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INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

U.S. equity markets ended down on Friday after a historic week that saw the Dow Jones rise above 20,000 for the first time as investors weighed disappointing fourth-quarter economic data and a spate of corporate earnings.

a) **Dow Jones +1.34% MTD +1.78% YTD +1.78%** b) **S&P 500 +1.04% MTD +2.60% YTD +2.60%**
c) **Russell 2000 +1.40% MTD +1.40% YTD +1.05%**

Drivers:

I) **The U.S. economy's expansion slowed in the fourth quarter, and annual growth failed to reach 3% for an 11th straight year. Gross domestic product expanded at a 1.9% annual rate** from October to December, the Commerce Department reported last week. That is a considerable drop from the 3.5% growth rate in the third quarter and below the 2.2% market consensus.

II) **A wider trade deficit, a drag on GDP, was by far the largest detractor in the fourth quarter. The economy would have exceeded 3.0% growth if the trade gap had been unchanged**. **Consumers**, the major engine for the U.S. economy, **increased spending by a solid 2.5%.** They were ardent buyers of big-ticket items such as new cars and computers. Expenditures on long-lasting or durable goods jumped almost 11%.

III) **Existing-home sales ran at a seasonally-adjusted annual pace of 5.49 million**, the National Association of Realtors reported. That was **down 2.8% from an upwardly-revised November**, which marked a nine-year high, but only 0.7% higher than a year ago. **Supply tightened further in December, with 1.65 million homes available at the end of the month, the lowest level of inventory since 1999.** At the current sales pace, there were 3.6 months' worth of available homes in December.

IV) **Orders for long-lasting goods made in the U.S. fell in December for the second month in a row, largely because of a cutback in demand from the Pentagon. New orders for durable goods dropped 0.4% last month**, the government reported last Friday. **Economists had forecast a 2.2% increase.**

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 +1.01% (YTD +2.60%), **Mid-Caps +1.31%** (YTD +3.12%) and **Small Caps -0.35%** (YTD -0.35%). Style: **Value +0.06%** (YTD +0.06%) and **Growth +0.51%** (YTD +0.51%). Industry Groups (Leaders): **Consumer Discretionary +4.84%** (YTD +4.84), **Information Technology +3.29%** (YTD +3.29%), Technology +3.09% (YTD +3.09%), Materials +2.85% (YTD +2.85%), Healthcare +1.42% (YTD +1.42), Consumer Staples +0.89% (YTD +0.89%) and Utilities +0.11% (YTD +0.11%). (Laggards): **Energy -0.98%** (YTD -0.98%), Telecommunication -0.38% (YTD -0.38%) and Financial Services -0.51% (YTD -0.51%).

EUROPEAN EQUITIES

The MSCI Europe index rose for the week, as European stocks caught upside momentum from advancing bank shares and as a jump in U.S. stocks pushed the Dow Jones above 20,000 for the first time ever.

Drivers:

I) **A top European Central Bank official signaled last week that the ECB should soon start to wind down its EUR2.3 trillion bond-purchase program, an anticipated move that is expected to trigger volatility in financial markets**. "I am optimistic that we can soon turn to the question of an exit" from easy-money policies, said Sabine Lautenschläger, who sits on the ECB's six-member executive board. The ECB "must get ready for better times,".

II) **Banco Santander, the first major European bank to report on Wednesday, beat analyst expectations** with a fourth-quarter profit coming in at €1.6 billion ($1.72 billion) compared with €25 million a year ago. The strong result came on the back **of higher fees and stronger-than-expected lending income**. It looks like European banks have turned the corner in terms of the bad-loans ratio. Analysts believe the **banks are now beginning to see improving credit conditions across the board in most countries.**

III) **Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was up +1.29% for the week (MTD +2.88% YTD +2.88%).**

ASIAN EQUITIES

Asian markets rallied higher last week, as equities continued to build on recent gains. The dollar climbed upward, breaching 115 yen for the first-time last week. The Dow Jones Asia Pacific Index was higher by +1.23% for the week, (MTD +4.83%), (YTD +4.83%).

Drivers:

I) Wednesday, data showed that **Japan returned to a trade surplus for the first time in six years in 2016**, helped by cheaper oil imports and an improvement in exports toward the end of the year. Japan's merchandise trade balance swung to a surplus of Y4.074 trillion, from a Y2.792 trillion deficits in the previous year. **Its trade surplus with the U.S. was the largest for any individual trading partner, though it slowed 4.6% to Y6.835 trillion.**

II) **China has injected a flood of money into its financial system in recent days, using a mix of short-term tools aimed at pre-empting a seasonal cash crunch** without signaling a shift toward an easier monetary policy. China's central bank sent 1.13 trillion yuan (roughly $165 billion) into domestic money markets last week via its routine operations, a record for one week and the highest since it poured in 940 billion yuan in mid-September.

III) **Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was higher by +1.72% (MTD +1.85% YTD +1.85%), the Hang Seng Index rose by +2.07% (MTD +6.18% YTD +6.18%) and the Shanghai Composite advanced by +1.87% (MTD +1.79% YTD +1.79%).**

FIXED INCOME

Treasury yields managed to rise, marking a second straight weekly gain after an initial estimate showed U.S. economic growth last quarter fell short of economists' expectations.

Performance:

I) **The 10-year Treasury was higher last week ending at 2.484% up from 2.468%. The 30-year yield rose last week climbing from 3.053% to 3.061%.**

II) **Performance for the week, month-to-date and year-to-date. Barclays US Aggregate Bond was up +0.04% last week, MTD +0.06% and YTD +0.06%. The Barclays US MBS TR was higher by +0.02% last week, MTD -0.21% and YTD -0.21%. The Barclay's US Corporate HY Index rose by +0.49%, MTD +1.43% and YTD +1.43%.**

COMMODITIES

The DJ Commodity Index was lower last week by -0.33%, but up month to date +1.03% (YTD +1.03%) as the sector was dragged down by continued concerns over potential increases in oil production, and a five year low in U.S. demand for gasoline.

Performance:

I) **The price of oil was higher last week by +1.66%** jumping from $52.33 to $53.20 and is down month to date -1.28% (YTD -1.28%). Oil was higher, as investor wrestled with the quandary of recent global production cuts, versus the pressure from expectations of more growth in U.S. oil output.

II) **The ICE USD Index,** a gauge of the U.S dollar's movement against six other major currencies, **was negative falling -0.24% from 100.81 to 100.56** for the week (MTD -1.78% YTD -1.78%). The U.S. dollar index turned negative last week as disappointing economic data underlined how economic conditions may not justify the currency's recent advance.

III) **Gold ended Friday down for the fourth straight day**, as a stable U.S. dollar and recent all-time highs in major U.S. stock indexes blunted demand for so-called safe-haven investments. For the week gold was lower by -1.36% declining from $1210.2 to $1193.7 (MTD +3.62% YTD +3.62%).

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 slightly for the year.

Performance:

I) **The HFRX Global Hedge Fund Index is higher at +1.13% MTD and +1.13% YTD.**
II) **Equity Hedge has risen +1.57% MTD and is up +1.57% YTD.**
III) **Event Driven is up MTD +1.85% and is higher YTD +1.85%.**
IV) **Distressed Debt is higher at +0.86% MTD and is positive YTD** +**0.86%**
V) **Macro/CTA has fallen by -0.16% MTD and is down -0.16% YTD.**
VI) **Relative Value Arbitrage is higher at +0.87% and is up +0.87% YTD.**

ECONOMIC DATA WATCH AND MARKET OUTLOOK

Looking ahead to next week, investors await reports from about a fifth of the S&P 500 index, as well as five Dow components. **With a third of the S&P 500 having already reported results and on track for 4.2% earnings growth**, Apple Inc. and Facebook Inc. results are important for the consumer-facing tech sector, mostly because of the weight the two have on earnings growth. **Apple is expected to be the greatest drag on earnings growth for the tech sector, while Facebook is seen providing the biggest lift**, according to FactSet.

The tech sector is expected to turn in earnings growth of 7.2% for the fourth quarter. If you exclude results from Apple, however, that growth jumps to 12.7%. Similarly, excluding Facebook results, that expectation falls to 5.5% growth. **Negative outlooks for the first quarter are trending well below average**. **So far, of the 33 companies that have issued outlooks for the first quarter, only 52% have offered one that falls short** of the Wall Street consensus, according to FactSet data. **That is compared with the five-year average of 74%.**

On the economic data front, a jam-packed week starts with personal income on Monday which will break out December's consumer detail. Personal income is expected to bounce back from a weak November with the consensus at plus 0.4 percent. Pending home sales follow mid-morning Monday in what will be a key indication for the still struggling resale market. Forecasters see a jump for December, **predicting a consensus rise of 0.6 percent** that in turn would point to a rise for final sales of existing homes.

Inflation is Tuesday's theme led off by the employment cost index, which has been showing pressure, rising 0.6 percent in each of the previous three quarters with forecasters seeing another 0.6 percent rise in the fourth quarter. The Case-Shiller home-price data which has been flat at 5.1%, is expected to fall back to 5.0%. Inflation expectations follow later Tuesday with consumer confidence where a leveling of post-election euphoria is expected.

The FOMC is Wednesday's spotlight, but is not expected to result in any action. Starting off Wednesday will be ADP's employment estimate and the ISM manufacturing report, both of which are expected to show strength. Finishing up Wednesday will be unit vehicle sales for January which are expected to slow from their very strong December rate.

Thursday looks light with productivity expected to be soft and costs expected to rise, while **Friday is very heavy led by January employment, where strength is expected and where, importantly, minimum wage pressure could be a factor affecting average hourly earnings**. The **consensus for January nonfarm payrolls is a solid 175,000, up from December growth of 156,000**. The consensus for the unemployment rate is 4.7 percent, unchanged from December.

Factory orders and the ISM non-manufacturing report follow on Friday. If the data come in as expected, the week will point to a solid beginning for the first quarter. **The ISM non-manufacturing index, at a very strong 57.2 in both December and November, and is projected to come in at 57.1 for January.**