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INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

U.S. stocks posted their strongest weekly gain in a month due to better than feared corporate earnings. Investors have been bracing for the worst earnings quarter since 2009, but thus far, companies have broadly outperformed lowered expectations.

a) ***Dow Jones +1.85% MTD +1.29% YTD +3.52%*** b) ***S&P 500 +1.65% MTD +1.11% YTD +2.47%***
c) ***Russell 2000 +3.08% MTD +1.55% YTD +0.01%***

Drivers: I) ***Investors had prepared for possibly the worst earnings quarter since 2009, but thus far, companies have broadly outperformed lowered expectations.*** Worries about poor financial-sector performance were particularly acute, but several of the country's largest banks including ***Citigroup, J.P. Morgan Chase & Co. and Wells Fargo & Co. have performed better than expected.***

II) The higher cost of filling up at the gas pump offset lower prices for groceries and new clothes to push U.S. inflation slightly higher in March. ***The consumer price index rose by seasonally adjusted 0.1% last month after falling 0.2% in February.*** Over the past 12 months the CPI has risen at a 0.9% rate, down a tick from February. ***The Fed would like to see inflation rise a bit before it raises interest rates again, but price pressures remain muted.***

III) ***Consumer sentiment eased to 89.7 in the University of Michigan's preliminary reading for April.*** That was down 1.3 points from a March reading of 91.0. Economists had forecast a 92.0 reading. It was the fourth-straight monthly decline, but ***Michigan's survey director said in a release that he expects the gloom to ease as the economy brightens after a disappointing first quarter.***

IV) ***Stock-sector correlation and dispersion are dropping just as earnings season heats up. The average correlation for the 10 major industry groups of the S&P 500, was 70.4% over the 30 days through April 8***, according to data provided by brokerage Convergex. ***But the reading is down from 77.1% in February and about 86% in January.***

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 Telecommunication.***

Capitalization: Large Caps +1.18% (YTD +2.37%), ***Mid-Caps +0.86%*** (YTD +3.12%) and ***Small Caps +1.55%*** (YTD +0.01%). Style: ***Value +0.97%*** (YTD +7.04%) and ***Growth +1.52%*** (YTD +2.52%). Industry Groups (Leaders): ***Telecommunication -1.98% (YTD +14.12%),*** Utilities -1.40% (YTD +13.86%), Consumer Staples +1.34% (YTD +7.60%), ***Energy +2.65%*** (YTD +6.09%), Industrials +0.94% (YTD +6.17%), Technology -0.08% (YTD +3.95%), Consumer Discretionary +2.26% (YTD +3.76%) and Information Technology +0.13% (YTD +2.67%). (Laggards): Financial Services +1.84% (YTD -3.34%) and ***Healthcare +3.37%*** (YTD -2.16%).

EUROPEAN EQUITIES

The MSCI Europe index was up last week rising +2.60%. European equities reached their highest level since March 14, after China reported better than expected export data.

Drivers: I) ***The European Union's statistics agency last month estimated that prices were 0.1% lower in March than a year earlier.*** But in a second estimate, Eurostat reported prices were flat on the year, indicating that this time around, the period of deflation had been confined to January. But it will be small comfort for an institution that has been short of its inflation target of just under 2% since early 2013, and seen prices rise by less than 1% a year since October of that year.

II) ***The U.K.'s EU referendum on June 23 on whether to stay in or leave the union are causing uncertainty. Polls are currently neck-to-neck, sparking jitters in the U.K. financial markets.*** There are some signs that uncertainty relating to the EU referendum has begun to weigh on areas of activity, as some decisions, including on capital expenditure and commercial property transactions, are being postponed pending the outcome of the vote.

III) ***Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index rose by +2.60% for the week (MTD +1.17% YTD -1.36%).***

ASIAN EQUITIES

Asian equity markets were up strongly last week as key economic indicators including industrial production and new housing starts beat analyst's expectations. The Dow Jones Asia Pacific Index was up +4.27% for the week, (MTD +2.58), (YTD +0.27%).

<u>Drivers:</u> I) ***Industrial output in China rose 6.8% in March from a year earlier, accelerating from 5.4% growth in the January-February period***, data from the National Bureau of Statistics showed Friday. Value-added industrial output, a rough proxy for economic growth, exceeded the median forecast of 6.0% growth by 14 economists in a Wall Street Journal survey.

II) China's economy slowed further in the beginning of the year, though Beijing's policies to revive growth with old-style tools such as lending and construction appeared to gain traction in March***. China's GDP expanded by 6.7% year-over-year in the first quarter, down from a 6.8% gain in the previous quarter.*** The figure, the slowest quarterly growth for China since the height of the financial crisis in 2009, ***was in line with forecasts.***

II) Performance of Asian Indexes for the week, month-to-date and year-to-date. ***The Nikkei was higher by +649% (MTD +0.53% YTD -11.48%), the Hang Seng Index advanced by +5.80% (MTD +2.57% YTD -2.73%) and the Shanghai Composite rose by +3.12% (MTD +2.47% YTD -13.03%).***

FIXED INCOME

Treasury yields were a bit higher last week as global equities markets staged a strong rally, prompting investors to sell some of these safe haven assets.

<u>Performance</u>: I) ***The 10-year Treasury yield was higher last week ending at 1.754% up from 1.719%. The 30-year yield rose last week climbing from 2.552% to 2.562%.***

II) ***Performance for the week, month-to-date and year-to-date. Barclays US Aggregate Bond was up +0.08% last week, MTD +0.41% and YTD +3.46%. The Barclays US MBS TR rose by +0.06% last week, MTD +0.18% and YTD +2.16%. The Barclay's US Corporate HY Index rose last week by +1.58%, MTD +2.00% and YTD +5.35%.***

COMMODITIES

The DJ Commodity Index was higher last week climbing from 244.25 to 248.94 and is up month to date +2.34% (YTD +2.99%) led by a sharp rise in oil prompted by talks of a potential production freeze.

<u>Performance</u>: I) ***The price of oil finished the week with a gain, as traders braced for a meeting between major producers***, who are scheduled to discuss a potential production freeze this weekend to help boost prices and alleviate a glut of global crude supplies. For the week the price of oil was higher, advancing from $36.66 to $40.40 per barrel.

II) ***The ICE USD Index***, a gauge of the greenback's movement against six other major currencies, was positive rising from 94.19 to 94.71 for the week. ***The US dollar rose as U.S. economic data seems to be improving.*** For the week the Yen weakened dropping from ¥108.06 to ¥108.76 and the Euro fell from 1.1398 to 1.1284 against the USD.

III) ***Gold suffered its first weekly drop in the three weeks as a flight to haven assets dissipated as a weekly gain in the dollar pressured the precious metal***. For the week gold was lower falling from $1240.1 to $1235.8.

HEDGE FUNDS

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

Performance:

I) ***The HFRX Global Hedge Fund Index is higher at +0.17% MTD and -1.71% YTD.***
II) ***Equity Hedge is positive at +0.26% MTD and has fallen -2.68% YTD.***
III) ***Event Driven is down MTD -0.19% and is down YTD -1.42%.***
IV) ***Distressed Debt is higher at +1.09% MTD and is negative YTD -0.42%***
V) ***Macro/CTA has risen by +0.42% MTD and is up +0.53% YTD.***
VI) ***Relative Value Arbitrage is positive at +0.24% and is down -2.53% YTD.***

ECONOMIC DATA WATCH AND MARKET OUTLOOK

Heading into next week investors will focus on the 100 S&P 500 companies reporting results, but the equity market is expected to remain relatively resilient with much of the potential shock from sub-par earnings already priced in. ***Market strategists believe first-quarter earnings will come in better than the lowered guesstimates*** and are not expecting a big decline in the equity markets. ***In addition, with the U.S. dollar softening and oil prices having hit bottom, it is possible the first quarter will serve as an inflection point for earnings.***

Outside of earnings, oil could have an outsize impact on equities with major oil producers meeting in Doha, Qatar on Sunday amid speculations of a possible production freeze. Although a long shot, ***if the countries reach a deal to limit output***, ***crude prices could surge, providing a boost to the stock market.*** However, if the meeting concludes ***without any progress on limiting the supply glut***, disappointed investors are likely to sell out of oil to pocket profits. That, in turn, ***would likely pressure stocks given the close correlation between oil prices and equities recently.***

On the economic data front, the housing market started off 2016 with mixed results. The National Association of Home Builders' gauge stabilized in March at 58, its second month at the lowest level since May. April's NAHB survey is out Monday morning. Meanwhile, housing starts rebounded in February, perhaps due to warm weather. The Commerce Department releases new figures Tuesday morning.

The National Association of Realtors has been warning for months of low inventory and rising prices stunting sales of existing homes, which make up approximately 90% of the housing market. In February, sales fell 7.1***%. But real-estate brokerage Redfin reported a 12% rise in tristate area listings in February, meaning a rise could be on the horizon.*** Wednesday morning brings existing-home sales data for March.

Several regional Fed surveys and the Institute for Supply Management's index showed rebounds in manufacturing in March, especially in new orders. This has yet to translate to an increase in ***manufacturing jobs, the sector lost 47,000 jobs in February and March. But some economists are hoping the sector is improving after a challenging year.*** The Philadelphia Fed's April survey Thursday is followed Friday by data provider Markit's April preliminary purchasing-managers' index.

The labor market has been resilient in the face of economic trouble overseas, especially in domestically oriented sectors. In March, the economy added 215,000 jobs***. Weekly jobless claims are out Thursday from the Labor Department. The previous figure matched the lowest level since 1973, and is consistent with ongoing job creation.***