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INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

U.S. stocks were lower last week as worries over slower growth have increased, and rebounding oil prices may reduce the extra money in consumers' pockets, removing one more support for consumer spending.

a) ***Dow Jones -1.15% MTD -0.55% YTD +1.64%*** b) ***S&P 500 -1.15% MTD -0.53% YTD +0.81%***
c) ***Russell 2000 -1.81% MTD -1.48% YTD -2.98%***

Drivers: I) ***U.S. wholesale inventories declined by 0.5% in February, marking the fifth drop in five months and offering more evidence that first-quarter growth will be weak.*** Wholesale inventories for January were also revised down sharply to show a 0.2% decline instead of a 0.3% increase, the Commerce Department reported. Companies have cut back on production to get inventories in line and avoid an excess buildup.

II) ***Federal Reserve Chairwoman Janet Yellen offered an upbeat view of the U.S. economy Thursday and affirmed the central bank's next step is likely to raise interest rates.*** "We think a gradual path of rate increases will be appropriate" given the progress the economy has made and is likely to continue to make, Yellen said. But the central bank head did not say when she wants the Fed to boost borrowing costs again.

III) ***Factory orders fell sharply in February, after a collapse in bookings for oil equipment and planes. Factory orders fell 1.7%***, the Commerce Department reported, marking the third fall in four months. Economists had forecast a 1.6% decline. Orders for equipment in the hurting mining, oil field and gas machinery segment dropped by 20.1%.

IV) ***Companies in the U.S. services sector such as health care providers and retailers grew in March at the fastest pace since December, indicating the U.S. economy improved after a slow start to the first quarter.*** The Institute for Supply Management said its nonmanufacturing index rose to 54.5% in March from 53.4% in February. ***The sector accounts for more than 80% of American jobs and is now the important base of the economy.***

V) ***Equity prices in April are lower, with Large-Cap, Growth, Healthcare and Energy leading equity price performance. The laggards for the month are Small-Cap and Value Stocks along with Financials.***

Capitalization: ***Large Caps -0.54%*** (YTD +0.63%), Mid-Caps -1.02% (YTD +1.20%) and ***Small Caps -1.48%*** (YTD -2.98%). Style: ***Value -2.08%*** (YTD +3.82%) and ***Growth -0.88%*** (YTD +0.10%). Industry Groups (Leaders): Telecommunication -1.51% (YTD +14.67%), Utilities -1.59% (YTD +13.65%), ***Consumer Staples -1.00%*** (YTD +5.13%), ***Energy +0.87%*** (YTD +4.25%), Industrials -1.23% (YTD +3.90%), Technology -1.08% (YTD +2.91%), Information Technology -1.10% (YTD +1.41%) (Laggards): ***Financial Services -2.02%*** (YTD -7.01%), ***Healthcare +2.11%*** (YTD -3.35%) and Consumer Discretionary -1.61% (YTD -0.17%).

EUROPEAN EQUITIES

The MSCI Europe index was up last week rising +0.34%. European equities were higher as investors moved into riskier assets as oil prices rose and the Japanese yen retreated, while positive trade data lifted Germany's DAX 30 index.

Drivers: I) ***Minutes from the European Central Bank's March meeting showed broad support on the Governing Council for the 10 basis point cut to the deposit rate, but also said "further rate reductions would not be anticipated at this stage."*** "Nonetheless, the Governing Council would not rule out future cuts in policy rates, as new shocks could change the outlook for inflation, which might warrant further monetary policy action, with policy rates remaining part of the Governing Council's toolbox".

II) ***Germany's trade surplus widened unexpectedly in February, due to solid export gains, data from the Federal Statistical Office showed last week.*** The trade surplus, adjusted for seasonal swings and calendar effects, widened to 19.8 billion euros ($22.5 billion) in February from a downwardly revised EUR18.7 billion in January. Economists had forecast a surplus of EUR18.0 billion. ***Germany's total exports increased 1.3% from the previous month, in adjusted terms, while imports grew just 0.4%.***

III) ***Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index rose by +0.34% for the week (MTD -1.39% YTD -3.86%).***

ASIAN EQUITIES

Asian equity markets ended up last week despite worries about the ability of central bankers to boost growth at a time when the global economy is still sluggish. That has been highlighted recently by the Bank of Japan's inability to guide the yen weaker through monetary easing. The Dow Jones Asia Pacific Index was up +0.53% for the week, (MTD -1.62), (YTD -3.84%).

Drivers: I) ***The private gauge of China's service activity showed a faster pace of expansion in March after Beijing moved to prop up growth in the world's second largest economy. The Caixin China services purchasing managers' index rose to 52.2 in March*** from 51.2 in February, Caixin Media Co. and research firm Markit s reported, pointing to a recovery outside the nation's factory sector.

II) ***In China, a three-month ban on large shareholders selling more than 1% of a company's total shares is about to expire, fueling worries of a barrage of selling pressuring the overall market.*** China's securities regulator announced the restriction on Jan. 7, saying it was to come into effect on Jan. 9. It did not specify an expiration date.

II) Performance of Asian Indexes for the week, month-to-date and year-to-date. ***The Nikkei was lower by -2.12% (MTD -5.59% YTD -16.88%), the Hang Seng Index declined by -0.63% (MTD -1.99% YTD -7.05%) and the Shanghai Composite fell by -0.82% (MTD -0.63% YTD -15.66%).***

FIXED INCOME

Treasury yields declined for a second week in a row, settling near eight-week lows as investors opted for the safety of government bonds amid volatility in risky assets such as equities.

Performance: I) ***The 10-year Treasury yield was lower last week ending at 1.719% down from 1.772%. The 30-year yield dropped last week declining from 2.599% to 2.552%.***

II) ***Performance for the week, month-to-date and year-to-date. Barclays US Aggregate Bond was up +0.38% last week, MTD +0.35% and YTD +3.38%. The Barclays US MBS TR rose by +0.10% last week, MTD +0.10% and YTD +2.10%. The Barclay's US Corporate HY Index rose last week by +0.46%, MTD +0.36% and YTD +3.71%.***

COMMODITIES

The DJ Commodity Index was higher last week climbing from 240.33 to 244.25 and is up month to date +0.41% (YTD +1.05%) as energy rose on lower rig counts and gold was up due to an expected earnings decline in first quarter S&P 500 earnings.

Performance: I) ***The price of oil rose after data showed the number of U.S. oil rigs continued fell for a third straight week.*** Oil-field services firm Baker Hughes said the number of active oil rigs declined to 354 from 362 a week earlier. For the week the price of oil was higher, advancing from $36.63 to $39.66 per barrel.

II) ***The ICE USD Index***, a gauge of the greenback's movement against six other major currencies, ***was negative dropping from 94.61 to 94.19 for the week.*** The USD dollar fell to a nearly 18-month low against the yen last week, but the dollar's Friday gain snapped a five-day losing streak. ***The dollar has dropped 10.2% against the yen since the beginning of the year as fears about global growth drove investors into haven assets like the yen***, gold and U.S. sovereign debt. For the week the Yen strengthened climbing from ¥111.72 to ¥108.06 and the Euro rose from 1.1391 to 1.1398 against the USD.

III) ***Gold saw the biggest weekly gain in three weeks as worries about the global economy and subpar corporate earnings supported bids for the metal.*** For the week gold was higher rising from $1223.6 to $1240.1

HEDGE FUNDS

Hedge funds returns in April are mostly lower, as core strategies Equity Hedge, Distressed, Event Driven, and Macro are in negative territory and only Relative Value experiencing a positive return.

Performance:

I) The HFRX Global Hedge Fund Index is lower at -0.37% MTD and -2.23% YTD.

II) ***Equity Hedge is negative at -0.65% MTD and has fallen -3.57% YTD.***

III) ***Event Driven is down MTD -0.61% and is down YTD -1.83%.***

IV) ***Distressed Debt is lower at -0.19% MTD and is negative YTD -1.69%***

V) ***Macro/CTA has fallen by -0.19% MTD and is down -0.11% YTD.***

VI) ***Relative Value Arbitrage is positive at +0.08% and is down -2.67% YTD.***

ECONOMIC DATA WATCH AND MARKET OUTLOOK

Heading into next week, first-quarter earnings season begins Monday, in what is expected to be the worst quarter in terms of declining profits in nearly seven years. The hope looking forward is ***this may be the bottom for corporate earnings***, as the ***headwinds that battered fundamentals for a year finally appear to be abating***. Specifically, we have seen a decline in the dollar over the first quarter, a firming in oil prices, and the enduring eventuality of a rate increase or two over the year.

Analysts expect a third consecutive quarter of negative earnings growth (-9% YoY) that is expected to mark the trough as the macro headwinds subside in subsequent quarters. Of the 22 companies that have reported "early" earnings, firms with fiscal quarters that ended in February ending quarters, are showing better than expected results: 82% have beaten earnings estimates, 64% have beaten sales estimates, and 55% beat both.

Looking further ahead, while the second quarter is also showing an expected earnings loss, it is not as bad as the first quarter with a forecast a 2.7% decline, according to FactSet***. From there, earnings are expected to rise 3.8% for the third quarter, and 11% for the fourth.***

On the economic data front, retailers started the year on a downturn, with spending falling in both January and February. But other data, including recent consumer surveys, suggest the economy stabilized as spring began. ***Wednesday's Retail Sales report from the Commerce Department (expected to increase from -0.1% to 0.1%) should tell us if shoppers opened up their wallets in March.***

Wednesday's report on economic conditions across 12 Federal Reserve districts, the Beige Book, will provide central bankers new information ahead of their policy meeting in two weeks. Keep an eye on what the report says about local wage growth and labor-market conditions.

The Labor Department's consumer-price index for March, to be issued Thursday, will provide the Fed and markets the latest U.S. inflation reading (projected to rise from -0.2% to 0.2%). In February, overall price gains weakened, but when excluding volatile food and energy costs, prices were up a healthy 2.3% from a year earlier.

Details on manufacturing, mining and utilities output will come Friday from the Fed's industrial production report (estimated to rise from -0.5% to -0.1%). Watch the manufacturing numbers, the largest component of the index. Manufacturing output fell last year due to a strong dollar and struggling energy sector. But output for the category rose a solid 0.2% in February from the prior month and was up 0.5% in January.