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INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

U.S. equity markets set record highs for a seventh session, as the upside bias for equities seem intact as investors are beginning to get a clearer picture as to the Trump's administration's plans for taxes and healthcare.

a) **Dow Jones +1.88%, MTD +4.13%, YTD +4.77%** b) **S&P 500 +1.60%, MTD +3.36%, YTD +5.32%**
c) **Russell 2000 +0.82%, MTD +2.86%, YTD +3.27%**

Drivers: I) **Janet Yellen**, chairwoman of the Federal Reserve, provided a pretty clear **explanation** for investors' recent **enthusiasm for equities** during her Feb. 15 testimony in front of the House Financial Services Committee. "I think market participants likely are anticipating **shifts in fiscal policy** that will stimulate growth and perhaps raise earnings," Yellen said, responding to a question about what is behind the markets' strong rally.

II) **Long-only stock mutual funds scored their first weekly inflow** in 12 months in the week ended Wednesday, said Bank of America Merrill Lynch's investment strategy team in its latest *Flow Show* note. Such funds attracted $0.5 billion and according to BAML, this "going long long-only" move signals "rising investor confidence" and "broadening participation" in the market's. The term "long-only" refers to fund managers that do not bet against stocks, or "go short," but rather just buy stocks that they expect will increase in price.

III) **The prices Americans pay for goods and services surged in January** by the largest amount in four years, primarily reflecting a rebound in the cost of gasoline that is taking a larger portion out of household incomes. The consumer price index rose by a seasonally adjusted 0.6% in January, the government reported last Wednesday. Economists polled had predicted a 0.3% increase. **Over the past year,** the consumer price index has **climbed 2.5%, the biggest increase in a 12-month span in five years.**

IV) **Retail sales rose 0.4% last month** following a much larger gain in December than originally reported, the government said last Wednesday. Economists had forecast an 0.2% increase. Most U.S. retailers posted strong sales in January, even the moribund department stores, perhaps a sign that higher consumer confidence since the election has encouraged Americans to spend more over the short-term

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

Capitalization: Large Caps +3.34% (YTD +5.42%), **Mid-Caps +2.74%** (YTD +5.22%) and Small Caps +2.86% (YTD +3.27%). Style: **Value +2.36%** (YTD +2.99%) and **Growth +3.18%** (YTD +4.65%). Industry Groups (Leaders): Consumer Discretionary +4.37% (YTD +9.32), **Information Technology +4.77%** (YTD +9.19%), Technology +4.17% (YTD +8.04%), Healthcare +4.62% (YTD +7.02), Consumer Staples +2.94% (YTD +5.93%), Materials +0.65% (YTD +5.28%), **Financial Services +4.99%** (YTD +5.24%) and Utilities +0.78% (YTD +2.08%). (Laggards): Telecommunication -1.04% (YTD -3.40%) and **Energy -1.22%** (YTD -4.41%).

EUROPEAN EQUITIES

The MSCI Europe index was higher last week, as the recent uptrend continued due to renewed optimism about the global growth outlook and supportive bottom-up corporate earnings.

Drivers: I) The reports released last Tuesday on **economic growth for Germany and the euro-zone**, both came in weaker than expected. Gross domestic product for Germany rose by 1.7% in the fourth-quarter, falling short of a 1.8% forecast, while euro-zone GDP growth slowed to 0.4% from 0.5%. Some of the decline has been caused by the **higher than usual concerns** over the U.K. triggering of its formal exit from the EU, and the potential protectionist trade policies that may be implemented by the Trump administration.

II) **The euro-zone's current account surplus narrowed** in December from an all-time high the previous month, data from the European Central Bank showed Friday. The surplus was EUR31 billion ($32.96 billion) in December following EUR36.4 billion in November. In the 12 months to December, the cumulative surplus stood at 3.4% of the euro-zone's gross domestic product, up from 3.1% one year earlier.

III) **Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was higher by +0.91% for the week (MTD +1.18%, YTD +3.29%).**

ASIAN EQUITIES

Asian markets were mostly higher last week, but the appetite for risk slowed due to currency headwinds and broader global political uncertainty. The Dow Jones Asia Pacific Index was higher by +1.36% for the week, (MTD +1.99%), (YTD +6.74%).

Drivers: I) **Prices in China climbed at their fastest rate** last month in over two years, boosted by rising energy prices and Lunar New Year demand for food, though economists expect the momentum to abate before midyear. China's **consumer price index increased 2.5% in January** from a year earlier, compared with a 2.1% gain in December, the National Bureau of Statistics reported. The rise in the key inflation measure was the highest rate in more than 2 1/2 years and outpaced a median 2.4% gain forecast by 11 economists.

II) **Japan's economy slowed again in the final quarter of 2016** as sub-par spending by consumers offset an increase in exports and business investment, leaving growth **lagging behind the 2.0% target** set by Prime Minister Shinzo Abe's administration. Japan's real GDP grew 1.0% on an annualized basis in the three months through December for the fourth consecutive quarter of expansion, the longest stretch of gains since 2013. The expansion was a bit lower than a forecast for 1.1% growth by economists.

III) **Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was lower by -0.74% (MTD +1.02% YTD +0.63%), the Hang Seng Index rose by +1.95% (MTD +2.85% YTD +9.24%) and the Shanghai Composite advanced by +0.17% (MTD +1.36% YTD +3.17%).**

FIXED INCOME

Treasury yields closed the week slightly higher as bond yields have risen four out of the past five weeks, as investors have been flocking to risk assets versus bonds.

Performance: I) **The 10-year Treasury yield was higher last week ending at 2.418% up from 2.409%. The 30-year yield rose last week climbing from 3.006% to 3.024%.**

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 lower last week by -1.54%, but is up month to date +0.49% (YTD +1.16%) driven by profit taking in copper which had rallied due to the ongoing strike at Chile's Escondida mine, and the fall in industrial metals such as palladium due to a rise in the USD.

Performance: I) **The price of oil was down last week** at $53.37 but is up month to date +0.19% (YTD -0.96%). Oil prices were caught last week between larger-than-expected growth in U.S. crude stocks and reports that OPEC members may exercise an option to extend a pact to cut production by six months.

II) **The ICE USD Index**, a gauge of the U.S. dollar's movement against six other major currencies, **was positive** rising +0.19% from 100.71 to 100.90 for the week (MTD +1.39% YTD -1.45%). The U.S. dollar index pressed higher last week, **supported by economic data** that underlined continued strength in the U.S. labor market, manufacturing and housing sectors.

III) **Gold posted a gain for a third consecutive week** as political uncertainty continued to boost investment demand for the metal. For the week, gold was higher by +0.10%, climbing from $1234.7 to $1236.0 (MTD +2.00% YTD +7.29%).

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 +1.17% MTD and +1.68% YTD.**
II) **Equity Hedge has risen +1.51% MTD and is up +2.37% YTD.**
III) **Event Driven is up MTD +1.58% and is higher YTD +2.65%.**
IV) **Distressed Debt is higher at +1.90% MTD and is positive YTD +2.24%**
V) **Macro/CTA has risen by +1.06% MTD and is up +0.10% YTD.**
VI) **Relative Value Arbitrage is higher at +0.50% and is up +1.14% YTD.**

ECONOMIC DATA WATCH AND MARKET OUTLOOK

Looking ahead to next week **as earnings season comes to an end**, investors will be keeping a sharp eye on whether equities and other **risky assets can maintain their recent momentum**, and on the retail sector which begin their reporting cycle. With fifty companies on the S&P 500 **report earnings** during the Presidents Day holiday-shortened week there will be an **emphasis on traditional retailers**, including Dow components Wal-Mart Stores Inc. and Home Depot Inc.

More than 80% of the S&P 500 has reported earnings this season with **gains coming in at 4.6%** from a year ago. This would be the first two quarters of consecutive year-over-year earnings growth since early 2015, per FactSet. Also, **companies are issuing fewer than average outlooks that fall below the Wall Street consensus:** 68% of outlooks fall below the consensus compared with the five-year average of 74%. As equities continue to reach new record highs and earnings return to a growth cycle, the question is how much more of a continued appetite will investors have for risk-based assets that have been outperforming since November.

On the economic data front, the holiday-shortened week opens on Tuesday with the PMI manufacturing flash and whether this national report will confirm the continued strength being signaled by the Philadelphia Fed index.

Existing home sales, which have been struggling, comes out on Wednesday and a solid gain is expected. Due to unusually low supply in the market, existing home sales have continued to struggle, trending only modestly higher. But the advance indication on this report (pending home sales) rose sharply and **forecasters see a strong gain in January** to a 5.575 million rate, up 1.5% from Decembers 5.490 million.

Also on Wednesday, the Fed will release the minutes of their last FOMC meeting with special attention to be focused on the internal balance-sheet debate. Thursday's jobless claims will get close scrutiny as the reporting week is also the sample week of the monthly employment report.

More housing data will come out with the FHFA prices on Thursday and **new home sales on Friday** both of which, like existing homes sales, are expected to point to strength. Month-to-month readings in new home sales are difficult to interpret because of the extreme volatility of the data. When smoothed out however, sales have lost a bit of momentum after a strong first half in 2016. The consensus for 2017's first report point to **a rebound to a 576,000-annualized rate in January, up 7.5% versus December's disappointing 536,000.**

The week ends with the final **consumer sentiment report for February**, one that dropped considerably in early February. Consumer sentiment flattened out in the preliminary February reading, down nearly 3 points to 95.7 and signaling a possible end to the post-election confidence surge. **Forecasters see a small 0.3% bounce higher** for the final February index to 96.0.