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INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

U.S. stocks rallied on Friday, supported by an advance in healthcare and financial stocks that helped shares achieve a fifth straight week of gains.

a) ***Dow Jones +2.26% MTD +6.71% YTD +1.72%*** b) ***S&P 500 +1.37% MTD +6.21% YTD +0.80%***
c) ***Russell 2000 +1.34% MTD +6.67% YTD -2.71%***

Drivers: I) ***The Federal Reserve held interest rates steady last Wednesday and signaled it will lift them more slowly than previously indicated because of a weak global environment and volatile stock market.*** The Fed said in a statement that its rate-setting Federal Open Market Committee decided to leave the central bank's benchmark interest rate in a range of 0.25%-0.5%. The decision was widely expected.

II) ***The greatest change from the Fed was the "dot plot," where officials penciled in only two quarter-point hikes this year, down from four in December.*** Just a few months ago, the Fed appeared ready to embark on a series of interest-rate increases after determining the economy was strong enough to handle it. But big losses in the stock market early in the year, slowing U.S. growth and persistent worries about the global economy prompted the Fed to back off. ***Financial markets do not expect a rate hike before June.***

III) ***Sales at U.S. retailers dropped in February after an even larger drop in January, a sign that consumers have not ramped up spending despite steady job creation. Retail sales fell a seasonally adjusted 0.1% last month***, the Commerce Department reported. The moderate pace of sales in the first two months could mean another tepid increase in GDP for the first quarter. The economy expanded at a weak 1% annual clip in the fourth quarter and was projected to accelerate to a 2.3% rate in early 2016.

IV) ***The consumer price index declined 0.2% last month, the Commerce Department reported. Energy prices dropped 6% last month, mostly because of cheaper gasoline.*** The price of food, however, moved up 0.2% as the cost of groceries rose for the first time since last fall. ***Over the past 12 months the CPI has risen at a mild 1% rate. That is down from 1.4% in January.***

V) ***Equity prices in March are higher, with Mid-Cap, Value, Energy and Consumer Discretionary leading equity price performance. The laggards for the month are Large Cap and Growth Stocks along with Healthcare.***

Capitalization: ***Large Caps +6.30%*** (YTD +0.55%), ***Mid-Caps +7.20%*** (YTD +1.31%) and Small Caps +6.67% (YTD -2.71%). Style: ***Value +9.01%*** (YTD +5.14%) and ***Growth +5.34%*** (YTD -0.53%). Industry Groups (Leaders): Communication +4.65% (YTD +14.56%), Utilities +5.87% (YTD +13.21%), Industrials +7.38% (YTD +5.52%), ***Energy +12.79%*** (YTD +5.97%), Basic Materials +8.97% (YTD +5.08%), Consumer Staples +9.03% (YTD +4.57%), Technology +6.82% (YTD +2.20%), Information Technology +7.00% (YTD +0.71%) and ***Consumer Discretionary +10.38%*** (YTD +0.30%). (Laggards): Financial Services +8.33% (YTD -4.16%) and ***Healthcare +1.57%*** (YTD -6.69%).

EUROPEAN EQUITIES

The MSCI Europe index MSCI Europe index was up last week gaining +1.07%. European markets were higher last week as the ECB's chief economist, Peter Praet, said interest rates could be cut further. He also was open to "helicopter money," the idea of the central bank effectively delivering money directly to the people, rather than via loans to banks or purchases of assets. Year to date the MSCI Europe Index is down -4.71% (MTD +3.88%).

Drivers: I) ***As part of the ECB's expanded plans to fight against low inflation in the euro-zone, the central bank will soon start buying investment-grade, euro-denominated bonds.*** The ECB already buys government debt. The ECB's corporate bond-buying plan should further support narrowing of credit spreads. ***In turn, that should help lift European equity prices, particularly value shares that tend to carry high dividends yields.***

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II) ***The Bank of England said last Thursday that uncertainty about the outcome of the U.K.'s upcoming referendum on membership of the European Union risks slowing the economy in the months ahead of the vote, adding a new warning on growth.*** The BOE said in a statement that the nine members of its rate-setting Monetary Policy Committee voted unanimously in March to keep the BOE's benchmark interest rate steady at 0.5% and the size of its bond portfolio unchanged at GBP375 billion ($535 billion).

III) ***Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index rose by +1.07% for the week (MTD +6.60% YTD -2.21%).***

ASIAN EQUITIES

Asian equity markets finished mostly higher last week, as investors focus turned to China's annual legislative sessions, a series of meetings that began in Beijing last Saturday. The Dow Jones Asia Pacific Index was up +1.73% for the week, (MTD +7.87), (YTD -2.41%).

Drivers: I) ***Japanese exports fell for a fifth straight month in February, their longest losing streak since 2012, in a fresh sign of weakness in the world's third-largest economy.*** Merchandise exports decreased 4.0% from a year earlier to Y5.703 trillion last months, according to data released by the Ministry of Finance. The drop was smaller than the 12.9% drop the previous month, but worse than a 3.0% fall expected by economists.

II) ***China last Friday set its currency 0.52% stronger against the U.S. dollar, in the yuan's steepest one-day fixing increase since November***, reflecting the broad weakness in the dollar after the U.S. Federal Reserve moved to a more dovish tone. The steep gain for the yuan is being attributed by traders to the strength of major currencies in the valuation basket used by the PBOC in determining the daily currency benchmark.

II) Performance of Asian Indexes for the week, month-to-date and year-to-date. ***The Nikkei was lower by -1.26% (MTD +4.36% YTD -12.13%), the Hang Seng Index advanced by +2.34% (MTD +8.42% YTD -5.67%) and the Shanghai Composite rose by +5.15% (MTD +9.94% YTD -16.15%).***

FIXED INCOME

Treasury yields fell on Friday and posted their first weekly declines in five weeks as investors bid up prices following the Federal Reserve's decision to keep rates unchanged.

Performance: I) ***The 10-year Treasury yield was lower last week ending at 1.878% down from 1.984%. The 30-year yield dropped last week declining from 2.754% to 2.677%.***

II) ***Performance for the week, month-to-date and year-to-date. Barclays US Aggregate Bond was up +0.77% last week, MTD +0.33% and YTD +2.43%. The Barclays US MBS TR rose by +0.37% last week, MTD +0.04% and YTD +1.71%. The Barclay's US Corporate HY Index rose last week by +1.05%, MTD +4.84% and YTD +3.60%.***

COMMODITIES

The DJ Commodity Index was higher last week climbing from 232.59 to 242.06 and is up month to date +3.48% (YTD +0.14%) as positive US economic data drove commodity into positive territory.

Performance: I) ***The price of oil posted its fifth weekly advance in a row, driven by a rebuilding of confidence, with traders agreeing with the International Energy Agency's comments that oil has turned a corner.*** For the week the price of oil was higher, rising from $38.50 to $39.35 per barrel.

II) ***The ICE USD Index***, a gauge of the greenback's movement against six other major currencies, was negative falling from 96.20 to 95.06 for the week. ***The USD dollar fell 1.3% last week as investors priced in a new set of Fed projections for the expected path of interest-rate hikes.*** For the week the Yen strengthened rising from ¥113.84 to ¥111.55 and the Euro advanced from 1.1151 to 1.1269 against the USD.

III) ***Gold fell for the week as U.S. equities and the dollar strengthened, which cuts the value of holding non-yielding gold that's priced in US dollars***. For the week gold was lower falling from $1259.40 to $1256.00.

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HEDGE FUNDS

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

<u>Performance</u>:

I) ***The HFRX Global Hedge Fund Index is higher at +0.77% MTD and -2.32% YTD.***

II) ***Equity Hedge is positive at +2.04% MTD and has fallen -3.64% YTD.***

III) ***Event Driven is up MTD +1.52% and is down YTD -2.30%.***

IV) ***Distressed Debt is higher at +2.99% MTD and is negative YTD -2.79%***

V) ***Macro/CTA has fallen by -1.12% MTD and is up +0.07% YTD.***

VI) ***Relative Value Arbitrage is positive at +0.16% and is down -2.65% YTD.***

ECONOMIC DATA WATCH AND MARKET OUTLOOK

Heading into next week, investors to get a clue on the direction of the equity markets, should follow the U.S. dollar. Because what is bad for the dollar is normally good for the stock market. A weaker dollar is a plus for the economy and equities and supports our export business. More importantly, it helps corporate profits as dollar strength has been a large drag on earnings. A dollar watch also requires following Fed policy, as higher rates typically brings a higher currency as investors seek out higher yields. With the Fed last week bringing down expectations of four to two rate hikes this year. This should hopefully help to stem the USD's strong advance seen the last two years.

The Fed's dovish shift in forward expectations, and consensus is starting to capitulate on the strong dollar due to policy divergence' thesis seen over the past year. With muted growth now being seen in the U.S. as well as other developed countries, some market pundits are suggesting that any rate hike could come after the Presidential election. ***Goldman Sachs estimates that every 10% shift in the dollar has the effect of subtracting or adding $3 a share in S&P 500 earnings in 2016.*** And with the U.S. labor market continuing to improve, inflation in the U.S. will outpace Europe and Japan, suggesting the dollar will likely retreat against the euro and the Japanese yen.

On the economic data front, orders for durable goods (expected to fall from 4.9% to -2.7%), those big-ticket purchases will offer a hint at business and consumer demand around the U.S. The report, out Thursday from the Commerce Department, could help answer whether the factory sector is pulling out of a slump caused by soft global growth and depressed oil prices.

The National Association of Realtors report on sales of previously owned homes (estimated to fall from 5.47 to 5.30 million units), out Monday, will show whether the sector is sustaining momentum. Existing-home sales rose 0.4% in January to the fastest pace since July, and they were up 11% compared with a year earlier. But they are still underperforming given population growth and the strengthening labor market. ***In addition, figures on new-home sales come Wednesday from the Commerce Department (projected to increase from 494,000 to 523,000), though that segment, about a tenth of the market is highly volatile.***

On Friday, the Commerce Department will further refine its estimate of just how bad the quarter's GDP was. Last month, the agency reported GDP grew at a 1% annual rate in the fourth quarter (estimated to report 0.80). Growth is expected to have rebounded in the current quarter.

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