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INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

U.S. stocks scored a fourth week of gains, with a rally by telecom shares offsetting weakness in the industrial sector as investors awaited next week's Federal Reserve policy statement.

a) ***Dow Jones +0.35% MTD +3.71% YTD +8.18%*** b) ***S&P 500 +0.64% MTD +3.74% YTD +7.72%***
c) ***Russell 2000 +0.64% MTD +5.35% YTD +7.68%***

Drivers: I) ***A group of mostly better than expected earnings has offered some cause for celebration*** among investors and provided support for equities to climb with earnings season a third of the way complete. ***Second quarter profits are on track to show a reduction of 4.2%*** with more than 100 companies in the S&P 500 already out with quarterly results. ***That compares with an expected fall in profit of 5.3%*** according to the average of analyst estimates.

II) ***Housing starts rose in June but from downwardly revised levels earlier in the year, pointing to a market for newly-constructed homes that continues to crawl forward slowly and steadily.*** Starts were up 4.8% to a seasonally adjusted annual pace of 1.19 million, the Commerce Department reported. Economists had forecast a 1.17 million pace. But May figures, originally reported as 1.16 million, were revised down to 1.14 million.

III) ***Sales of previously-owned homes rose in June to a higher plateau***, new evidence of a housing market that continues to power through ongoing headwinds on its way back to normalcy***. Existing-home sales rose 1.1% to a seasonally adjusted annual rate of 5.57 million in June***, the National Association of Realtors reported. ***That was 3% higher than a year ago and the strongest since February 2007.*** Economists had forecast a 5.47 million rate

IV) ***At 52.9 in July, up from 51.3 in June, the seasonally adjusted Markit Flash U.S. Manufacturing Purchasing Managers' Index pointed to a solid improvement in overall business conditions.*** Faster advances in output, new orders and employment were the key positive influences in July, while sustained inventory cutbacks acted as a drag on the PMI.

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

Capitalization: ***Large Caps +3.78%*** (YTD +7.66%), Mid-Caps +4.04% (YTD +9.76%) and ***Small Caps +5.35%*** (YTD +7.68%). Style: ***Value +3.95%*** (YTD +14.17%) and ***Growth +4.22%*** (YTD +9.57%). Industry Groups (Leaders): Telecommunication +1.70% (YTD +26.77%), Utilities +0.45% (YTD +23.79%), ***Energy +0.10%*** (YTD +14.81%), Materials +4.95% (YTD 12.86%), Consumer Staples +1.71% (YTD +12.79%), Industrials +4.05% (YTD +11.09%), ***Technology +5.66%*** (YTD +8.02%), ***Information Technology +6.10%*** (YTD +6.16%), Healthcare +4.54% (YTD +5.15), Consumer Discretionary +4.01% (YTD +4.99%) and Financial Services +3.61% (YTD +0.38%). (Laggards):

EUROPEAN EQUITIES

The MSCI Europe index was lower last week falling -0.16%. European equities posted weekly gains, as investors looked to corporate earnings reports for reasons to celebrate after the European Central Bank failed to deliver a boost the previous day.

Drivers: I) ***The Euro area growth of business activity moved lower in July to an 18-month low. July's flash PMI result of 52.9 compared to 53.1 in the prior two months*** and signaled only a slight drop in the rate of growth of output across both manufacturing and services. ***Although still signaling only modest economic growth, the surveys have now registered a continual expansion of euro-zone business activity, for 37 months***, which has given many firms increasing confidence to hire additional workers.

II) ***The Services Sector Index that measures the broader U.K. economy turned negative in July, sharply falling to 47.7 from 52.4 and hit the lowest level since early 2009.*** New orders and production both fell dramatically this month. In a surprise, the U.K. voted on June 23 to exit the European Union. Some economists say a recession is possible in light of all the uncertainty generated by the Brexit vote.

III) ***Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index fell -0.16% for the week (MTD +1.94% YTD -3.29%).***

ASIAN EQUITIES

Asian equity markets rose despite non action from the BOJ, as the Brexit event has passed and global investors are looking for alternatives to the U.K. and Europe. The Dow Jones Asia Pacific Index was up +0.15% for the week, (MTD +3.09), (YTD +1.89%).

Drivers: I) ***There were reports the Bank of Japan may hesitate to introduce further easing*** when it meets next week. Reuters reported that some bank officials thought low inflation would not immediately ignite more central-bank action, as a tighter labor market eventually will boost wages and push up consumer prices. ***This implies there is no consensus among the policy makers on whether to deliver additional stimulus.***

II) ***In a separate news report, it was speculated that the Japanese government is arranging to launch an economic stimulus package worth ¥20 trillion ($187 billion) to propel Japan out of more than a decade of deflation***. The stimulus is higher than the originally envisioned ¥10 trillion worth package, due to inclusion of infrastructure-related spenidng and the use of low-interest government loans.

III) Performance of Asian Indexes for the week, month-to-date and year-to-date. ***The Nikkei was higher by +0.78% (MTD +6.75% YTD -12.64%), the Hang Seng Index rose by +1.41% (MTD +5.67% YTD +0.23%) and the Shanghai Composite declined by -1.36% (MTD +2.84% YTD -14.87%).***

FIXED INCOME

Treasury prices fell this week, pushing yields slightly higher after struggling for direction all week and changing course nearly every session.

Performance: I) ***The 10-year Treasury yield was higher last week ending at 1.566% up from 1.547%. The 30-year yield rose last week rising from 2.262% to 2.283%.***

II) ***Performance for the week, month-to-date and year-to-date. Barclays US Aggregate Bond was up +0.13% last week, MTD +0.16% and YTD +5.48%. The Barclays US MBS TR rose by +0.01% last week, MTD -0.04% and YTD +3.06%. The Barclay's US Corporate HY Index advanced by +0.29%, MTD +3.06% and YTD +12.52%.***

COMMODITIES

The DJ Commodity Index was lower last week by -2.66% dropping from 268.32 to 261.18 and is down month to date -5.39% (YTD +8.05%) as a stronger USD and concerns over the supply of oil sent commodities lower.

Performance: I) ***The price of oil fell to its lowest level in about 11 weeks, as prospects for Libyan crude supplies added to this week's concerns that a glut of oil products will cut demand for crude by refiners***. For the week oil declined by -4.36% from $46.28 to $44.26 per barrel (MTD -8.93% YTD +8.72%).

II) ***The ICE USD Index***, a gauge of the greenback's movement against six other major currencies, ***was positive rising +0.69% from 96.68 to 97.35 for the week (MTD +1.99% YTD -1.36%). The USD ended at its highest level since early March, as weak data from Europe softened the pound and the euro***, while the yen retreated from a strong rally a day earlier. For the week the Yen weakened dropping from ¥104.90 to ¥ 106.12 and the Euro fell from 1.1036 to 1.0979 against the USD

III) ***Gold suffered losses for a second week in a row, with strength in the U.S. dollar and stock market in the wake of the latest earnings results***, dulling some of the metal's investment appeal. For the week gold was lower by -0.57% falling from $1337.7 to $1330.1 (MTD -0.21% YTD 25.31%).

HEDGE FUNDS

Hedge funds returns in July are primarily higher, with core strategies Equity Hedge, Event Driven, Distressed, Macro and Relative Value all in positive territory.

Performance:

I) ***The HFRX Global Hedge Fund Index is higher at +1.36% MTD and +0.52% YTD.***
II) ***Equity Hedge has advanced +1.65% MTD and has fallen -2.33% YTD.***
III) ***Event Driven is up MTD +2.38% and is up YTD +5.71%.***
IV) ***Distressed Debt is higher at +3.25% MTD and is positive YTD +10.88%***
V) ***Macro/CTA has risen by +0.03% MTD and is down -0.30% YTD.***
VI) ***Relative Value Arbitrage is positive at +1.02% and is down -0.74% YTD.***

ECONOMIC DATA WATCH AND MARKET OUTLOOK

As we look forward to the coming week, the stock market will be pelted with earnings news giving investors much to ponder. With earnings season in high gear, the market will also fixate on the more than a dozen central banks holding monetary policy meetings. The S&P 500 closed above 2,135, a level where there had been a great of resistance previously, suggesting that the market has the breadth to eventually push to 2,400. ***The market's upside momentum has been supported by better-than-anticipated earnings. With 25% of the companies in the S&P 500 reporting earnings to date for second quarter 2016, 68% have reported earnings above the mean estimate and 57% have reported sales above the mean estimate.***

On the economic data front, the Federal Reserve holds its latest policy meeting on Tuesday and Wednesday. The central bank ***is unlikely to raise its benchmark interest rate this time, though its statement on Wednesday will provide insight on officials' thinking for September and beyond***. Fed officials have shown increasing confidence in the economy in recent weeks as reports suggest a steady labor market, stronger wage growth and stabilizing financial markets after the U.K. voted to leave the European Union.

On Friday, the Commerce Department reports how the economy performed in the second quarter, with the advance estimate of gross domestic product for the period. Consumers have increased their spending in recent months, lifting hopes for stronger growth. ***Private economists believe the economy grew between 2% and 3%, at an annual rate, in April through June, rebounding from 1.1% growth in the first quarter.***

The Commerce Department reports Wednesday on June orders for durable goods, a measure of factory sales for big ticket items. The report offers key clues about whether demand from U.S. consumers and businesses is strengthening. Durable orders have been uneven in recent months, and they fell in May from a month earlier and from a year earlier.

The government on Friday releases the employment cost index for the second quarter, a key gauge of how fast wages and benefits are growing. ***Other measures suggest wage growth has picked up in recent months, and some economists believe wages are gearing up for rapid growth in the coming year***. Such a development could ignite higher inflation and complicate the Fed's goal of balancing stable price growth and steady job gains.

The housing market has been the economy's bright spot heading into the year, and a flood of data this week could show whether its sustaining momentum. The Commerce Department reports Tuesday on new-home sales in June, while the National Association of Realtors provides its forward-looking report, on June pending home sales, on Wednesday. ***The NAR reported this past week that sales of previously owned homes reached the highest level in nearly a decade in June.***