INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

U.S. stocks were slightly higher last week, but fell for a second consecutive day on Friday due to concerns over the U.K.'s Brexit vote to leave the European Union, as well as a drop in oil prices.

a) ***Dow Jones +0.35% MTD +0.51% YTD +3.86%*** b) ***S&P 500 +0.52% MTD +0.65% YTD +4.54%***
c) ***Russell 2000 +0.01% MTD +0.83% YTD +3.13%***

Drivers: I) ***Consumer sentiment eased a bit in early June as Americans worried more about the future economic outlook. The University of Michigan's survey for the first half of June fell to 94.3 from 94.7.*** Economists had expected a steeper decline, to 93.8. Consumers rated their current financial situation the best since 2007 due mostly to higher employment levels and wage gains.

II) ***Foreigners are selling U.S. stocks at the fastest pace ever***, according to Deutsche Bank. That is bad news for stocks. Historically, foreign demand for U.S. stocks has been closely correlated with stock-market returns***. When foreigners buy up more U.S. shares, the S&P 500 tends to rise. When they leave, shares tend to decline. The most recent examples are between 2000 and 2001 as well as 2008 to 2009.***

III) ***Federal Reserve Chairwoman Janet Yellen on Monday said she expects the U.S. economy will continue to improve and expects further gradual increases in interest rates will "probably" be appropriate.*** Yellen offered no clues on the timing of Fed action in her remarks. She did not repeat the phrase that the Fed would act "in the coming months" that the included in remarks at Harvard University on May 27.

IV) ***Consumer credit growth slowed a bit in April from the frenetic pace in March***, according to the latest government estimates. Credit growth rose $13.4 billion in April, or at a seasonally adjusted annual rate of 4.5%, the Federal Reserve reported. Economists had expected a gain of $18 billion in April consumer credit. This is down from a revised $28.4 billion, or 9.6% pace in March. That was the largest dollar gain in consumer credit on record.

V) ***Equity prices in June are higher with Small-Cap, Value, Utilities and Telecom leading equity price performance. The laggards for the month are Large-Cap and Growth Stocks along with Financials.***

Capitalization: ***Large Caps +0.01%*** (YTD +3.52%), Mid-Caps +0.14% (YTD +5.16%) and ***Small Caps +0.83%*** (YTD +3.13%). Style: ***Value +0.96%*** (YTD +10.26%) and ***Growth +0.32%*** (YTD +5.08%). Industry Groups (Leaders): ***Utilities +2.94%*** (YTD +17.75%), ***Telecommunication +2.78%*** (YTD +17.25%), Energy +0.89% (YTD +12.65%), Consumer Staples +2.05% (YTD +7.83%), Industrials +1.07% (YTD +7.13%), Technology -0.67% (YTD +3.01%), Information Technology -0.98% (YTD +1.81%) and Healthcare +0.62% (YTD +0.17). (Laggards): ***Financial Services -2.39%*** (YTD -2.30%) and Consumer Discretionary +0.52% (YTD -0.31%).

EUROPEAN EQUITIES

The MSCI Europe index was down last week falling -2.57%. European markets were down for the week due to Brexit fears, prompting investors to flock to corporate bonds which the ECB began buying last Wednesday as part of its QE program. Year to date the MSCI Europe Index is down -3.20% (MTD -2.50%).

Drivers: I) ***In regards to the Brexit vote, research by YouGov for ITV found 45% of respondents wanted the U.K. to leave the EU, in a survey conducted from June 1 to 3, compared with 41% looking to remain. But a separate YouGov poll conducted only a few days later proved different results, 42% for a Brexit, versus 43% for staying. This suggests it will be a very close race to the finish.***

II) ***A Brexit by the U.K. would affect trade agreements, immigration and labor rules, travel regulations and financial transactions*** are among a number of issues that would have to be renegotiated by British and European officials if the majority of Britons vote for the U.K. to leave the 28-member European Union. ***Last year, 44% of exported goods and services from the U.K. went to the EU, representing 12% of Britain's GDP, according to the Office for National Statistics.***

III) ***Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index fell -2.57% for the week (MTD -2.50% YTD -3.20%).***

ASIAN EQUITIES

Asian equity markets were mixed as investors became more concerned about slowing U.S. and global economic growth. Earlier last week, the World Bank forecast 2016 global growth at 2.4%, down from the 2.9% it predicted in January. The Dow Jones Asia Pacific Index was up +0.37% for the week, (MTD +0.99), (YTD -0.75%).

Drivers: I) ***Japanese core machinery orders fell dramatically in April, the government report, amid a mixed business environment of calmer financial markets but slower global growth and a stronger yen.*** Core orders, a leading economic indicator, fell 11.0% from the previous month, a larger drop than a 3.7% fall expected by economists. On a year-over-year basis, core orders also fell 8.2%

II) ***China's consumer inflation fell in May, losing momentum for the first time in seven months and heading further below the government's target zone. China's consumer price index rose 2.0% in May from a year earlier, slower than a 2.3% year-over-year rise in April***, the National Bureau of Statistics reported. The report added that declining food prices were the main factor causing the fall. The rise in the key inflation gauge also come in below a median 2.2% gain forecast by 16 economists in a survey by The Wall Street Journal.

III) Performance of Asian Indexes for the week, month-to-date and year-to-date. ***The Nikkei was lower by -0.25% (MTD -3.68% YTD -12.78%), the Hang Seng Index advanced by +0.46% (MTD +1.17% YTD -3.98%) and the Shanghai Composite rose by +0.47% (MTD +0.36% YTD -17.29%).***

FIXED INCOME

Treasury yields fell to a three-year low prompted by investors' fears over the impending Brexit vote in the U.K., worries about a slowdown in global economic growth and uncertainty regarding the Fed's interest-rate policy.

Performance: I) ***The 10-year Treasury yield was lower last week ending at 1.642% down from 1.698%. The 30-year yield fell last week falling from 2.509% to 2.455%.***

II) ***Performance for the week, month-to-date and year-to-date. Barclays US Aggregate Bond was up +0.38% last week, MTD +0.99% and YTD +4.48%. The Barclays US MBS TR rose by +0.13% last week, MTD +0.38% and YTD +2.67%. The Barclay's US Corporate HY Index advanced by +0.87%, MTD +1.01% and YTD +9.13%.***

COMMODITIES

The DJ Commodity Index was higher last week climbing from 270.19 to 275.77 and is up month to date +2.98% (YTD +14.09%) as soy beans climbed to a two year high, after the U.S. Department of Agriculture cut its estimates on year-end domestic stocks and raised consumption expectations for the commodity.

Performance: I) ***The price of oil was down last week as an increase in the number of active U.S. oil rigs implied higher crude output and weak U.S. employment data raised concerns over the outlook for energy demand.*** For the week oil declined -0.04% from $48.90 to $48.88 per barrel (MTD -0.45% YTD +20.07%).

II) ***The ICE USD Index***, a gauge of the greenback's movement against six other major currencies, ***was positive climbing +0.84% from 93.87 to 94.66 for the week (MTD -1.19% YTD -4.08%). The USD rallied last week as investors held out hope that the Fed would raise interest rates in July or September.*** For the week the Yen weakened falling from ¥106.53 to ¥ 106.97 and the Euro dropped from 1.1363 to 1.1251 against the USD.

III) ***Gold posted a second-straight weekly gain, as weakness in global equities helped to improve the metal's lure as a safe haven.*** For the week gold was higher by +2.39% rising from $1246.5 to $1276.3 (MTD +4.83% YTD 20.23%).

HEDGE FUNDS

Hedge funds returns in June are higher, with core strategies Equity Hedge, Event Driven, Distressed, Macro and Relative Value all in positive territory.

Performance:

I) The HFRX Global Hedge Fund Index is higher at +0.72% MTD and -0.31% YTD.

II) ***Equity Hedge is up at +0.29% MTD and has fallen -2.21% YTD.***

III) ***Event Driven is up MTD +1.23% and is up YTD +3.11%.***

IV) ***Distressed Debt is higher at +1.05% MTD and is positive YTD +6.58%***

V) ***Macro/CTA has risen by +1.11% MTD and is down -0.22% YTD.***

VI) ***Relative Value Arbitrage is positive at +0.40% and is down -1.62% YTD.***

ECONOMIC DATA WATCH AND MARKET OUTLOOK

Heading into next week, investors may look to take a cautious approach with uncertainty abound. We start with the Federal Reserve meeting on Tuesday and Wednesday and the pending Brexit vote scheduled for June 23rd. The S&P 500 hit 2150.55 last week, 1% from the peak of 2130.82 hit on May 21, 2015. The equity markets may well be in consolidation phase in light of these geo-political events, as well as the continued decline in global fixed income yields offering little more than a safe haven from market volatility.

The de-risking phase seems to be in vogue already, capital outflows from equities last week totaled $2.6 billion while bonds witnessed an inflow of $7.9 billion during the week, according to Bank of America Merrill Lynch. In addition, as well look forward to the economic news releases highlighted below, we are coming to the final close of the earnings season. ***With 99.8% of companies in the S&P 500 reporting earnings to date for first quarter 2016, 72% have reported earnings above the mean estimate and 53% have reported sales above the mean estimate. Looking forward to Q2 earnings reporting season, FactSet is projecting a profit decline of 4.90% for the S&P 500.***

On the economic data front, Fed officials' meet next Tuesday and Wednesday. The gathering will conclude with release of their latest interest-rate decision, economic projections and a press conference with Chairwoman Janet Yellen. ***Earlier in the year, the meeting was considered a likely time for the central bank to raise its benchmark interest rate. That possibility was setback when the latest jobs report showed a sharp slowdown in May hiring. Still, the projections and press conference will be examined for clues for when a rate increase may occur.***

Tuesday's retail sales report from the Commerce Department (expected to fall from 1.3% to 0.4%) will be watched to see if improving consumer spending continued in May. Retail spending in April increased 1.3%, the fastest pace in more than a year. Continued momentum would reinforce the view that economic growth is accelerating during the second quarter.

The Labor Department will release its consumer-price index (estimated to remain flat at 0.2%) report on Thursday. Look for more evidence that inflation is rising. April's report showed a rise of 0.4%, the fastest monthly increase in more than three years.

The Fed's May industrial production report (projected to decline from 0.7% to -0.3%), coming out on Wednesday, will show whether manufacturing has improved or not. Output from factories, mines and utilities rose in April, but that was largely affected by favorable weather conditions. Without the boost for utilities, look to see if the production increase can continue. ***Manufacturing output has grown very slowly from a year earlier and mining, including oil drilling, has fallen sharply.***

The Commerce Department will report on housing starts on Friday (expected to slow from 1.172 to 1.140 million units), a gauge of home construction activity. While starts rose sharply in April, keep an eye on permits, an indicator of future building. Permits rose 3.6% in April, but have lagged behind starts for the past three months, which could suggest a slowdown in momentum.