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Weekly Market Commentary

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Weekly Market Outlook

As we start the new week, investors will be trying to determine which major market is providing a better haven for their assets. The equity markets in the U.S. are hovering next all-time highs, as Friday's nonfarm-payrolls report provided a strong boost to investor confidence. The recent rally helped to erase all of the losses (and more) from the downward tail spin ignited by the U.K.'s decision to exit the European Union, the Brexit, during a June 23 referendum. ***However, this rally in equities is making a number of investors queasy, as the U.S. 10-year Treasury closed at a record low yield of 1.36% last week.***

Who's right? According to Dow Jones data, the S&P 500 has closed at a record high and the 10-year has closed below 2% only once in the last 40 years. That was back in 2013, when the U.S. economy was still recovering from the "Great Recession", supported by massive quantitative easing from the Federal Reserve. Yields in the U.S. are being driven by uncertainty overseas such as China, Brexit and health of the Italian banks. In addition, ***foreign capital is chasing a higher yield in the U.S., as $12 trillion of foreign bonds are now in negative yield territory.***

Simply put, in a global macro environment stuck with the prospect of anemic global growth, both U.S. equities and bonds are benefiting because they are considered a safe haven and are the most liquid markets in the world. Expectations that the Fed will remain reluctant to raise rates due to slow global growth creates an optimal environment for stocks to prosper. In the end, ***Central banks have played an outsize role in fostering this unusual trading environment, trying to boost slow growth economies with accommodative monetary policies that have created unintended distortions in financial markets.***

On the economic data front, June's retail sales report (projected to fall from 0.5% to 0.1%), out Friday from the Commerce Department, will show whether healthy consumer spending patterns were maintained through the second quarter. The Federal Reserve and others are counting on continued spending to sustain growth over the second half of the year, but there are signs auto purchases are slowing after reaching a record high in 2015.

As cheap gasoline helped keep inflation subdued for more than a year, several price indexes are showing signs of firming as oil prices rebound. Import prices, which rose in May at their fastest pace in over four years, are out Wednesday from the Labor Department, followed by ***producer prices on Thursday (estimated fall from 0.4$ to 0.2%) and consumer prices (expected to remain unchanged at 0.2%) on Friday.***

On Friday, the Federal Reserve releases June's industrial production numbers, which measure output from the manufacturing, mining and utilities sectors. May showed a drop in overall production, led by a decline in auto production. ***Look for an increase in manufacturing output, as new orders and production both rose in June, according to the ISM's survey.***

The Federal Reserve's beige book, out Wednesday, brings together reports from across the Fed's 12 districts about ***local economic conditions such as the job market, construction investment, and banking health.*** The last report featured a number of comments about tight job markets and wage increases, implying inflation could be in a nascent stage. After, look for early reactions to Brexit from businesses from around the country and more clues about the labor market, after June's strong job report.

U.S. Equities

U.S. stocks rallied for a second week in a row as a surprisingly strong employment report fueled steady buying, propelling the S&P 500 to close a point below its previous all-time high level of 2,130.82 reached May 21, 2015.

a) ***Dow Jones +1.16% MTD +1.29% YTD +5.66%*** b) ***S&P 500 +1.33% MTD +1.55% YTD +5.45%***
c) ***Russell 2000 +1.80% MTD +2.24% YTD +4.50%***

<u>Drivers:</u> I) ***The U.S. added 287,000 new jobs in June, marking the biggest increase since last fall and offering reassurance that the economy has rebounded after a soft stretch earlier in the year.*** Economists had predicted an increase of 170,000 nonfarm jobs, including about 35,000 Verizon employees returning to work after a lengthy strike. The unemployment rate rose to 4.9% from 4.7% as more people entered the labor force in search of work.

II) ***Average hourly wages rose 0.1% to $25.61 in June. Hourly pay increased 2.6% in the 12 months to June 2016, matching the highest level of the recovery.*** Upward pressure on wages is likely to persist even if hiring is bound to slow as most economists expect. The U.S. has created 13 million jobs since 2011 to reduce the unemployment rate to precession levels last seen in 2007.

III) ***The Institute for Supply Management's service sector index jumped to 56.5% in June, a much stronger reading than expected and a sign the economy may have pushed past the tough period it experienced in May***. Economists had forecast a reading of 53.4%. The new orders component, which foreshadows future activity, jumped 5.7 points to 59.9%. The production index rose to 59.5%.

IV**) Federal Reserve officials at their policy meeting in June generally thought they would raise interest rates despite divisions over the economic outlook, but gave no guidance on when such a move might occur**, minutes from the last Federal Open Market Committee meeting show.

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

Capitalization: ***Large Caps +1.58%*** (YTD +5.38%), Mid-Caps +1.60% (YTD +7.18%) and ***Small Caps +2.24%*** (YTD +4.50%). Style: ***Value +1.39%*** (YTD +11.36%) and ***Growth +2.09%*** (YTD +7.33%). Industry Groups (Leaders): ***Telecommunication +0.57%*** (YTD +25.37%), Utilities +0.06% (YTD +23.31%), Energy -0.71% (YTD +13.87%), Consumer Staples -0.72% (YTD +10.09%), ***Industrials +2.13%*** (YTD +9.03%), Technology +1.74% (YTD +4.01%), Healthcare +2.64% (YTD +3.24) and Information Technology +1.91% (YTD +0.18%). (Laggards): ***Consumer Discretionary -1.34%*** (YTD -0.41%) and Financial Services +0.29% (YTD -2.84%).

EUROPEAN EQUITIES

The MSCI Europe index was lower last week dropping -2.22%. European stocks fell last week as financials dropped throughout the week as investors worried about lower profit margins for banks in an environment of extreme low interest rates. Year to date the MSCI Europe Index is down -6.40% (MTD -1.32%).

Drivers: I) ***M&G Investments last Tuesday afternoon became the third U.K. investment manager to freeze a property fund following the British vote to leave the EU. The company said it is temporarily suspending trading in the shares of its M&G Property Portfolio.*** The decision came after Aviva Investors on Tuesday froze its U.K.-focused property fund, while Standard Life Investments on Monday did the same. In aggregate half of the 10 largest U.K. property-fund managers have suspended trading temporarily. ***The Bank of England says open-ended property funds hold assets of GBP35 billion, amounting to about 7% of the commercial real estate in the U.K.***

II) ***Banks in Italy have declined in stock value thus far by 40% to 80% year to date, as they are weighed down by about €360 billion in nonperforming loans***, or unpaid debts, according to Italy's central bank. That represents 18.1% of total loans to consumers. Roughly €210 billion of those loans have been taken out by borrowers now considered to be insolvent. In addition, Meanwhile, average return on equity has been less than 2% per year during the last five years, neither enough to clear out the NPLs at a decent pace, nor to attract more capital.
III) ***Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index rose +3.58% for the week (MTD +0.90% YTD -4.27%).***

ASIAN EQUITIES

Asian equity markets were lower last week, hampered by concerns over lower oil prices and an imminent U.S. jobs report. The Dow Jones Asia Pacific Index was down -0.83% for the week, (MTD -0.86), (YTD -2.01%).

Drivers: I) ***Japan's current account surplus narrowed on year in May for the first time in nearly two years, as a recent strengthening of the yen starts to weigh on the country's overall trade position.*** Japan's current account surplus, the broadest measure of Japan's trade with the rest of the world, contracted 2.4% on year to Y1.809 trillion, the finance ministry reported. The reading was still wider than expected by economists who estimated a surplus of Y1.747 trillion.

II) ***In China amid worries of rising risks in the country's banking sector, nonperforming loans surpassed $299.2 billion at the end of May, which increased banks' bad-loan ratio to 2.15%***, according to Yu Xuejun, a senior Chinese banking regulator. The loans data offset the good news that came last Thursday about China's foreign-exchange reserves. They rose $14 billion in June, to $3.205 trillion, according to the People's Bank of China, a surprise increase that suggests currency pressure is easing.

III) Performance of Asian Indexes for the week, month-to-date and year-to-date. ***The Nikkei was higher by +4.89% (MTD +0.68% YTD -17.61%), the Hang Seng Index fell by -0.35% (MTD -0.00% YTD -5.11%) and the Shanghai Composite rose by +2.74% (MTD +0.10% YTD -17.41%).***

FIXED INCOME

Treasury yields in the U.S. fell last week reaching an all-time low, as European and Japanese government bonds carrying negative yields, sparked foreign demand for U.S. Treasuries pushing yields down.

Performance: I) ***The 10-year Treasury yield was lower last week ending at 1.361% down from 1.443%. The 30-year yield fell last week falling from 2.225% to 2.101%.***

II) ***Performance for the week, month-to-date and year-to-date. Barclays US Aggregate Bond was up +0.76% last week, MTD +0.21% and YTD +5.53%. The Barclays US MBS TR rose by +0.27% last week, MTD +0.04% and YTD +3.15%. The Barclay's US Corporate HY Index advanced by +1.15%, MTD +0.39% and YTD +9.74%.***

COMMODITIES

The DJ Commodity Index was lower last week by -3.99% falling from 278.24 to 267.23 and is down month to date -3.20% (YTD +10.55%) as a stronger USD and oil supply worries pushed the sector down.

Performance: I) ***The price of oil fell last week as investors were wary of the market's slow progress toward drawing down the crude-supply surplus.*** For the week oil declined by -8.44% from $49.28 to $45.12 per barrel (MTD -7.16% YTD +10.83%).

II) ***The ICE USD Index***, a gauge of the greenback's movement against six other major currencies, ***was positive rising +0.67% from 95.64 to 96.28 for the week (MTD +0.87% YTD -2.44%). The USD rose last week as the headline jobs number showed that 287,000 nonfarm jobs were created in June***, the strongest rate of growth this year. For the week the Yen weakened dropping from ¥102.52 to ¥ 100.55 and the Euro fell from 1.1139 to 1.1051 against the USD.

III) ***Gold despite a solid jobs number due to persistent global-growth worries, including a slowdown in China's economy and Brexit aftermath***, which have not entirely dissipated. For the week gold was higher by +1.67% rising from $1319.1 to $1367.4 (MTD +2.59% YTD 28.81%).

HEDGE FUNDS

Hedge funds returns in June are mostly up, with core strategies Event Driven, Distressed, Macro and Relative Value all in positive territory while Equity Hedge is down for the month.

Performance:

I) The HFRX Global Hedge Fund Index is higher at +0.31% MTD and -0.52% YTD.
II) ***Equity Hedge is down at -0.06% MTD and has fallen -3.98% YTD.***
III) ***Event Driven is up MTD +0.65% and is up YTD +3.92%.***
IV) ***Distressed Debt is higher at +2.18% MTD and is positive YTD +9.73%***
V) ***Macro/CTA has risen by +0.26% MTD and is down -0.07% YTD.***
VI) ***Relative Value Arbitrage is positive at +0.40% and is down -1.36% YTD.***