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INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

U.S. equity markets closed higher last Friday on a stronger-than-expected February jobs report, but the major indexes halted their multiweek uptrend as oil prices weighed on markets over the past five sessions.

a) **Dow Jones -0.40% MTD +0.53% YTD +6.38%** b) **S&P 500 -0.40% MTD +0.45% YTD +6.42%**
c) **Russell 2000 -2.04% MTD -1.50% YTD +0.80%**

Drivers: I) **The U.S. economy created 235,000 new jobs in February** in the first full month of the Trump administration, signaling steady growth ahead and all but affirmed the Federal Reserve will raise interest rates soon. The economy has added almost half a million jobs for the first two months of 2017, the best back-to-back performance since last summer. Employment in weather sensitive industries got a big lift from the second warmest February on record, including the largest gain in construction jobs in 10 years.

II) **Wages are rising at the fastest pace** of a recovery that is nearing its eighth year of age, reflecting a tight labor market in which companies must compete more aggressively for workers amid a record number of job openings. Wages for the average American worker rose 0.2% last month to $26.09 an hour. Hourly pay increased 2.8% over the past 12 months, up from 2.6% in January. That is just a bit below the post-recession high.

III) The **U.S. trade deficit** climbed in January to a **five-year high**, highlighting the vexing problem faced by a Trump administration determined to reduce the gap. The trade deficit rose 9.6% to $48.5 billion in January from a revised $44.3 billion in December. The U.S. ran a trade deficit of $500.6 billion in 2016 and an even larger deficit of $750 billion in goods. A substantial effort to reduce the gap could take years and there is no guarantee against negative spillover if global trade is disrupted.

IV) Total **consumer credit** increased $8.8 billion in January to a seasonally adjusted $3.77 trillion, posting an annual **growth rate of only 2.8%,** the Federal Reserve reported. That is the slowest monthly growth rate since August 2011. The data may reflect **a renewed consumer uncertainty** that could hit the economy, as consumer spending makes up about 70% of gross domestic product. The sub-par increase in consumer borrowing was also below economists' estimates for an $18.3 billion gain in January.

V) **Equity prices in March are lower with Large-Cap, Growth, Information Technology and Technology leading equity price performance. The laggards for the month are Small-Cap, Value Stocks and REITs.**

Capitalization: **Large Caps +0.29%** (YTD +6.27%), Mid-Caps -0.85% (YTD +4.42%) and **Small Caps** -1.50% (YTD +0.80%). Style: **Value -1.69%** (YTD +0.71%) and **Growth -0.88%** (YTD +3.29%). Industry Groups (Leaders): **Information Technology +1.43%** (YTD +10.96%), Healthcare +1.28% (YTD +10.18), **Technology +1.42%** (YTD +9.95%), Consumer Discretionary -0.55% (YTD +9.70), Financial Services +1.13% (YTD +6.62%), Utilities -1.57% (YTD +4.92%), Materials -0.45% (YTD +4.84%) and Consumer Staples -1.27% (YTD +4.81%). (Laggards): **REITs -4.48%** (YTD -0.10%), Telecommunication +0.25% (YTD -2.68%) and Energy -1.96% (YTD -7.05%).

EUROPEAN EQUITIES

The MSCI Europe index rose by +0.34% last week, after a report the European Central Bank had discussed whether it could raise interest rates before ending its program of monthly asset purchases.

Drivers: I) The **European Central Bank's** governing council did the expected and **kept policy unchanged** at its meeting last Thursday. The benchmark refi rate stayed at zero percent, the deposit rate at minus 0.40 percent and the marginal lending rate at 0.25 percent. The ECB also confirmed that quantitative easing which is currently running at an average €80 billion a month will be reduced to €60 billion a month from April.

II) The **ECB**'s new economic forecasts **provided an upward revision to the inflation profile**. In December, annual HICP inflation originally was expected to be 1.3 percent this year, 1.5 percent in 2018 and 1.7 percent in 2019. The new projections are 1.7 percent, 1.6 percent and 1.7 percent respectively. In other words, the pick-up in inflation so far is considered only transitory and not a potential trigger for a monetary tightening.

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III) **Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was higher by +0.34% for the week (MTD +1.23% YTD +4.57%).**

ASIAN EQUITIES

Asian markets were mixed last week as they traded in a relatively narrow range. Most Asian stocks rose last Friday as oil prices rebounded from three month lows and the ECB upgraded its growth and inflation forecasts for the euro area. The Dow Jones Asia Pacific Index was higher by +0.21% for the week, (MTD -0.42%), (YTD +7.27%).

Drivers: I) **Japan's economy grew at a faster pace** than initially estimated in the October-December quarter, with firms increasing investment amid an initial surge of market optimism over the possible policies of a Donald Trump-led U.S. administration. The nation's gross domestic product grew from the previous quarter at an annualized pace of 1.2%, per government data released last week. A preliminary estimate put fourth-quarter growth at 1.0%.

II) **Prices in China rose less than expected** in February as demand for food eased after the Lunar New Year holiday. China's consumer-price index edged up 0.8% in February from a year earlier, compared with a 2.5% gain in January, the National Bureau of Statistics reported. The key inflation gauge undershot a 1.6% gain forecast by 14 economists and remained well below the 3% inflation ceiling the government has set for the year.

III) **Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was higher by +0.70% (MTD +2.54% YTD +2.56%), the Hang Seng Index rose by +0.07% (MTD -0.77% YTD +7.13%) and the Shanghai Composite declined by -0.17% (MTD -0.89% YTD +3.52%).**

FIXED INCOME

Treasury prices suffered their second straight weekly loss as expectations that the Federal Reserve will raise interest rates next week rose to the level of near-certainty.

Performance: I) **The 10-year Treasury yield was higher last week ending at 2.577% up from 2.480%. The 30-year yield rose last week rising from 3.071% to 3.164%.**

II) **Performance for the week, month-to-date and year-to-date. Barclays US Aggregate Bond was down -0.56% last week, MTD -1.21% and YTD -0.35%. The Barclays US MBS TR was lower by -0.45% last week, MTD -1.06% and YTD -0.62%. The Barclay's US Corporate HY Index dropped by -1.22%, MTD -1.10% and YTD +1.74%.**

COMMODITIES

The DJ Commodity Index was lower last week by -3.40% and is down month to date -4.03% (YTD -3.29%) as energy fell dramatical on a sharp rise in supply and precious metals declined on interest rate expectations.

Performance: I) **The price of oil was down last week -9.04%** to $48.39 and is lower month to date -10.40% (YTD -10.20%). The price of oil fell last week and industry data revealed that the number of active U.S. oil rigs rose for an eighth week in a row. That, combined with a recent report showing a large increase in domestic crude stockpiles and further gains in output, prompted prices to end near session lows.

II) The **ICE USD Index**, a gauge of the U.S dollar's movement against six other major currencies, was **slightly positive, rising +0.04%** from 101.34 to 101.38 for the week (MTD +0.02% YTD -0.98%). The U.S. dollar index was essentially flat last week as investors took profits after a recent rally, ahead of the Fed rate hike expected next week.

III) **Gold suffered its ninth straight down session** on Friday, contributing to a loss for the week as better-than-expected U.S. employment data backed the likelihood that the Federal Reserve will decide to boost interest rates at its meeting next week. For the week gold was lower by -2.47% falling from $1235.0 to $1204.5 (MTD -3.93% YTD +4.56%).

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HEDGE FUNDS

Hedge fund returns in March are primarily lower with the core strategies Event Driven, Distressed, Macro and Relative Value all in negative territory, while Equity Hedge is up for the month.

Performance:

I) **The HFRX Global Hedge Fund Index is lower at -0.27% MTD and +1.35% YTD.**
II) **Equity Hedge has risen +0.28% MTD and is up +2.31% YTD.**
III) **Event Driven is down MTD -0.45% and is higher YTD +2.16%.**
IV) **Distressed Debt is lower at -0.76% MTD and is positive YTD +1.76%**
V) **Macro/CTA has fallen by -0.68% MTD and is down -0.46% YTD.**
VI) **Relative Value Arbitrage is lower at -0.41% and is up +0.84% YTD.**

ECONOMIC DATA WATCH AND MARKET OUTLOOK

Looking ahead to next week, as historians will note that the Ides of March, **March 15th,** is best known for Julius Caesar's assassination, but it may mark an **inflection point for the equity markets** as the Fed is poised to end its loose monetary policy regime. The Fed's monetary policy decision on Wednesday will be center stage, with **markets** nearly **100% certain of a rate increase** following solid February jobs data. The focus will be on the Fed's statement rather than the decision itself. If the central bank strikes a hawkish tone, it could trigger a selloff in the market although market pundits expects Fed Chairwoman Janet Yellen to keep her comments positive to avoid upsetting the market.

On the economic data front, the consumer, the factory sector, and inflation get important updates but they all look minor versus the March FOMC meeting.

Retail sales, unlike consumer confidence, have **been uneven** and forecasters do not see much improvement for February's report on Wednesday. Retail sales are expected to move slightly lower than January's moderate 0.4% gain with the Econoday consensus calling for only a **0.2% February increase**. Auto sales are not expected to benefit February as the ex-auto consensus increase is the same, at 0.2% versus January's outsized 0.8% performance.

Consumer prices, which jumped in the prior report, will also be **reported Wednesday** and much **less pressure is expected**. A significant rise in January consumer prices presaged significant pressure in the Federal Reserve's PCE price target. But a slow-down, tied in part to **lower gasoline prices**, is expected for the February CPI which is projected to drop from January's 0.6% to 0.1% in February. When food and energy is excluded, only a 0.2% gain is expected, down from 0.3% in January. Year-on-year rates are mixed with the total CPI seen rising 0.2% to 2.7%, but the core is down 0.10% to 2.2%. Lower readings in this report would help ease concern that inflation pressures are suddenly building and may overshoot the Federal Reserve's plans.

Factory data will get advance readings from Empire State and Philly Fed, which have been exceptionally strong, followed on **Friday** by the **industrial production report** where strength in contrast has been limited. Forecasters see manufacturing production **rising a solid 0.4%** in February, up from the prior month's 0.2% gain, with overall industrial production rising 0.2% versus -0.3% in January.

Wednesday's FOMC is expected to produce a rate hike, one essentially aimed at slowing inflation in a full employment economy. Having met their employment goals and with inflation nearly at target, the **FOMC is expected to raise rates at their March meeting by 25 basis points** to a range of 0.75 to 1.00 percent. This would be the 3rd rate hike this cycle.

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