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INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

U.S. equity markets posted their largest weekly losses in months, as House Republicans pulled a controversial health-care bill from consideration after failing to secure enough votes to pass it.

a) **Dow Jones -1.52% MTD -0.91% YTD +4.85%** b) **S&P 500 -1.42% MTD -0.70% YTD +5.20%**
c) **Russell 2000 -2.63% MTD -2.19% YTD +0.09%**

Drivers: I) House Speaker Paul Ryan said **Republicans pulled their health-care bill on Friday** as they failed to garner enough support for it, and said they would move on to other priorities as they saw a major campaign pledge to repeal and replace Obamacare fail. The move came after a day of intense negotiating between Republican leaders and unhappy members of their own party, as well as the involvement of President Donald Trump.

II) The CBOE Volatility Index, the **VIX, last Friday** hit its **highest level since November**, as the probability of the key health-care vote came into question. The VIX jumped nearly 7% to 14.16 on Friday, pushing it above its 200-day moving average of 13.54 for the first time since December. The jump in the VIX comes at the end of six consecutive days of advances. The VIX measures market expectations for volatility over the next 30 days.

III) Sales **of previously owned homes fell in February** as the housing market has been hampered by tight inventory. Existing-home sales were at a 5.48 million seasonally adjusted annual rate last month, the National Association of Realtors reported. That was down 3.7% compared with January's sales rate, which was the strongest in a decade. Sales in February were still 5.4% higher compared with a year ago, but the dearth of supply has worsened. Inventory was 6.4% lower than in February of 2016.

IV) **New orders for durable goods**, an important sign for the U.S. economy, up 1.7% in February, climbing for the second straight month. This, on top of January's increase of 2.3%, reflects a **pickup in manufacturing** that kicked in toward the end of last year. Commercial aircraft led February's increase, with orders jumping almost 48%.

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

Capitalization: **Large Caps -0.83%** (YTD +5.08%), Mid-Caps -1.39% (YTD +3.85%) and **Small Caps -2.19%** (YTD +0.09%). Style: **Value -2.77%** (YTD -0.39%) and **Growth -1.39%** (YTD +2.76%). Industry Groups (Leaders): **Consumer Discretionary +4.85%** (YTD +15.66), Information Technology +1.34% (YTD +10.86%), Technology +1.27% (YTD +9.79%), **Consumer Staples +2.80%** (YTD +9.13%), Healthcare -0.54% (YTD +8.20), Utilities +1.00% (YTD +7.65%), Materials -0.99% (YTD +4.26%), REITs -1.94% (YTD +2.56%) and **Financial Services -3.60%** (YTD +1.62%). (Laggards): Telecommunication -0.44% (YTD -3.35%) and Energy -3.38% (YTD -8.39%).

EUROPEAN EQUITIES

The MSCI Europe index rose by +0.13% last week, but fell four out of the five trading days, as traders looked to the U.S. where President Trump failed to push through his promised repeal of Obama's Affordable Care Act.

Drivers: I) According to the **European Central Bank latest Economic Bulletin**, the **economic recovery** in the Eurozone is **steadily firming** and the trend is likely to continue. Incoming data, notably survey results, have increased the Governing Council's confidence that the ongoing economic expansion will continue to firm and broaden. Overall, surveys point to a robust growth momentum in the first quarter of 2017.

II) It was a relatively light week for economic data. On the plus side in Europe, the flash **March PMIs** climbed to **near six-year highs**. Consumer confidence in March improved. However, Germany's producer price index increased to a five-year high while GfK consumer confidence slipped. In the UK, retail sales jumped more than expected, but both consumer and producer prices also surprised on the high side.

III) **Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was higher by +0.13% for the week (MTD +3.68% YTD +7.10%).**

ASIAN EQUITIES

Asian markets were mixed as the indexes in Japan tumbled due primarily to the increase in the value of the yen against the U.S. dollar. The Dow Jones Asia Pacific Index was lower by -0.05% for the week, (MTD +2.01% YTD +9.88%).

Drivers: I) **Bank of Japan Governor** Haruhiko Kuroda said there is "no reason" to raise the bank's bond yield targets now with **inflation** so **far from its 2.0% target** and rejected the idea that the BoJ would begin to withdraw stimulus soon. While Japan's economy is slowly recovering, it still lacks enough momentum to quickly boost inflation to the BoJ's target. Kuroda said that risks to both the growth and price outlooks were skewed to the downside.

II) The yen's strength, as it rose to its highest level in four months on Wednesday, is frustrating many in the export-dependent economy. However, **Japan's latest merchandise trade data** showed that the currency's recent weakness had **helped boost the country's trade surplus** in February after it spent most of last year in deficit. Until recently, the widening interest rate gap between the U.S. and Japan was supporting the U.S. dollar.

III) **Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was lower by -1.33% (MTD +0.75% YTD +0.78%), the Hang Seng Index rose by +0.20% (MTD +2.53% YTD +10.72%) and the Shanghai Composite advanced by +0.99% (MTD +0.85% YTD +5.34%).**

FIXED INCOME

Treasury yields saw a second-straight weekly drop, as recalcitrant House Republicans handed President Donald Trump his first major political defeat by refusing to support his bill to repeal and replace Obamacare.

Performance: I) **The 10-year Treasury yield was lower last week ending at 2.413% down from 2.502%. The 30-year yield fell last week dropping from 3.110% to 3.014%.**

II) **Performance for the week, month-to-date and year-to-date. Barclays US Aggregate Bond was up +0.60% last week, MTD -0.12% and YTD +0.75%. The Barclays US MBS TR was higher by +0.50% last week, MTD -0.17% and YTD +0.27%. The Barclay's US Corporate HY Index fell by -0.21%, MTD -1.10% and YTD +1.76%.**

COMMODITIES

The DJ Commodity Index was down last week by -0.85% and is down month to date -3.82% (YTD -3.07%) as oil fell due to the continuing supply glut, and the drop in copper as striking workers at the Escondida mine in Chile said they were willing to open discussions to end their strike.

Performance: I) The price of oil was down last week, falling -1.19% to $48.14 and is lower month to date -10.87% (YTD -10.67%). **Oil fell** as traders continued to weigh signs of OPEC led cutbacks in global crude production ahead of a meeting of oil producers this weekend, against data pointing to the likelihood of **further gains in U.S. output.**

II) The **ICE USD Index**, a gauge of the U.S dollar's movement against six other major currencies, was negative falling -0.55% from 101.31 to 99.76 for the week (MTD -1.58% YTD -2.46%). The U.S. dollar index **fell last week after House Republicans pulled their health-care bill**, raising questions about the ability of the Trump administration to pass its ambitious economic agenda.

III) **Gold posted a second weekly gain** in a row as demand for assets perceived as risky waned and the U.S. dollar touched its lowest level in about seven weeks. For the week gold was higher by +1.42% climbing from $1228.59 to $1246.4 (MTD -0.60% YTD +8.19%).

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 -0.28% MTD and +1.35% YTD.**
II) **Equity Hedge has risen +0.36% MTD and is up +2.39% YTD.**
III) **Event Driven is down MTD -0.50% and is higher YTD +2.11%.**
IV) **Distressed Debt is lower at -1.48% MTD and is positive YTD +1.02%**
V) **Macro/CTA has fallen by -0.65% MTD and is down -0.43% YTD.**
VI) **Relative Value Arbitrage is lower at -0.49% and is up +0.76% YTD.**

ECONOMIC DATA WATCH AND MARKET OUTLOOK

Looking ahead to next week, the stock market will face the ultimate **litmus test as euphoria over President Donald Trump's ambitious agenda** to "make America great again" collides with the **realities of U.S. politics.** Trump suffered a major setback on Friday when House Republicans withdrew the American Health Care Act after they failed to secure enough votes to pass the bill. The withdrawal is a blow to the president who had promised to repeal and the replace the existing Affordable Care Act with a superior plan and **casts doubt** on how quickly his administration will be able to **deliver on other key pledges** such as tax reforms.

The difficulty over the health-care bill is likely to serve as a wake-up call for investors who had bid up stocks in anticipation of more business-friendly and pro-growth policies from Trump. Up to now, **the market rally** has been based on the expectation that Trump and the Republicans would **enact meaningful change**. The fact that the health-care bill hit a roadblock does not bode well for the Republicans' ability to work together and may lead to delays in tax cuts and fiscal stimulus.

There will likely be **some weakness,** but it is doubtful that it would carry far before **stocks recover**. There has been a rapid deterioration in stock-market sentiment the past few weeks. This suggests that **cash is accumulating** on the sidelines and that some of the potential negative news is already built into current prices. The **S&P 500's relative strength index**, a momentum indicator, recently **rose above 80** for the **first time in 20 years**, according to strategists at Morgan Stanley. Although this suggests elevated near-term risks, it also indicates a **bullish trend** in the long term and the **large-cap index** has **typically risen sharply in the following 12 months**.

On the economic data front, the economy appears to have been flattening this quarter and forecasters see mixed results for this week's heavy slate of data. A narrowing in the goods deficit is expected and would help first-quarter GDP, and sizable increases are expected for Case-Shiller home prices and pending home sales, both of which have been in uneven.

Lack of resales on the market has been keeping home prices firm. **The Case-Shiller 20-city index** jumped an outsized 0.90% in December with year-on-year appreciation rising 0.40% to 5.60%. Forecasters, at a **consensus 0.8% monthly gain and 5.70% yearly rate**, are looking for extending strength in the January report in what would contrast with softness for the FHFA house price index.

Month-to-month swings in **existing home sales** have been correctly presaged by the pending home sales index which tracks initial contract signings. This index has been up-and-down the last three readings underscoring the slow and uneven pace of the housing sector. **Forecasters see strength** for the February index where the Econoday consensus is for a 1.80% gain.

The Dallas and Richmond Feds are expected to post strong reports with both the consumer confidence and consumer sentiment indexes seen holding steady at high levels. But the weakness lies in expectations for Friday's **personal income and spending report,** which is expected to show only **moderate strength on the income side and disappointment for spending.**