earnings season. Much of the optimism stems from the lousy winter and how it affected big-ticket purchases. While not all of that will be recovered in the following quarters, companies are predicting a good amount will as pent up demand from consumers will foster higher growth in the coming months.

On the economic data front, this will be a light week led by ***Fed Chairwoman Janet Yellen speaking before Congress on Wednesday and Thursday about the economy.*** Also the JOLTS, or Job Openings and Labor Turnover Survey, will be released on Friday. The only other report of note will be the ISM non-manufacturing Index coming out on Monday (projected to improve from 53.1% to 54.3%).