WHAT TO WATCH THIS WEEK:

- A number of key reports will be released on Tuesday, including The Commerce Department's report on housing starts, The Federal Reserve industrial production report, and the Labor Department release of the consumer-price index, which will show whether inflationary pressures rose or abated in April.

- On Wednesday, the Fed will provide clues as to the policy makers' thinking with the release of minutes from the April 26-27 meeting, during which officials signaled they were in no rush to lift interest rates.

- On Friday, The National Association of Realtors gives a key update on the market with a report on how many existing homes were sold in April.

- Last week, U.S. stocks fell overall, despite strong retail sales data above investors' expectations. Heading into this week investors will see one of the worst corporate earnings seasons in recent memory.

- European equities were down for the week but rallied on Friday in reaction to strong U.S. retail sales data. Asian equity markets ended a volatile week influenced by fluctuating oil prices and dismal earnings in the U.S.

- In Fixed income, Treasurys saw the benchmark 10-year hit its lowest level in more than a month, as there has been strong demand from overseas pension funds which are seeing negative rates in Germany and Japan.

- On the commodities front, gold was down for the week, the first in three weeks, pressured by overall strength in the U.S. dollar. The price of oil finished the week higher after data on the number of active U.S. rigs drilling for oil showed a decline for an eighth straight week.

- Hedge fund returns in May are mixed, with core strategies Equity Hedge, Macro and Relative Value are in negative territory, while Distressed and Event Driven are positive.

U.S. EQUITIES,

U.S. stocks fell last week as a strong report on U.S. retail sales failed to assuage investor worries about the troubled sector and reduced investors' appetite for risk assets.

a) ***Dow Jones -1.04% MTD -1.14% YTD +1.66%*** b) ***S&P 500 -0.44% MTD -0.77% YTD +0.96%***
c) ***Russell 2000 -1.06% MTD -2.45% YTD -2.42%***

Drivers: I) ***Sales at retailers posted the biggest increase in April in a year, offering the strongest proof yet that the U.S. economy is rebounding after a weak first quarter. Retail sales jumped 1.3% last month***, led by large gains among auto dealers, gas stations and Internet retailers. Every segment of the retail industry saw improved results except for home centers whose sales were stunted by unusually damp and rainy weather. ***Economists had forecast a 1% increase.***

II) ***Traditional retailers are falling flat in the battle for apparel sales against e-commerce giant Amazon.com Inc***., as is evident in their recent earnings. ***Macy's Inc. cut its outlook and reported a 6.1% drop in same-store sales*** last

Wednesday. ***Kohl's Corp. fared little better*** Thursday, with profits and sales falling below estimates and ***same store sales sliding 3.9%, well below the 0.2% gain estimated by FactSet.***

III) ***Consumer sentiment surged in early May as Americans' views of the future improved. The University of Michigan's index surged 7.6% to 95.8***. Economists had expected a reading of 89.5. The largest gains were centered in lower-income and younger households, who may be more sensitive to income gains and the jobs outlook, the Michigan researchers noted in its release.

IV) ***U.S. producer prices rose 0.2% in April after two straight declines, but inflation at the wholesale level remained largely absent in the broader economy.*** Economists had predicted a seasonally adjusted 0.3% increase in the producer price index. Goods rose 0.2%, led by surge in scrap metal prices and higher energy costs.

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

Capitalization: ***Large Caps -0.90%*** (YTD +0.81%), Mid-Caps -1.22% (YTD +2.06%) and ***Small Caps -2.45%*** (YTD -2.42%). Style: ***Value -2.70%*** (YTD +5.04%) and ***Growth -0.60%*** (YTD +0.95%). Industry Groups (Leaders): ***Utilities +1.97%*** (YTD +14.91%), Telecommunication -0.03% ***(YTD +13.96%),*** Energy -3.64% (YTD +8.51%), Consumer Staples -2.17% (YTD +6.53%) and Industrials -1.95% (YTD +4.40%). (Laggards): ***Technology +0.20%*** (YTD -0.97%), Information Technology +0.11% (YTD -2.54%), Financial Services -1.67% (YTD -3.52%), Healthcare -0.90% (YTD -3.47%) and ***Consumer Discretionary*** -5.51% (YTD -3.53%).

EUROPEAN EQUITIES

The MSCI Europe index was down last week falling -0.04%. European equities were down for the week, but rallied on Friday as a better than expected U.S. retail sales lifted sentiment, easing recession fears for the US.

Drivers: I) ***Figures released Friday by the European Union's statistics agency showed economic growth accelerated across the euro-zone during the first quarter***, in contrast to the slowdown recorded in the U.S. and the U.K. Eurostat said ***GDP in the euro-zone increased by 0.5% over the quarter, equivalent to an annualized growth rate of 2.1%.*** Despite the revision, that marked a pickup from the 0.3% growth recorded in the 4th quarter, which was driven by a marked acceleration in Germany, the euro-zone's largest member.

II) ***German economic growth accelerated sharply in the first quarter, led by domestic consumption and brisk construction activity***, the Federal Statistical Office reported last week. Destatis said Germany's gross domestic product grew at a ***quarterly rate of 0.7% in the first three months of the year, which translates into an annualized rate of 2.7% and is more than double the rate of 0.3% recorded in the fourth quarter of 2015.***

III) ***Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index fell -0.04% for the week (MTD -3.01% YTD -3.13%).***

ASIAN EQUITIES

Asian equity markets ended a volatile week influenced by fluctuating oil prices and dismal earnings from US retailers. The Dow Jones Asia Pacific Index was down -3.02% for the week, (MTD -3.02), (YTD -3.22%).

<u>Drivers:</u> I) ***China's consumer inflation rate held steady in April for the second straight month, official data showed last week. China's consumer price index remained unchanged at 2.3% in April*** from a year earlier, as rising vegetable and pork prices were offset by lower prices for fruit and eggs. The rise in the key inflation gauge also undershot a median 2.4% gain forecast by 15 economists in a survey by The Wall Street Journal.

II) ***Bank of Japan Gov. Haruhiko Kuroda said the central bank "can still ease its monetary policy substantially" if necessary.*** Mr. Kuroda said the effects of quantitative and qualitative easing, or QQE, along with a negative interest rate are "already very clear" in financial markets, but "we have to wait a few months to see the effects in the real economy.

III) Performance of Asian Indexes for the week, month-to-date and year-to-date. ***The Nikkei was higher by +1.90% (MTD -1.52% YTD -13.77%), the Hang Seng Index declined by -1.94% (MTD -6.44% YTD -10.02%) and the Shanghai Composite fell by -2.96% (MTD -3.78% YTD -20.12%).***

FIXED INCOME

Treasury's saw the benchmark 10-year hit its lowest level in more than a month, as there has been strong demand from overseas pension funds which are seeing negative rates in Germany and Japan.

Performance: I) ***The 10-year Treasury yield was lower last week ending at 1.700% down from 1.776%. The 30-year yield fell last week falling from 2.627% to 2.551%.***

II) ***Performance for the week, month-to-date and year-to-date. Barclays US Aggregate Bond was up +0.28% last week, MTD +0.45% and YTD +3.89%. The Barclays US MBS TR rose by +0.15% last week, MTD +0.28% and YTD +2.43%. The Barclay's US Corporate HY Index climbed by +0.46%, MTD -0.49% and YTD +6.91%.***

COMMODITIES

The DJ Commodity Index was higher last week jumping from 258.49 to 261.63 and is down month to date -1.40% (YTD +8.24%) as oil advanced strongly as US rig counts continued to fall.

Performance: I) ***The price of oil finished the week higher after data on the number of active U.S. rigs drilling for oil showed a decline for an eighth straight week.*** For the week oil advanced 4.06% from $44.56 to $46.37 per barrel (MTD 0.98% YTD +13.90%).

II) ***The ICE USD Index***, a gauge of the greenback's movement against six other major currencies, ***was positive rising 0.69% from 93.83 to 94.58 for the week (MTD 1.61% YTD -4.16%).*** The USD though up for the week, sank against the euro and yen Friday after a reading on April employment gains came in well below expectations. For the week the Yen weakened falling from ¥107.12 to ¥ 108.64 and the Euro fell from 1.1404 to 1.1308 against the USD.

III) ***Gold was down for the week, the first in three weeks, pressured by overall strength in the U.S. dollar.*** For the week gold was lower by -1.19% dropping from $1289.7 to $1274.3 (MTD -1.25% YTD 20.05%).

HEDGE FUNDS

Hedge funds returns in May are mixed, with core strategies Equity Hedge, Macro and Relative Value are in negative territory, while Distressed and Event Driven are positive.

Performance:

I) The HFRX Global Hedge Fund Index is lower at -0.37% MTD and -1.81% YTD.
II) ***Equity Hedge is negative at -086% MTD and has fallen -3.74% YTD.***
III) ***Event Driven is up MTD +0.30% and is down YTD -0.50%.***
IV) ***Distressed Debt is higher at +0.66% MTD and is positive YTD +3.38%***
V) ***Macro/CTA has fallen by -0.68% MTD and is down -0.27% YTD.***
VI) ***Relative Value Arbitrage is negative at -0.29% and is down -2.19% YTD.***

ECONOMIC DATA WATCH AND MARKET OUTLOOK

Heading into next week investors will be seeing the wind down of one of the worst corporate earnings seasons in recent memory. With about ***90% of S&P 500 companies having reported*** first-quarter earnings, ***71% have posted bottom-line numbers that are better than mean estimates***. However, much of this is due to subdued expectations than improved performance. ***For first quarter 2016, the blended earnings decline is negative 7.1%.*** The first quarter marked ***the first time the index has recorded four consecutive quarters of year-over-year declines in earnings since fourth quarter 2008 through third quarter 2009.***

On the economic data front, the market for previously owned homes, a primary growth driver in the economy in recent years, picked up in March after a questionable winter. But inventory remains tight, and questions remain about how much sales will rise without greater gains in Americans' incomes. ***The National Association of Realtors gives a key update on the market Friday*** with a report on how many existing homes were sold in April ***(expected to rise from 5.33 to 5.40 million units)***. Sales jumped 5.1% in March and were up a bit from a year earlier.

The industrial production report for April (projected to improve from -0.6% to 0.3%), out Tuesday by the Federal Reserve, will ***provide one of the broadest measures of how much the economy produced at the beginning of the second quarter.*** Factories appear to be slowly recovering from stalling since last fall. The dollar has weakened against other currencies this year, while oil prices have begun to recover, so factories are getting a bit of a rest.

The Fed is keeping a close eye on inflation to determine whether the economy is strong enough to withstand another small increase in interest rates. Tuesday's Labor Department release of ***the consumer-price index (estimated to rise from 0.1% to 0.3%) will show whether pressures rose or abated in April***. Oil prices have been slowly recovering, and prices for a range of other goods have also been picking up. Overall consumer prices grew 0.9% in the 12 months through March, while core prices, excluding food and energy, climbed 2.2%.

Home sales have been solid, but a surge in construction has not followed. Instead, construction has risen at a sub-par level throughout the U.S. expansion. The Commerce Department will give an update on the market, a key driver of economic growth***, on Tuesday with a report on housing starts for April (projected to increase from 1.089 to 1.130 million units)***. Housing starts fell in March to the lowest level since October.

The Fed will provide clues as to the policy makers' thinking with Wednesday's release of minutes from the April 26-27 meeting, during which officials signaled they were in no rush to lift interest rates.