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INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

U.S. equity markets saw a weekly advance, as comments from Janet Yellen and other key Federal Reserve officials confirmed growing expectations of a March interest rate increase.

a) **Dow Jones +0.94% MTD +5.17%* YTD +6.81%** b) **S&P 500 +0.71% MTD +3.97% YTD +6.85%**
c) **Russell 2000 +0.01% MTD +1.93% YTD +2.90%**
All MTD data is through February 28, 2017

Drivers: I) An **interest-rate hike** at the U.S. central bank's policy meeting in less than two weeks **is probable**, Federal Reserve Chairwoman Janet Yellen said last week. "At our meeting later this month, the Federal Open Market Committee will evaluate whether employment and inflation are continuing to evolve in line with our expectations, in which case a further adjustment of the Federal funds rate would likely be appropriate," Yellen said in a speech to The Executives' Club of Chicago.

II) **Historically high market valuations** got another boost from recent an advance in the S&P 500 index, sending the **forward price-to-earnings ratio to its highest level since 2004**, according to FactSet data. The S&P 500 index 12-month forward P/E climbed to 17.9, based on Friday's closing price of 2,383.12 and earnings-per-share estimate of $133.49 for 2017. The current forward 12-month P/E ratio is now above the 5-year average of 15.2, 10-year average of 14.4, 15-year average of 15.2, and 20-year average of 17.2.

III) The **growth** in the **U.S. economy** in the final quarter of Barack Obama's presidency was left at **1.9%,** held down by a larger trade deficit even as consumer spending rebounded strongly. The government's second look at GDP in the fourth quarter showed a larger increase in consumer spending than initially reported: 3% vs. 2.5%. The increase in what consumers spent was offset by smaller gains in business investment and local and state spending.

IV) The higher cost of goods such as gasoline pushed **U.S. inflation in January to the highest level since 2012**, offsetting rising household incomes and raising the odds of an increase in interest rates soon. The PCE inflation index jumped 0.4% in January, pushing the increase over the last 12 months to 1.9% from 1.6% in December. That matches the highest year-over-year level since October 2012.

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

Capitalization: **Large Caps +3.87%** (YTD +5.96%), Mid-Caps +2.83% (YTD +5.31%) and **Small Caps** +1.93% (YTD +2.33%). Style: **Value** +**1.82%** (YTD +2.44%) and **Growth +2.75%** (YTD +4.21%). Industry Groups (Leaders): Consumer Discretionary +5.31% (YTD +10.31), Information Technology +4.97% (YTD +9.40%), **Healthcare +6.35%** (YTD +8.78), Technology +4.53% (YTD +8.42%), **Utilities +5.23%** (YTD +6.59%), Consumer Staples +3.17% (YTD +6.17%), Financial Services +5.17% (YTD +5.42%) and Materials +0.68% (YTD +5.31%). (Laggards): Telecommunication -0.56% (YTD -2.93%) and **Energy -2.02%** (YTD -5.18%).

EUROPEAN EQUITIES

The MSCI Europe index rose by +1.46% last week after U.S. President Donald Trump reiterated his promise of more fiscal spending and tax cuts.

Drivers: I) **Germany's inflation** rate in February was the **highest in 4 1/2 years**, but wage settlements remained moderate, underpinning expectations that the ECB will continue with its ultraloose monetary policy for the euro-zone. Rising prices for energy and food contributed to an increase in the **yearly inflation rate to 2.2%** last month from 1.9% in January in Europe's biggest economy. This is the highest rate in Germany since August 2012.

II) IHS Markit reported its **Purchasing Managers Index for Manufacturing sector rose to 55.4** from 55.2 in January, reaching its **highest level since April 2011**. The measure is consistent with other recent indicators that point to a pickup in euro-zone economic growth in the early months of 2017, despite heightened political uncertainty ahead of European elections in the Netherlands, France and Germany.

III) **Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was higher by +1.46% for the week (MTD +1.19% YTD +4.21%).**

ASIAN EQUITIES

Asian markets were mostly down last week as a decline in commodity prices and a selloff in U.S. Treasuries weighed on global sentiment, sending major Asia-Pacific markets lower. The Dow Jones Asia Pacific Index was lower by -1.13% for the week, (MTD +2.92%), (YTD +7.04%).

Drivers: I) **Japan's consumer prices rose for the first time in more than a year** in January as rising global oil prices gave Prime Minister Shinzo Abe and the Bank of Japan a helping hand in their campaign to overcome deflation. The core consumer price index rose 0.1% from a year earlier in January after falling 0.2% in the previous month, according to data released last week by the Ministry of Internal Affairs and Communications. The rise was the **first since a 0.1% increase in December 2015.**

II) **China's official manufacturing purchasing managers' index increased to 51.6** from January's 51.3. The February reading beat a median forecast of 51.3 by 10 economists surveyed by the Wall Street Journal. The sub-index measuring new orders climbed to 53.0 from 52.8 in January, while the production sub-index improved to 53.7 from 53.1, the statistics bureau reported.

III) **Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was higher by +0.96% (MTD +0.47% YTD +1.86%), the Hang Seng Index fell by -1.72% (MTD +1.58% YTD +7.06%) and the Shanghai Composite declined by -1.08% (MTD +2.61% YTD +3.69%).**

FIXED INCOME

Treasury yields posted a sharp weekly rise, as a slew of Federal Reserve officials, highlighted by Federal Reserve Chairwoman Janet Yellen's remarks, decisively shifted market expectations for a March rate hike.

Performance: I) **The 10-year Treasury yield was higher last week ending at 2.480% up from 2.314%. The 30-year yield rose last week rising from 2.953% to 3.071%.**

II) **Performance for the week, month-to-date and year-to-date. Barclays US Aggregate Bond was downo.50% last week, MTD +0.67% and YTD +0.17%. The Barclays US MBS TR was lower by -0.54% last week, MTD +0.48% and YTD -0.18%. The Barclay's US Corporate HY Index rose by +0.32%, MTD +1.46% and YTD +3.00%.**

COMMODITIES

The DJ Commodity Index was lower last week by -0.38% and is down month to date -0.63% (YTD +0.15%) as energy fell on supply concerns and metals were negatively affected by a stronger U.S. dollar.

Performance: I) The **price of oil was down last week -1.52%** to $53.20 and is up month to date +1.39% (YTD -1.28%), prompted by rising U.S. crude production, another **rise in the number of active oil rigs**, record domestic supplies and overall strength in the dollar.

II) **The ICE USD Index**, a gauge of the U.S dollar's movement against six other major currencies, **was positive** rising +0.22% from 101.12 to 101.34 for the week (MTD +1.85% YTD -1.01%). The U.S. dollar index was higher after Federal Reserve Chairwoman Janet Yellen signaled that the **central bank would likely raise interest rates** at its coming meeting.

III) **Gold fell last week**, after U.S. Federal Reserve Chairwoman Janet Yellen said an interest-rate increase was likely to be announced at the central bank's next meeting later this month. A rise in interest rates is a negative for gold as it is a non-yielding asset and as the USD appreciates with higher rates, the metal is cheaper to buy in dollar terms. For the week gold was lower by -1.83% falling from $1258.0 to $1235.0 (MTD +3.47% YTD +7.20%).

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 +1.12% MTD and +1.85% YTD.**
II) **Equity Hedge has risen +1.17% MTD and is up +2.64% YTD.**
III) **Event Driven is up MTD +1.55% and is higher YTD +2.75%.**
IV) **Distressed Debt is higher at +2.19% MTD and is positive YTD +2.24%**
V) **Macro/CTA has risen by +1.18% MTD and is up +0.14% YTD.**
VI) **Relative Value Arbitrage is higher at +0.62% and is up +1.38% YTD.**

ECONOMIC DATA WATCH AND MARKET OUTLOOK

Looking ahead to next week, as **the bull market in equities** enters its eighth-year anniversary, the health of the market **depends on the belief that President Donald Trump will push through his agenda.** The key parts of this agenda include lower taxes, deregulation and infrastructure spending in a timely manner, along with continued stable economic growth. While many investors are **concerned about high stock valuations** and question at what point is it too high to buy, **earnings are an essential underpinning**, especially after three years of relatively stagnant results, but valuations are not the only consideration. If you believe that some parts of the 'Trump agenda' will pass at any point this year, the upside earnings case is correct.

On the economic data front, a week ending with the February employment report starts Monday with factory orders and, based on advance durables data, weakness outside of aircraft may be the theme. **Factory orders are expected to rise a healthy 1.10%**, but will be getting an **outsized boost from aircraft** which posted monthly upswings in the advance durables report. Weakness in core capital goods orders was a major disappointment of the durables report.

Weakness also looks to be the theme for **Tuesday's trade report** where advance data showed **goods exports on the decline and goods imports on the rise**. At a deficit of $69.2 billion, January was a very weak month for advance goods data. Exports were pulled down by a disappointing drop in capital goods while a surge in imports was once again led by consumer goods and vehicles. Forecasters see the international trade balance for February, which includes service exports, coming in at **minus $48.5 billion** in what would be one of the **widest deficits in 5 years** and an opening round **negative for first-quarter GDP.**

ADP, coming off its high success in predicting outsized strength in the January employment report, will get close attention on Wednesday, likely overshadowing the second revision to productivity which is expected to once again show weakness. ADP's employment estimate very accurately predicted January's strength, and it was outlier strength, for private payrolls which rose 237,000. At a **consensus 183,000**, forecasters see a **downgrade for February's payrolls** in what however would still be positive growth.

Import and export prices on Thursday will be the start for several February reports on inflation that will extend into the following week. On Friday, we will see the employment report. The Econoday **consensus for February nonfarm payrolls is a solid 195,000** in what would mark only limited give back from January's surprisingly strong 227,000 gain. In further strength, forecasters see a 0.10% drop in February's unemployment rate to 4.7 percent and a sizable 0.3 percent increase in average hourly earnings that could engender talk of wage inflation. The average workweek is expected to hold steady at 34.4 hours. **If the report meets consensus, chances for a rate hike at the mid-month FOMC would increase further.**