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INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

U.S. equity markets were mixed as the Nasdaq reached a new high, but the S&P 500 and Dow Jones were down slightly despite positive earnings reports from major banks JPMorgan and Bank of America.

a) ***Dow Jones -0.39% MTD +0.68% YTD +0.68%*** b) ***S&P 500 -0.09% MTD +1.67% YTD +1.67%***
c) ***Russell 2000 +0.37% MTD +1.13% YTD +1.13%***

Drivers: I) ***J.P. Morgan Chase & Co. reported its fourth-quarter profit rose as the bank's boost from trading helped results following the U.S. presidential election.*** The largest U.S. bank by assets reported a profit of $6.73 billion, or $1.71 a share. That compares with a profit of $5.43 billion, or $1.32 a share, in the same period of 2015. Analysts had expected earnings of $1.44 a share.

II) ***Retail sales rose 0.6% last month, below the 0.8% growth forecast of economists. Sales were led by another solid performance among auto dealers***, who set a record in December. Excluding the large auto sector that accounts for 20% of overall retail business, sales rose a disappointing 0.2% in the final month of the year. And if gas dealers who benefited from higher prices are excluded, a drag on consumers, sales were flat.

III) ***Internet stores were only one of retailers to post strong gains in December***. These non-store sales rose by 1.3%. ***Online retailers posted a solid 13.2% increase in sales in 2016, taking even more market share away from traditional brick-and-mortar department stores***. Conventional Department stores saw a 0.6% decline in sales in December and an 8.4% drop for the full year.

IV) ***Wholesale inflation rose in December, and the yearly increase surged, as deflationary pressures from the drop in energy prices began to fade***. The producer price index rose 0.3% in December, the Labor Department reported. That matched the consensus forecast from economists. ***Compared to a year ago, the index rose 1.6%, the strongest gain since September 2014.*** Excluding food, energy and trade, prices were up 1.7%.

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

Capitalization: Large Caps +1.78% (YTD +1.78%), ***Mid-Caps +1.94%*** (YTD +1.94%) and ***Small Caps +1.13%*** (YTD +1.13%). Style: ***Value +0.99%*** (YTD +0.99%) and ***Growth +1.43%*** (YTD +1.43%). Industry Groups (Leaders): ***Consumer Discretionary +4.48%*** (YTD +4.48), ***Information Technology +3.17%*** (YTD +3.17%), Healthcare +2.99% (YTD +2.99), Technology +2.79% (YTD +2.79%), Materials +2.36% (YTD +2.36%), Financial Services +1.14% (YTD +1.14%), and Consumer Staples +0.80% (YTD +0.80%). (Laggards): ***Energy -1.19%*** (YTD -1.19%), Telecommunication -1.12% (YTD -1.12%) and Utilities -0.15% (YTD -0.15%).

EUROPEAN EQUITIES

The MSCI Europe index closed higher for the week as Fiat Chrysler led a rebound for car makers just a day after being accused of cheating on emissions tests, and a bump from Pharmaceuticals which had corrected after comments from President elect Trump mentioned forthcoming legislation could erode sector profits.

Drivers: I) ***Shares of Fiat Chrysler Automobiles N.V. plunged 16% in morning trade last Thursday*** prior to a trading halt, which put them on track for the greatest one-day selloff in six years. This occurred after the automaker said ***the U.S. EPA issued a notice of violation with respect to its emissions control technology***. The company in a statement denied the charges saying FCA would demonstrate that its US's emissions control strategies are properly justified.

II) ***U.K. stocks gained for a 14th straight day last Friday, extending their record winning run as a weak pound spurred investors to buy British multinationals.*** The FTSE 100 index UKX rose 0.6% to finish at 7,337.81, hitting another record close. The gauge marked a 12th consecutive all-time closing high, the longest such streak ever. For the week, the London benchmark achieved a 1.8% gain, achieving its sixth straight weekly advance.

III) ***Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was up +0.62% for the week (MTD +2.00% YTD +2.00%).***

ASIAN EQUITIES

Asian equity markets were mixed as some investor took a wait and see attitude, after markets had mostly rallied higher post the election of Donald Trump as the next President of the U.S. The Dow Jones Asia Pacific Index was higher by +1.85% for the week, (MTD +4.12%), (YTD +4.12%).

Drivers: I) ***China's exports in dollar terms in December fell from a year earlier***, following an uptick in November, a reflection of the ***continued headwinds faced by the world's second-largest economy***. ***Exports fell 6.1% in December*** from a year earlier, following a 0.1% gain in November, the General Administration of Customs reported. Exports had been expected to drop 3.0%, according to the median estimate from 11 economists.

II) ***China's foreign-exchange reserves fell to the lowest level in nearly six years last month***, testing the central bank's resolve to control the weakening yuan's descent to a pace it dictates. The ***People's Bank of China reported*** last week that ***the world's largest stockpile of foreign currency plunged by $41.08 billion in December to $3.011 trillion, the lowest level since March 2011***. The decline was smaller than the previous month's drop of $69.06 billion and fell largely in line with analysts' expectations.

III) ***Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was lower by -0.86% (MTD +0.90% YTD +0.90%), the Hang Seng Index rose by +1.93% (MTD +4.27% YTD +4.27%) and the Shanghai Composite declined by -1.32% (MTD +0.29% YTD +0.29%).***

FIXED INCOME

Treasury yields fell for a fourth straight weekly drop on Friday, the longest winning streak since July, as attractive valuations and uncertainty over the details of President-elect Donald Trump's policies caused traders to rethink their positions.

Performance: I) ***The 10-year Treasury was lower last week ending at 2.397% down from 2.420%. The 30-year yield fell last week falling from 3.010% to 2.991%.***

II) ***Performance for the week, month-to-date and year-to-date. Barclays US Aggregate Bond was up +0.20% last week, MTD +0.37% and YTD +0.37%. The Barclays US MBS TR was up +0.09% last week, MTD +0.09% and YTD +0.09%. The Barclay's US Corporate HY Index rose by +0.15%, MTD +1.17% and YTD +1.17%.***

COMMODITIES

The DJ Commodity Index was higher last week by +1.76% and is up month to date +1.55% (YTD +1.55%), supported by a fall in the U.S. dollar and the continued rally in industrial metals led by copper and aluminum.

Performance: I) ***The price of oil was lower last week by -2.19%***, dropping from $53.70 to $52.52 and is down month to date -2.54% (YTD -2.54%). Oil suffered its largest weekly loss in three months, as ***traders expressed doubts over compliance with the output-cut agreement***, despite reports that major producers have started to comply.

II) ***The ICE USD Index***, a gauge of the U.S dollar's movement against six other major currencies, ***was negative falling -0.99% from 102.20 to 101.19 for the week*** (MTD -1.16% YTD -1.16%). The U.S. dollar index fell for a third consecutive week, ***as investors continue to take profits after a strong Q4 rally*** while ***awaiting greater clarity regarding President elect Trumps economic and taxes policies.***

III) ***Gold closed higher for the week at $1197.20, mostly fueled by a dollar and stock retreat*** as postelection enthusiasm stalled.. For the week gold was higher by +2.08% climbing from $1172.9 to $1197.2 (MTD +3.93% YTD +3.93%).

HEDGE FUNDS

Hedge fund returns in January are mostly higher with the core strategies Equity Hedge, Event Driven, Distressed and Relative Value in positive territory, while Macro is down for the year.

Performance:

I) ***The HFRX Global Hedge Fund Index is higher at +0.56% MTD and +0.56% YTD.***
II) ***Equity Hedge has risen +0.94% MTD and is up +0.94% YTD.***
III) ***Event Driven is up MTD +1.14% and is higher YTD +1.14%.***
IV) ***Distressed Debt is higher at +0.78% MTD and is positive YTD +0.78%***
V) ***Macro/CTA has fallen by -0.52% MTD and is down -0.52% YTD.***
VI) ***Relative Value Arbitrage is higher at +0.37% and is up +0.37% YTD.***

ECONOMIC DATA WATCH AND MARKET OUTLOOK

Looking ahead to next week all U.S. financial markets will be closed Monday to commemorate Martin Luther King Jr. Day, giving ***investors time to regroup ahead of the fourth-quarter earnings season, which is expected to pick up pace after the holiday.***

Following strong gains since November, U.S. stocks have meandered in recent sessions as investors sought more clarity on President-elect Donald Trump's policies as well as worries about elevated valuations. The 8% to 9% gain since Election Day seems to be overdone to most professional investors. In addition, with fourth-quarter earnings beginning, questions as to if a pullback or giveback have begun are creeping into the minds of professional investors.

These concerns have stalled the Dow Jones Industrial Average from breaching the key 20,000 mark, even as the blue chip index came within less than a point of the psychologically important level.

On the economic data front, the latest US CPI report is due for release on Wednesday January 18th at 08:30 EST. The US inflation trends will continue to be a key market focus during the next few months. The Federal Reserve is expecting a gradual increase in inflation to the 2.0% target during the course of the year. The earnings data was stronger than expected in the December employment report and there will be expectations that ***higher earnings will put some upward pressure on inflation.***

The latest New York Empire index and Philadelphia Fed manufacturing survey will be released on Tuesday and Thursday respectively.

The latest ECB monetary policy decision is due on Thursday January 19th at 07:45 EST. Bank President Draghi will hold his regular press conference 45 minutes later. The ECB minutes from December's policy meeting revealed ***increased divisions within the Governing Council***. There was a ***debate over the two options to extend the bond-buying program by 6 months at EUR 80 billion or EUR 60 billion for nine months with the latter winning out.***

There were, however, members who opposed both options and there were other members who wanted a six-month extension at a lower rate. ***There were some concerns that inflation would be higher than the staff projections, especially as the forecasts had not taken into account the OPEC production cuts.***

The inflation debate is likely to be a bit more combative at this meeting, especially with a sharp rise in German inflation for the January data. There is a very little chance of a change in interest rates, but the press conference tone will be crucial for market reaction and internal ECB politics.