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INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

U.S. equity markets rallied for a third straight week hitting all-time highs, as investors focused on President Trump's pledge to move quickly on changes to the tax code, which has the potential to deliver a lift to corporate earnings.

a) **Dow Jones +1.13% , MTD +2.20%, YTD +2.84%** b) **S&P 500 +0.87%, MTD +1.73%, YTD +3.66%.**
c) **Russell 2000 +0.83% , MTD +2.03%, YTD +2.43%.**

Drivers: I) **President Donald Trump said last Thursday that an announcement concerning taxes** should be ready in the coming weeks, which his press secretary later said would involve an outline of a comprehensive tax plan. Specifically, press secretary Sean Spicer said it would be an outline of a plan "that **will address both the business side of the tax ledger as well as the individual rates**."

II) The **U.S. trade deficit rose** slightly in 2016 **to $502.3 billion, marking the highest level in four years** and highlighting the difficulty the Trump administration faces in bringing the nation's trade outlook back into balance. The trade gap widened last year as exports fell faster than imports, **the result of a weak global economy and a stronger dollar** that made American products more expensive to foreign buyers.

III) **Job openings were little changed in December**, but hires continued a multi-month winning streak, as economic growth continues to move forward. There were 5.5 million job openings on the last day of December, the Labor Department reported last week. That was essentially flat compared to November. **But 5.3 million people were hired during the month, up from 5.2 million in November.**

IV) **The consumer sentiment survey dropped to 95.7** this month from 98.5 in January, based on a preliminary reading by the University Michigan. Economists had forecast a reading of 98. Americans were just as optimistic about current economic conditions in February as they were in January, but they set their sights a bit lower for the next six months. A gauge that measures expectations slipped to 85.7 from 90.3.

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

Capitalization: **Large Caps +1.77%** (YTD +3.82%), Mid-Caps +1.88% (YTD +4.34%) and **Small Caps +2.03%** (YTD +2.43%). Style: **Value** +**1.83%** (YTD +2.46%) and **Growth +2.13%** (YTD +3.58%). Industry Groups (Leaders): **Consumer Discretionary +3.45%** (YTD +8.36), **Information Technology +2.88%** (YTD +7.22%), Technology +2.41% (YTD +6.21%), Consumer Staples +2.35% (YTD +5.32%), Materials +0.29% (YTD +4.90%), Healthcare +2.00% (YTD +4.34), Financial Services +1.97% (YTD +2.21%) and Utilities +0.21% (YTD +1.51%). (Laggards): Energy +0.62% (YTD -2.63%) and **Telecommunication -1.29%** (YTD -3.63%).

EUROPEAN EQUITIES

The MSCI Europe index fell for the week in USD terms, but rallied to end the week, boosted by optimism over strong export data from China and a round of positive corporate results.

Drivers: I) **Germany's December industrial production dropped 3.0 percent** following a marginally stronger revised 0.5 percent monthly rise in November. December's output was its worst performance since January 2009. The monthly plunge reflected broad-based losses among the major production categories. Capital goods (5.4 percent) were especially weak but consumer goods (3.1 percent) were not far behind.

II) In the **U.K., December's total industrial production was up 1.1 percent** on the month, which after revisions to the earlier data put annual growth at 4.3 percent, its highest mark since January 2011. The key manufacturing sector output expanded 2.1 percent from November, its best performance since April 2014. The increase here was dominated by pharmaceuticals, which alone added 0.5 percentage points to the monthly change in industrial production, together with metal products (0.4 percent) and other manufacturing and repair (0.2 percent).

III) **Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was down -0.64% for the week (MTD +0.27% YTD +2.36%).**

ASIAN EQUITIES

Asian markets rose at week's end as President Donald Trump said he would soon announce tax-reform measures. The Dow Jones Asia Pacific Index was higher by +1.36% for the week, (MTD +1.99%), (YTD +6.74%).

Drivers: I) ***China's exports rose strongly in January from the previous year***, a possible sign of recovery in an external demand for goods from the world's second-largest economy. Exports jumped 7.9% in January from a year earlier, following a 6.1% drop in December, the General Administration of Customs reported. Exports had been forecast to grow 3.1% according to a median estimate of 11 economists. The figures suggest that China's overseas shipments are improving modestly as ***global trade shows signs of picking up.***

II) **In a tele-conference with Chinese President Xi Jinping, U.S. President Donald Trump affirmed the "One China" policy** that has long underpinned Sino-U.S. relations, a declaration that appeared aimed at ending weeks of uncertainty in Washington's approach to Asia. The phone call last Thursday in Washington was likely ***to help smooth relations between the two nations***, which had been upended by Trump's questioning of whether the U.S. should continue to adhere to the policy.

III) **Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was higher by +2.44% (MTD +1.77% YTD +1.38%), the Hang Seng Index rose by +1.93% (MTD +0.93% YTD +7.16%) and the Shanghai Composite advanced by +1.80% (MTD +1.19% YTD +3.00%).**

FIXED INCOME

Treasury yields ended lower on the week as a combination of concerns about geopolitics and uncertainty about President Donald Trump's policy priorities helped to support buying in the perceived safety of government bonds.

Performance: I) **The 10-year Treasury was lower last week ending at 2.409% down from 2.470%. The 30-year yield fell last week dropping from 3.093% to 3.006%.**

II) **Performance for the week, month-to-date and year-to-date. Barclays US Aggregate Bond was up +0.44% last week, MTD +0.27% and YTD +0.46%. The Barclays US MBS TR was higher by +0.38% last week, MTD +0.27% and YTD +0.46%. The Barclay's US Corporate HY Index rose by +0.10%, MTD +0.54% and YTD +1.90%.**

COMMODITIES

The DJ Commodity Index was higher last week by +1.71% and is up month to date +2.03% (YTD +2.71%) as gold recovered and copper was up, as workers at the BHP Billiton's Escondida mine in Chile went on strike.

Performance: I) **The price of oil was flat last week at $53.85** and is up month to date +1.09% (YTD -0.07%). Oil prices rallied on Friday as the IEA lifted its forecast for global-oil demand and estimated strong compliance with OPEC's pledge to cut output. But any weekly price rise was tempered by expectations of a rise in U.S. production.

II) **The ICE USD Index**, a gauge of the U.S dollar's movement against six other major currencies, **was positive rising +0.98%** from 99.73 to 100.71 for the week (MTD +1.20% YTD -1.63%). The U.S. dollar index trended higher in the wake of Trump saying Thursday that he would soon make an announcement that would be "phenomenal in terms of tax." Trump did not give details but throughout the campaign he proposed massive corporate tax cuts.

III*)* **Gold finished the week with a gain of more than 1.00%** as geo-political concerns prompted investors to buy the perceived "safe-haven" asset. For the week gold was higher by +1.07% climbing from $1221.6 to $1234.7 (MTD +1.89% YTD +7.18%).

HEDGE FUNDS

Hedge fund returns in February are higher with the 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 +0.48% MTD and +0.98% YTD.**
II) **Equity Hedge has risen +0.63% MTD and is up +1.48% YTD.**
III) **Event Driven is up MTD +0.59% and is higher YTD +1.65%.**
IV) **Distressed Debt is higher at +0.82% MTD and is positive YTD +1.16%**
V) **Macro/CTA has risen by +0.62% MTD and is down -0.34% YTD.**
VI) **Relative Value Arbitrage is higher at +0.11% and is up +0.75% YTD.**

ECONOMIC DATA WATCH AND MARKET OUTLOOK

Looking ahead to next week, **investors will ponder whether the high levels of optimism that has been raised by President Donald Trump's proposed economic agenda, can continue to carry stock prices higher**. Wall Street is upbeat on the positive impact of lower taxes and regulatory reforms promised by Trump, even if details remain cloudy. But despite the lack of clarity, enthusiasm for the president's agenda has not waned with several Wall Street firms suggesting that the so-called Trump rally is only beginning.

Deutsche Bank predicts that stocks have much further to go, bolstered by the proposed tax revisions with the S&P 500 poised to hit 2,600 by the end of the year. They believe that the surge in stock prices after Nov. 8 is typical of the market's behavior following a tight race, playing down the commonly held notion that expectations of pro-business policies had fueled much of the market's gains in the wake of the U.S. presidential election. The case for U.S. equities is strong the bank said in a report. "A V-shaped recovery in gross domestic product and earnings growth, unfolding for a year now, has further to go."

The benefit of corporate tax cuts is expected to boost S&P 500's earnings per share by $8, according to the U.S. equity strategist at J.P. Morgan Chase & Co.

On the economic data front, the first highlight of a heavy week comes **Tuesday with Janet Yellen's semi-annual testimony before the Senate Banking Committee** followed on Wednesday by her testimony before the House Financial Services Committee

Wednesday also sees retail sales, where headline weakness is seen hiding interior strength, and consumer prices where headline strength is concealing weakness. Auto sales were the great winner in the December retail sales report with forecasters seeing a shift in January to non-auto sales. **Unit sales of autos in January could not match December's pace** which points to headline weakness for retail sales **where forecasters are calling for only a 0.1 percent gain.**

Consumer prices have been edging a bit higher though the overall year-on-year rate, due to easy comparisons against weak energy prices this time last year, has been accelerating. Forecasters see **January's monthly rate rising by 0.3 percent** with the core rate (less food & energy) climbing 0.2 percent higher.

Industrial production will also be out on Wednesday and the manufacturing component, which has been flat, is **expected to remain flat.**

Thursday will see housing starts and permits where gains are expected and the Philly Fed, which in contrast to the industrial production report, has been signaling unusual strength for the manufacturing sector. There are a number of moving parts and lots of volatility with housing starts and permit but the bottom line has been strength in the key reading of single-family permits, a contrast to weakness in single-family starts. Multi-family permits have been weakening, though starts here have been strengthening. **The consensus for starts is a 0.5% gain to a 1.232 million annualized rate with permits expected to rise 0.4% to a 1.233 million rate.**