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INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

U.S. stocks ended last week essentially flat, but ended the month much higher due to the stabilization in oil prices, accommodative central bank policies and hopes for resolution in the Greece debt drama as well as a tentative peace agreement between Russia and Ukraine.

a) ***Dow Jones +0.02% MTD +6.01% YTD +2.22%*** b) ***S&P 500 -0.24% MTD +5.75% YTD +2.57%***
c) ***Russell 2000 +0.16% MTD +5.94% YTD +2.53%***

Drivers: I) ***The S&P 500 in February has moved higher since the end of January, leaving the index with a +5.75% gain the largest monthly gain since October 2011. Since the end of January, the VIX has fallen from over 20.00 to 13.50 by month-end.*** This belies the facts that there were no sharp rallies but just a steady rise. ***The average daily move on the S&P 500 in February was less than 0.50% in either direction.*** That number in January was 0.90%. There were only four sessions in which the S&P 500 moved more than 1.00% this month and all of them were positive days, primarily driven by geopolitical news.

II) ***The U.S. economy grew a revised +2.20% in the final three months of 2014, mostly because companies restocked warehouse shelves at a slower pace than the government originally reported.*** GDP growth was marked down from an original estimate of +2.60%. The value of inventories, which adds to GDP, increased by $88.40 billion in the fourth quarter instead of $113.10 billion, the Commerce Department reported last week.

III) ***The February reading of Chicago PMI declined to a five-and-a-half year low of 45.8, as reported last Friday.*** The reading, down from 59.4 in January and below the 50.0 mark measuring contraction, came after double-digit drops in production, new orders, order backlogs and employment. ***The West Coast port strike and the harsh winter probably had a negative impact in February, although it is difficult to gauge the magnitude.***

IV) ***The consumer price index dropped a seasonally adjusted -0.70% last month, marking the third decline in a row. Over the past year prices have actually declined by an unadjusted -0.10%, the first time consumer inflation has been negative since the fall of 2009.*** Energy prices fell -9.70%, as the cost of most fuels including gas decreased. Core prices are also up +1.60% in the past year, mainly reflecting rising prices for housing, the single biggest expense for consumers. Real hourly wages, meanwhile, soared +1.20% in January, a combination of higher pay and lower inflation. Real hourly wages have climbed +2.40% in the past 12 months.

V) ***Equity prices for the month are higher, with Small Cap and Growth, along with sectors such as Technology, Consumer Cyclicals and Communication, leading equity price performance. The laggards for the month are Large Cap and Value Stocks, along with Utilities.***

Capitalization: ***Large Caps +5.65%*** (YTD +2.54%), Mid Caps +5.69% (YTD +4.08%) and ***Small Caps +5.87%*** (YTD +3.07%). Style: ***Value +5.08%*** (YTD +0.83%) and ***Growth +6.56%*** (YTD +6.11%). Industry Groups (Leaders): ***Communication +7.53%*** (YTD +5.32%), Healthcare +4.59% (YTD +6.45%), Basic Materials +7.15% (YTD +4.70%), Energy +4.86% (YTD -0.18%), ***Technology +8.18%*** (YTD +4.52%) and ***Consumer Cyclicals +7.78%*** (YTD +4.86%). (Laggards): Financial Services +7.42% (YTD -1.47***%) and Utilities -6.11%*** (YTD -3.92%).

EUROPEAN EQUITIES

The Stoxx Europe 600 Index rose last week from 382.27 to 392.21, to close higher by +2.60%. European stocks rallied last week to mark its best finish since June 2007. The rally has been powered by continuing optimism based on the ongoing impact of QE, moderating deflationary concerns, a decline in the equity risk premium and stronger European growth. Year-to-date the Stoxx Europe 600 is up +14.50% (MTD +6.68%).

Drivers: I) ***The number of jobless people in Germany in February declined by a seasonally adjusted 20,000, which is a larger decline than the drop of 10,000 that had been expected by analysts polled by The Wall Street Journal.*** Falling oil prices and low inflation have certainly aided the economic engine of the Eurozone and this confirms investors see the signs of confidence bouncing back in the region.

II) ***The forward-looking consumer confidence indicator from the GfK institute in Nuremberg will rise to 9.7 in March after February's 9.3. This beat the 9.5 predicted by economists in a survey by The Wall Street Journal.*** The March figure was the indicator's highest level since October 2001, when it stood at 11.0. Despite the ongoing crisis in eastern Ukraine and uncertainty as to whether Greece will remain in the Eurozone, Germans remain confident that their economy is clearly on course for growth.

III) ***Performance of European Indexes for the week, month-to-date and year-to-date. The EuroStoxx 600 Index rose by +2.60% for the week (MTD +6.89% YTD +14.50%).***

ASIAN EQUITIES

Asian equity markets were higher last week with investors looking ahead to the annual sessions of China's two key legislative bodies next week, with analysts expecting Communist Party leaders to unveil key policies to support the economy. The Dow Jones Asia/Pacific Index was up +0.76% for the week.

Drivers: I) ***China's manufacturing activity appears to be exiting its recent contraction. The "flash" version of the HSBC/Markit manufacturing Purchasing Managers Index for February showed a rebound to 50.1, a four-month high, up from a final read of 49.7 in January.*** Output and overall new orders also showed an increase at a faster rate than the previous month, but new export orders swung to a decrease, and the employment sub-index showed contraction at a faster rate than in January.

II) Performance of Asian Indexes for the week, month-to-date and year-to-date. ***The Nikkei was higher by +2.54% (MTD +7.19% YTD +7.72%), the Hang Seng Index was down by -0.04% (MTD +1.96% YTD +5.16%) and the Shanghai Composite advanced by +1.95% (MTD +5.15% YTD +2.35%).***

FIXED INCOME

Treasury yields were down for the week as Federal Reserve chief Janet Yellen's comments during her testimony before Congress last week were slightly more dovish than expected. For the month of February though, the 10-year Treasury yield gained 32 basis points, achieving its biggest monthly gain since June 2013, according to Dow Jones data.

Performance: I) ***The 10-year Treasury yield was lower last week, ending at 1.995% down from 2.116%. The 30-year yield declined last week falling from 2.717% to 2.592%.***

II) Performance for the week, month-to-date and year-to-date. ***Barclays US Agg Bond*** was up ***+0.65%*** last week, ***MTD -0.94% and YTD +1.14%***. The ***Barclays US MBS TR rose by +0.43%*** last week, MTD ***-0.16% and YTD +0.68%***. The ***BofAML US HY Master II was higher last week by +0.73%, MTD +2.41% and YTD +3.04%.***

COMMODITIES

The DJ Commodity Index advanced last week climbing from 317.76 to 319.55 and is higher month-to-date +3.24% (YTD -1.27%) driven by the rebound in oil and energy prices.

Performance: I) ***Oil prices were flat last week but after posting declines over the past seven months, Brent crude scored its biggest monthly percentage climb (+18.10%) since May 2009.*** Crude oil for the week dropped from $49.91 to $49.52 per barrel.

II) ***The ICE USD Index***, a gauge of the greenback's movement against six other major currencies, ***was higher climbing from 94.31 to 95.25 for the week. The USD posted a monthly gain as investors await further signals on the timing of the Federal Reserve's next interest rate increase move.*** For the week the Yen was weaker falling from ¥119.00 to ¥119.64 and the Euro dropped from 1.1380 to 1.1196 against the USD.

III) ***Gold rose last week but suffered a -5.10% loss in February. Traders continued to monitor the direction of the dollar, mulled the timing of a Federal Reserve rate hike and digested the latest U.S. economic data in their quest to gauge the metal's appeal. For the week, gold rose from $1203.30 to $1213.70.***

HEDGE FUNDS

Hedge funds returns in February are positive, with the core strategies Equity Hedge, Event Driven, Relative Value and Macro/CTA higher for the month.

Performance: I) ***The HFRX Global Hedge Fund Index is higher at +1.87% MTD and +1.58% YTD.***
II) ***Macro/CTA is up +0.70% MTD and +2.71% YTD.***
III) ***Event Driven has advanced +2.45% MTD and is higher at +0.85% YTD.***
IV) ***Equity Hedge is up +2.18% MTD and has risen by +1.50% YTD.***
V) ***Relative Value Arbitrage has climbed by +1.82% MTD and +1.62% YTD.***

ECONOMIC DATA WATCH AND MARKET OUTLOOK

Heading into next week, investors will focus on the latest jobs report along with a slew of other economic data.

On Friday the Labor Department will issue its Nonfarm Payrolls report. Economists expect the addition of 235,000 jobs for February, which is a slight decline from recent months, with the unemployment rate declining slightly to 5.60%. But even as unemployment has hit its lowest rate since the recession, there are troubling signs giving the Fed pause. Hurdles that need to be overcome include weak wage growth, a low employment participation rate, rates of part-time workers that still levels before the recession, and the lackluster creation of quality jobs.

Tied to the jobs report are investor expectations surrounding hourly wage growth. Average hourly earnings did jump by +0.50% in January, but that followed a -0.20% drop in December and might have been calendar-related. Economists believe wages in February increased +0.2%. ***This rate of increase will keep yearly wage growth in neutral near +2.0%.***

Consumer spending data released on Monday showed a decline of -0.20% in January after falling -0.30% in December. The Fed has already reported that utilities nationwide increased output in January due to frigid weather. The gain in utility output suggests households spent more on heating in January, but ***left less money for other purchases, which may explain the lackluster performance of January retail sales. Economists had expected a small drop in the month's total consumer spending (-0.10%).***

The Commerce Department reports January trade data Friday. Regardless of what number is reported for the U.S. trade deficit in January, it needs to be discounted somewhat. Trade flows are being disrupted by the labor slowdown at ports along the West Coast. Early port data shows that both the number of incoming and outgoing containers handled at those ports fell very sharply in January. That projects to sharps declines in both import and export activity in January. ***Estimates are for a trade deficit of -$40.6 billion.***