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INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

U.S. stocks registered losses for a third straight week as a volatile week of trading was dominated by wide swings in currencies, a sharp drop in oil prices and disappointing economic data.

a) ***Dow Jones -0.52% MTD -2.02% YTD +0.16%*** b) ***S&P 500 -0.80% MTD -3.33% YTD +0.19%***
c) ***Russell 2000 +1.25% MTD -0.02% YTD +2.50%***

Drivers: I) ***The producer price index declined by a seasonally adjusted -0.50% last month, disappointing Wall Street expectations for the first increase since October.*** Economists had expected a +0.40% gain. Wholesale prices fell in February for the fourth straight month despite the first increase in gasoline costs since last summer, offering more evidence that the big plunge in oil has eased inflationary pressures throughout the U.S. economy. ***Over the past year producer prices have fallen by -0.60%, the first 12-month drop on record.***

II) ***The University of Michigan's consumer sentiment index dropped to 91.2 in March from 95.4 in February***, falling below the 94.8 seen in a MarketWatch-compiled economist forecast. That is the worst reading since November. ***The Index fell due to a mixed economic picture, especially lack of wage growth, overall slack in the labor market and the fragile state of the global economy.***

III) ***Initial jobless claims fell by 36,000 to 289,000 in the seven days extending from March 1 to March 7***, reversing a sharp uptick last month that was likely triggered by a spate of bad weather. New claims had jumped at the end of February to the highest level since last May. ***This tells us the labor market is still pretty healthy and improving at a rapid pace, as evident from the 295,000 increase in new U.S. jobs in February.*** The nation's economy is creating jobs at the fastest clip since the late 1990s and pushing down the unemployment rate toward 5.00%, although millions of Americans remain out of work.

IV) ***Sales at U.S. retailers fell in February for the third month in a row, a poor performance that can be partly blamed on bad weather but that also raises questions about whether the economy can grow much faster. Retail sales fell a seasonally adjusted -0.60% last month in the wake of even larger declines in January and December.*** The last time sales have fallen for three straight months was in mid-2012. The disappointing report surprised Wall Street, but the price of stocks and bonds both rose. Economists had expected a +0.30% gain in retail sales, which account for about one-third of overall consumer spending.

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

Capitalization: ***Large Caps -2.33%*** (YTD +0.17%), Mid Caps -1.48% (YTD +2.54%) and ***Small Caps -0.63%*** (YTD +2.41%). Style: ***Value -2.59%*** (YTD -1.77%) and ***Growth -1.38%*** (YTD +4.65%). Industry Groups (Leaders): Basic Materials -3.09% (YTD +1.49%), ***Technology -3.61%*** (YTD +0.78%), Consumer Cyclicals -1.01% (YTD +3.80%), Communication -2.28% (YTD +2.93%), Healthcare -0.11% (YTD +6.32%), and Industrials -2.10% (YTD +0.21%). (Laggards): ***Financial Services +0.30%*** (YTD -1.18***%), Energy -5.60% (YTD -5.70%) and Utilities -3.74%*** (YTD -7.52%).

EUROPEAN EQUITIES

The Stoxx Europe 600 Index rose for a sixth week in a row as the relentless fall of the euro propelled advances for the technology sector and the consumer goods group, which includes auto makers and components producers. Year-to-date the Stoxx Europe 600 is up +15.08% (MTD +0.50%).

Drivers: I) ***The European Central Bank bought €9.80 billion ($10.33 billion) of bonds with an average maturity of nine years in the first three days of its massive stimulus program***, according to ECB executive board member Benoît Coeuré. The ECB has said it would buy a total of €60.00 billion a month in Eurozone government bonds, debt instruments issued by European Union institutions and private debt instruments through to September 2016.

II) ***European Commission President Jean-Claude Juncker has criticized the slow pace of progress in talks over Greece's debt, since last month's interim deal.*** At a meeting with Greek Prime Minister Alexis Tsipras in Brussels, Mr. Juncker said he was "not satisfied". Mr. Tsipras needs EU support for reforms to unlock vital funds, avoid possible bankruptcy and a Eurozone exit. Greece negotiated a four-month extension to its bailout last month after tense talks with creditors. ***If no agreement is reached Greece risks being unable to meet its financial obligations. Within the next two weeks alone, it needs €6.00bn (£4.30bn; $6.40bn) to pay its creditors.***

III) ***Performance of European Indexes for the week, month-to-date and year-to-date. The EuroStoxx 600 Index rose by +0.62% for the week (MTD +1.22% YTD +15.79%).***

Asian Equities

Asian equity markets were higher last week led by Japanese stocks, as the Nikkei Average moved decisively above the 19,000 level for the first time since 2000, back before the global dot-com bust. The Dow Jones Asia/Pacific Index was up +0.76% for the week.

Drivers: I) ***China's economy showed fresh signs of weakness in the first two months of the year, as industrial output and asset investment grew at a slower pace.*** Value-added industrial output rose +6.80% from a year earlier in the January-February period, slowing from a +7.90% increase in December, the National Bureau of Statistics reported last week. Industrial production, a proxy for economic growth, undershot the median +7.60% growth forecast from a survey of 14 economists.

II) Performance of Asian Indexes for the week, month-to-date and year-to-date. ***The Nikkei was higher by +1.49% (MTD +2.04% YTD +10.33%), the Hang Seng Index was down by -1.41% (MTD -4.69% YTD +0.92%) and the Shanghai Composite rose by +4.06% (MTD +1.21% YTD +4.27%).***

Fixed Income

Treasury yields inched higher Friday, ending a four-day decline, as the market braced for a Federal Reserve meeting next week that may clear the way for a rate hike later this year.

Performance: I) ***The 10-year Treasury yield was lower last week, ending at 2.117% down from 2.245%. The 30-year yield fell last week declining from 2.844% to 2.700%.***

II) Performance for the week, month-to-date and year-to-date***. Barclays US Agg Bond*** was up ***+0.54%*** last week, ***MTD -0.45% and YTD +0.69%***. The ***Barclays US MBS TR rose by +0.31%*** last week, MTD ***-0.21% and YTD +0.48%***. The ***BofAML US HY Master II was lower last week by -0.55%, MTD -1.02% and YTD +2.05%.***

Commodities

The DJ Commodity Index weakened last week falling from 312.23 to 302.24 and is lower month to date -5.42% (YTD -6.62%) as a strong USD drove precious metal and energy prices lower.

Performance: I) ***Oil prices suffered a weekly decline of nearly -10.00%, as a monthly report from the International Energy Agency raised concerns that the glut of crude supplies and tightening storage capacity in the U.S. may cause prices to weaken further.*** Crude oil for the week declined from $49.78 to $45.00 per barrel.

II) The ***ICE USD Index***, a gauge of the greenback's movement against six other major currencies, was higher climbing from 97.72 to 100.18 for the week. ***The USD rose for the second straight week, after the Bureau of Labor Statistics' February nonfarm payrolls number exceeded expectations and the euro dropped to its lowest level versus the U.S. dollar in more than 11 years.*** For the week the yen was weaker falling from ¥120.84 to ¥121.42 and the euro dropped from 1.0842 to 1.0496 against the U.S. dollar.

III) ***Gold dropped fell last week as the precious metal was pressured by the strength of the USD.*** For the week gold dropped from $1213.70 to $1168.20.

HEDGE FUNDS

Hedge funds returns in March are mixed, with the core strategies Distressed and Macro/CTA are higher for the month, while Equity Hedge, Event Driven and Relative Value are lower.

Performance: I) ***The HFRX Global Hedge Fund Index is higher at +0.07% MTD and +1.80% YTD.***
II) ***Equity Hedge is lower at -0.01% MTD and has risen +1.58% YTD.***
III) ***Event Driven has declined MTD -0.05*****%** ***and is lower YTD +1.04%.***
IV) ***Distressed Debt is up +0.36% MTD and is positive YTD +0.06%***
V) ***Macro/CTA is higher at +0.83% MTD and +3.53% YTD.***
VI) ***Relative Value Arbitrage has dropped by -0.26% MTD and is up +1.56% YTD.***

ECONOMIC DATA WATCH AND MARKET OUTLOOK

Heading into next week on Wednesday, the Federal Reserve will release the statement from its two-day Federal Open Market Committee meeting, and investors will be ***fixated on whether the word "patient" still appears in the statement***, a key reference to when the Fed will begin hiking interest rates. In terms of impact, ***retaining the word would imply a first rate hike would be most probable after June and by September 2015.***

Another thing to look for in the statement is the Fed's newest "dot plot," which reflects the trajectory of tightening once the first rate hike goes though. This chart shows the number of FOMC participants and their thoughts as to appropriate monetary policy, and the target range of the fed funds rate above the current range of 0.00% to 0.25%. The chart thus far is predicting a range of 0.75% to 1.00% by the end of 2015 and a rise to 2.25% by the close of 2016.

On the economic data front next Wednesday the Fed will release its summary of economic projections. In the December forecast, the consensus view was that by the fourth quarter of 2015, the unemployment rate would be between 5.20% and 5.30% and yearly inflation as measured by the personal consumption expenditures price index would range between 1.00% and 1.60%. ***With the February jobless rate at 5.50%, and PCE inflation at just 0.20% in January, it would not be a surprise if the Fed lowered its forecasts again.***

Two reports out next week cover the supply side of the housing market. ***On Monday, the National Association of Home Builders releases its survey of builder confidence for March (projected to improve from 55.00 to 57.00). On Tuesday, the Commerce Department reports on February housing starts and building permits (estimated to have declined from 1.065 to 1.045 million units).*** Single-family housing starts used to track builder confidence, but that link has weakened considerably over the past few years. Either builders have to rein in their optimism or starts should increase significantly soon.

On Monday, the Fed releases its industrial production report, a look at February data from the nation's manufacturers, mines and utilities. ***The factory sector has been on a slow but steady upward advance and expected to improve from 0.20% to 0.30%.***