SUMMARY

Today, Chairperson Yellen gets the last word on monetary policy before the U.S. central bank goes silent June 14-15: she will be speaking in Philadelphia at 12:30 on the U.S. economic outlook.

Heading into next week, investors will note the lack of any major catalysts that could affect markets before the Federal Reserve's June policy meeting and Britain's referendum on June 23rd, whether to stay in the European Union or not. This environment is likely keep markets in a volatile and range bound state in the week ahead.

On Tuesday, the Labor Department will provide an update on the economy's short- and long-term health with revised figures on productivity and unit labor costs for the first quarter. Productivity is expected to improve from -1.0% to -0.6%. The report will also offer insight into a more important question for the economy, whether workers' wages are improving.

Also released on Tuesday: the Fed report on consumer credit for April. A rise in consumer borrowing would boost hopes that Americans are spending more. Household borrowing in March surged 10%, at a yearly rate, in March, the fastest rate since 2001.

On Wednesday, The Labor Department's monthly Job Openings and Labor Turnover Survey, or Jolts, will be closely watched given Friday's jobs report. Job openings rose to nearly 5.8 million in March, nearing the record set last July. There were about 1.4 jobless workers per opening, hovering near pre-recession levels.

Last week, equity markets in the U.S. and Europe were mixed as a result of the disappointing jobs report, while Asian markets rallied due to expectations that MSCI might include Chinese stocks into its widely tracked benchmarks. Japanese Prime Minister Shinzo Abe surprised markets last week by announcing a delay in a planned sales-tax hike - indicating that Japan will likely continue deficit spending.

In Fixed Income, treasury prices climbed strongly last week, pushing yields sharply lower, in response to the disappointing jobs report. Gold posted strong gains on the news, but ended the week lower by +2.57% dropping from $1215.3 to $1246.5 (MTD +2.38% YTD 17.43%). Oil prices also declined, 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.

U.S. EQUITIES

U.S. stocks were mixed last week after closing modestly lower Friday, as investors weighed implications of a disappointing jobs report on the Federal Reserve monetary policy decision in two weeks.

a) ***Dow Jones -0.37% MTD +0.15% YTD +2.44%*** b) ***S&P 500 +0.00% MTD +0.13% YTD +3.67%***
c) ***Russell 2000 +1.19% MTD +0.82% YTD +3.08%***

Drivers: I) ***The U.S. created just 38,000 new jobs in May and nearly half a million people dropped out of the labor force, raising doubts about the strength of the economy and possibly forcing the Federal Reserve to scuttle plans to raise interest rates this summer.*** The increase in hiring was the smallest since the fall of 2010. Economists had predicted a gain of 155,000 nonfarm jobs.

II) ***The unemployment rate fell to 4.7%*** from 5.0% to mark the lowest level since the month before the Great Recession began in December 2007. ***The decline was due almost entirely to 458,000 people leaving the labor force, typically a sign jobs are harder to find.*** As a result, the labor-force participation rate fell for the second month in a row to 62.6%. A broader measure of unemployment that includes ***discouraged jobseekers and people forced to work part-time was unchanged at 9.7%***, an unusually high level at this late stage of economic recovery.

III) ***Consumer spending jumped 1.0% in April to mark the largest gain in almost seven years, as Americans bought new cars and trucks***. Higher gas prices also contributed. The increase in spending exceeded Wall Street expectations. Economists had forecast a 0.7% increase. Consumers are able to spend a bit more because of improvements in new job creation over the past several years and gains in income growth.

IV) ***inflation as measured by the PCE index increased 0.3% in April***, the Commerce Department reported last week. The core rate of inflation which strips out the volatile food and energy categories rose 0.2%. ***The PCE index rose 1.1% in the 12 months ended in April***. That is up from 0.8% in the prior month. While inflation is still low, pressure is rising. The Fed wants to see inflation rise closer to 2% before it raises interest rates again.

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

Capitalization: ***Large Caps +0.19%*** (YTD +3.70%), Mid-Caps +0.44% (YTD +5.49%) and ***Small Caps +0.82%*** (YTD +3.12%). Style: ***Value +0.70%*** (YTD +9.97%) and ***Growth +0.44%*** (YTD +5.20%). Industry Groups (Leaders): ***Utilities +1.97%*** (YTD +16.63%), Telecommunication +0.05% (YTD +14.14%), Energy -0.36% (YTD +11.25%), ***Consumer Staples +1.96%*** (YTD +7.73%), Industrials +0.22% (YTD +6.23%), Technology +0.70% (YTD +2.98%), Information Technology -0.66% (YTD +2.14%) and Healthcare +1.33% (YTD +0.87). (Laggards): ***Financial Services -0.90%*** (YTD -0.81%) and Consumer Discretionary +0.68% (YTD -0.15%).

EUROPEAN EQUITIES

The MSCI Europe index was down last week falling -0.84%. European equities fell last week, as a much weaker than anticipated U.S. jobs report re-ignited worries over global growth and Euro strength. Year to date the MSCI Europe Index is down -0.71% (MTD +0.06%).

Drivers: I) ***The ECB last week met expectations by holding its main interest rate on refinancing operations at 0%.*** It also left the deposit rate it charges banks to hold money overnight at minus 0.4%. Corporate-bond buying will begin on June 8, the central bank said. ***At ECB President Mario Draghi's press conference, he stated that the bank's inflation projections signaled room for further monetary stimulus.***

II) ***France, the euro-zone's second-largest economy grew 0.6% in the first quarter from the previous three months, instead of 0.5% as previously estimated.*** This marks the third straight quarter of growth in France, providing further evidence that the economy is gaining strength after years of weakness. There are also signs the stronger economy is helping France's job market after statistics showed a drop in the number of job seekers for the second month in a row in April.
III) ***Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index fell -0.84% for the week (MTD +0.00% YTD -0.93%).***

ASIAN EQUITIES

Asian equity markets rallied last week, led by the Shanghai SE Composite due to expectations that global index provider MSCI might include mainland Chinese stocks into its widely tracked benchmarks. The Dow Jones Asia Pacific Index was up +1.36% for the week, (MTD +0.62), (YTD -1.11%).

Drivers: I) ***The Caixin China services purchasing managers index edged down to 51.2 in May from 51.8 in April***, Caixin Media Co. and research firm Markit said. May's fall marks the second consecutive monthly decline, indicating renewed softness in the nation's service sector despite Beijing's efforts to prop up growth. ***Service providers reported slower growth in new business and job creation in May.***

II) ***Japanese Prime Minister Shinzo Abe surprised markets last week by announcing that he would delay a planned sales-tax hike by 2½ years.*** The delay was longer than anticipated by most market strategists, indicating that Japan will likely continue deficit spending alongside its quantitative easing program for the foreseeable future.

III) Performance of Asian Indexes for the week, month-to-date and year-to-date. ***The Nikkei was lower by -1.14% (MTD -3.44% YTD -12.56%), the Hang Seng Index advanced by +1.80% (MTD +0.59% YTD -4.41%) and the Shanghai Composite rose by +4.17% (MTD +0.76% YTD -16.97%).***

FIXED INCOME

Treasury prices climbed strongly this week, pushing yields sharply lower. A series of weak economic reports, ending with Friday's disastrous jobs report, squashed expectations the Federal Reserve would raise interest rates later this month.

<u>Performance</u>: I) ***The 10-year Treasury yield was lower last week ending at 1.698% down from 1.851%. The 30-year yield fell last week falling from 2.646% to 2.509%.***

II) ***Performance for the week, month-to-date and year-to-date. Barclays US Aggregate Bond was up +0.17% last week, MTD +0.61% and YTD +3.57%. The Barclays US MBS TR rose by +0.05% last week, MTD +0.26% and YTD +2.28%. The Barclay's US Corporate HY Index dropped by -0.04%, MTD +0.03% and YTD +7.97%.***

COMMODITIES

The DJ Commodity Index was higher last week climbing from 265.33 to 270.19 and is up month to date +1.88% (YTD +11.78%) as the USD dropped after disappointing US jobs and economic data.

<u>Performance</u>: I) ***The price of oil fell 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 -1.33% from $49.56 to $48.90 per barrel (MTD -0.41% YTD +20.12%).

II) ***The ICE USD Index***, a gauge of the greenback's movement against six other major currencies, ***was negative falling -1.91% from 95.70 to 93.87 for the week (MTD -2.01% YTD -4.88%).*** The USD dropped against major currencies, with the euro rising to its highest level versus the U.S. dollar in three weeks after U.S. data showed the rate of jobs growth decelerated last month to its slowest level since late 2010. For the week the Yen strengthened rising from ¥110.27 to ¥ 106.53 and the Euro advanced from 1.1114 to 1.1363 against the USD.

III) In response to the employment data report, **Gold** ***posted its strongest gain in 11 weeks, after the data showed the U.S. economy created the fewest number of jobs in nearly six years.*** For the week, however, gold was lower by +2.57% dropping from $1215.3 to $1246.5 (MTD +2.38% YTD 17.43%).

HEDGE FUNDS

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

<u>Performance</u>:

I) The HFRX Global Hedge Fund Index is higher at +0.26% MTD and -0.77% YTD.
II) ***Equity Hedge is up at +0.10% MTD and has fallen -2.39% YTD.***
III) ***Event Driven is up MTD +0.67% and is up YTD +2.53%.***
IV) ***Distressed Debt is lower at -0.05% MTD and is positive YTD +5.42%***
V) ***Macro/CTA has risen by +0.24% MTD and is down -1.08% YTD.***
VI) ***Relative Value Arbitrage is positive at +0.03% and is down -1.98% YTD.***

ECONOMIC DATA WATCH AND MARKET OUTLOOK

Heading into next week, investors will note the lack of any major catalysts that could affect markets before the Federal Reserve's June policy meeting and Britain's referendum on June 23rd, whether to stay in the European Union or not. This environment is likely keep markets in a volatile and range bound state in the week ahead. In addition, this makes whatever economic data that comes out that much more significant. ***Weak job numbers on Friday have essentially taken a June rate increase off the table as was evidenced by the sharp drop in rate expectations as measured by Fed-funds futures, which closed last Friday at 4.0%.***

On the economic data front, the unexpected hiring speed bump in May complicated the Fed's plans to raise interest rates as early as June. Chairperson Yellen is scheduled to speak Monday in Philadelphia on the economic outlook and monetary policy. The speech comes just before the Fed's blackout period heading into its June 14-15 meeting, so it will be closely watched for clues on whether Friday's report is giving Fed officials pause as they consider when to raise rates.

The Labor Department Tuesday will provide an update on the economy's short- and long-term health with revised figures on productivity and unit labor costs (projected to remain at 4.1%) for the first quarter. Productivity (expected to improve from -1.0% to -0.6%), a main indicator of long-term prosperity, fell in the first quarter, according to the agency's initial estimate, and has been expanding modestly since the recession. ***The report will also offer insight into a more important question for the economy, whether workers' wages are improving. Hourly compensation grew an annualized 3% in the first quarter.***

The Labor Department's monthly Job Openings and Labor Turnover Survey, or Jolts, provides a good idea as to whether employers are having trouble finding workers. Wednesday's release on April openings will be closely watched given Friday's jobs report. Job openings rose to nearly 5.8 million in March, nearing the record set last July. There were about 1.4 jobless workers per opening, hovering near pre-recession levels.

A rise in consumer borrowing in March boosted hopes that Americans are gaining confidence and spending more, a development that would lift the economy to stronger growth. Tuesday's Fed report on consumer credit for April will show whether the rise was an anomaly or part of an extended recovery. Household borrowing surged 10%, at a yearly rate, in March, the fastest rate since 2001. The University of Michigan next Friday will provide its preliminary report on consumer sentiment, showing whether households are gaining confidence in the economy.