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INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

U.S. equity markets rose, pushing the S&P 500 and Nasdaq Composite to record levels, while the Dow closed slightly below the closely watched 20,000 level following a December U.S. jobs report that investors saw as generally positive.

a) ***Dow Jones +1.07% MTD +1.07% YTD +1.07%*** b) ***S&P 500 +1.76% MTD +1.76% YTD +1.76%***
c) ***Russell 2000 +0.76% MTD +0.76% YTD +0.76%***

Drivers: I) ***The U.S. added 156,000 new jobs in the final month of 2016 and worker pay rose at the fastest pace since the Great Recession***, reflecting a surge in employment over the past six years that has left many companies dealing with a shortage of skilled labor. The increase in hiring last month was led by health-care providers, financial firms, manufacturers, restaurants and shipping companies.

II) The steady gains in employment has finally started to push worker pay higher over the past year and a half. ***Average hourly wages jumped 0.4% in December to push the annual gain in 2016 to 2.9%, marking the fastest increase since a recovery that began in mid-2009***. The unemployment rate, meanwhile, edged up to 4.7% from 4.6% as more people entered the labor force in search of work.

III) ***Despite strong job growth, the number of U.S. workers who would like a full-time job but cannot find one remains elevated. The so-called real rate of unemployment came in at 9.2% in December***, down slightly from the prior month. The U6 rate has been declining gradually, but it is still well above the 8% level seen just before the Great Recession which started in December 2007.

IV) Service-sector growth remained strong in December, a key survey released last Thursday showed. ***The Institute for Supply Management said its services index stayed at 57.2% in December, matching a 12-month high.*** ISM reported based on the past relationship, ***the ISM report corresponds to a 3.3% increase in real gross domestic product***. The new-orders component of the ISM report improved to 61.6% from 57% in November.

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

Capitalization: Large Caps +1.81% (YTD +1.81%), ***Mid-Caps +1.87%*** (YTD +1.87%) and ***Small Caps +0.76%*** (YTD +0.76%). Style: ***Value +1.14%*** (YTD +1.14%) and ***Growth +0.86%*** (YTD +0.86%). Industry Groups (Leaders): ***Healthcare +2.88%*** (YTD +2.88), Consumer Discretionary +2.60% (YTD +2.60), ***Information Technology +2.34%*** (YTD +2.34%), Technology +2.19% (YTD +2.19%), Materials +1.87% (YTD +1.87%), Financial Services +1.27% (YTD +1.27%), Energy +0.81% (YTD +0.81%), Utilities +0.46% (YTD +0.46%) and Consumer Staples +0.24% (YTD +0.24%). (Laggards): ***Telecommunication -0.04%*** (YTD -0.04%).

EUROPEAN EQUITIES

The MSCI Europe index was higher last week, boosted by the growth potential of the U.S. economy and potential corporate earnings gain from lower taxes and less regulation under President Trump

Drivers: I) ***The European Union's statistics agency reported that producer prices rose 0.3% from October, and were up 0.1% from November 2015. It was the first year-to-year rise in prices since June 2013***, and came as a surprise, since economists had estimated that prices were flat. Despite the rise, inflation is still far from certain that the European Central Bank will sustainably achieve its consumer-price inflation target of just below 2%.

II) ***German manufacturing orders pulled back in November after rising strongly in October, the economics ministry reported last week, noting that the overall trend in orders is still pointing up***. Total manufacturing orders, adjusted for seasonal swings and calendar effects, fell 2.5% in November from October. Economists had forecast a 1.5% drop. In annual terms, total orders for Germany's important manufacturing sector surged 4.1% from November 2015.

III) ***Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was up +1.37% for the week (MTD +1.37% YTD +1.37%).***

ASIAN EQUITIES

Asian equity markets opened the New Year on a positive note, as investors are less worried about a hard landing in China, and the Yuan stabilized against the USD. The Dow Jones Asia Pacific Index was higher by +2.23% for the week, (MTD +2.23%), (YTD +2.23%).

Drivers: I) ***China's foreign-exchange reserves fell to the lowest level in nearly six years last month, testing the central bank's dedication to control the weakening yuan's descent to a rate it dictates.*** The People's Bank of China said 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 drop illustrates the central bank's willingness to tap reserves to buy the yuan, and use capital controls and other tools to try to prop up the currency and restrain businesses and individuals rushing to send money offshore.

II) ***Activity in China's service sector expanded at a faster pace in December***, a private gauge showed last week, adding to recent signs of firmness in China's economy. The Caixin China services purchasing managers' index rose to 53.4 in December from 53.1 in November. Increased new orders and a 17-month high for growth in new work lifted confidence among service providers.

III) ***Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was higher by +1.78% (MTD +1.78% YTD +1.78%), the Hang Seng Index rose by +2.28% (MTD +2.28% YTD +2.28%) and the Shanghai Composite advanced by +1.63% (MTD +1.63% YTD +1.63%).***

FIXED INCOME

Treasury yields fell last week, but reversed trend on Friday after official data showed average hourly earnings for American workers accelerated sharply last month.

Performance: I) ***The 10-year Treasury was lower last week ending at 2.420% down from 2.445%. The 30-year yield fell last week falling from 3.068% to 3.010%.***

II) ***Performance for the week, month-to-date and year-to-date. Barclays US Aggregate Bond was up +0.17% last week, MTD +0.17% and YTD +0.17%. The Barclays US MBS TR was up +0.00% last week, MTD +0.00% and YTD +0.00%. The Barclay's US Corporate HY Index rose by +0.97%, MTD +0.97% and YTD +0.97%.***

COMMODITIES

The DJ Commodity Index was lower last week by -0.21% and is down month to date -0.21% (YTD -0.21%), as investors worried about the pace of oil production from non-OPEC members and the dramatic decline in natural gas prices due to a warmer than expected start to the winter season.

Performance: I) ***The price of oil was lower last week by -0.35%***, dropping from $53.89 to $53.70 and is down month to date -0.35% (YTD -0.35%). Oil was mixed last week helped by signs that OPEC members were complying with the agreed upon production cuts. But ***the market is still concerned about producers who not part of the initiative, specifically the U.S. and Libya.***

II) The ICE USD Index, a gauge of the U.S dollar's movement against six other major currencies, ***was negative falling -0.18% from 102.38 to 102.20 for the week*** (MTD -0.18% YTD -0.18%). The U.S. dollar index down a bit for the week, was firmly higher on Friday as the latest reading on the labor market underscored the belief that inflation could be poised to return to the market.

III) ***Gold closed higher for the week at $1172.90, supported by uncertainty regarding the pace of interest rate rises planned by the Federal Reserve for 2017.*** For the week gold was higher by +1.81% climbing from $1152.0 to $1172.9 (MTD +1.81% YTD +1.81%).

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 +0.28% MTD and +0.28% YTD.***
II) ***Equity Hedge has risen +0.84% MTD and is up +0.84% YTD.***
III) ***Event Driven is up MTD +0.40% and is higher YTD +0.40%.***
IV) ***Distressed Debt is higher at +.32% MTD and is positive YTD +0.32%***
V) ***Macro/CTA has fallen by -0.73% MTD and is down -0.73% YTD.***
VI) ***Relative Value Arbitrage is higher at +0.27% and is up +0.27% YTD.***

ECONOMIC DATA WATCH AND MARKET OUTLOOK

Looking ahead to next week as we begin the corporate earnings season, investors will be fixated on the money center banks. Market participants will be interested in their outlook and any sign as to how they may perform in a rising interest rate and deregulatory environment.

Since banks provided earnings growth in the third quarter, 8% earnings growth for the sector compared with 3.1% S&P 500 according to FactSet data, investors are eager to see on how banks plan to remain a driver of the economy as well as the stock market. ***S&P 500 earnings for the fourth quarter are expected to grow by about 3% from the year-ago period, according to FactSet. Probably the largest boost will come from the financial sector, which is projected to see growth of 13.8%.***

Two key areas to look for in bank earnings are trading revenues and loan growth. A promise of deregulation by president-elect Donald Trump, if successful, could boost trading activity, while the prospect of a faster pace of rate increases by the Federal Reserve may generate higher loan demand as borrowers seek to lock in interest rates while they are still low.

On the economic data front, the latest US retail sales report is due for release on Friday January 13th at 08:30 EST. Markets will be looking at short-term economic indicators closely to judge underlying growth trends and the likely Federal Reserve policy stance during the first half of 2017.

There was a sharp increase in consumer confidence in the December readings with the Conference Board indicator at the strongest level since 2001, although confidence surrounding the present situation actually deteriorated slightly on the month. ***Markets will be looking at the retail spending data to judge whether the improvement in confidence has translated into stronger spending.***

Chicago Fed President Evans is due to speak on Thursday January 12th at 08:30 EST. Evans is taking part in a panel discussion and any commentary on the economy and monetary policy will be watched closely. ***Evans is one of the most dovish FOMC members*** and he is a voting member on the committee this year, which will ensure that his comments receive close attention. ***In comments ahead of the December Fed meeting, Evans suggested that two interest rate increases would be appropriate in 2017.***

Markets will be looking to analyze any rhetoric against his baseline thinking from December and whether there is any shift in his stance on the risks of inflation staying too low. ***A more hawkish stance from Evans would reinforce expectations that the Federal Reserve will move towards more than two rate increases during 2017.***