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INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

U.S. equity markets declined last week closing with a three-day losing streak, as investors dealt with the beginning of corporate earnings season as well as growing tensions in Syria and North Korea.

a) **Dow Jones -1.01% MTD -0.96% YTD +4.18%** b) **S&P 500 -1.19 MTD -1.35% YTD +4.64%**
c) **Russell 2000 -1.39% MTD -2.90% YTD -0.51%**

Drivers: I) **Financials** were in focus after J.P. Morgan Chase & Co., Citigroup Inc. and Wells Fargo & Co. reported quarterly results. **J.P. Morgan and Citigroup both beat expectations** in their latest quarter, helped by gains in their trading divisions, but **Wells Fargo's revenue fell short** of forecasts, and the bank remained in the minds of investors due to its high-pressure sales-practices scandal.

II) The **banking sector** was one of Wall Street's most profitable trades after President Donald Trump's November election win. At one point, financials accounted for more than half the overall stock market's advance. However, it has **fallen more than 8% since early March**, leading the overall market lower. Losses have come amid broad concerns about valuation, as well as the Fed indicating it may only raise interest rates by three times in 2017.

III) **Retail sales fell 0.2%** with another unwanted surprise coming from a sharp downward revision to February, now at minus 0.3%. Weakness in March was wide from autos to restaurants to building materials to furniture and even sporting goods. The poor showing the last two months is adding to evidence that first-quarter U.S. growth will be on the soft side.

IV) Further news of economic slow-down comes from **consumer prices** where a March contraction led to sizable slowing in year-on-year rates. The total rate is 2.4%, **down 0.3%** from February and sliding back to the Fed's 2.0% target. Inflation at the consumer level has stabilized in the past two months, mostly because of the lower cost of gasoline and other fuels. Home prices have also taken a step back.

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

Capitalization: **Large Caps -1.36%** (YTD +4.59%), Mid-Caps -1.63% (YTD +3.43%) and **Small Caps -2.90%** (YTD -0.51%). Style: **Value -2.68%** (YTD -1.02%) and **Growth -2.44%** (YTD +1.73%). Industry Groups (Leaders): Consumer Discretionary +0.29% (YTD +14.35), Information Technology -2.00% (YTD +9.81%), **Consumer Staples +0.94%** (YTD +9.40%), Technology -1.74% (YTD +8.86%), Healthcare -0.54% (YTD +7.87), Utilities +0.73% (YTD +7.16%), REITs +1.47% (YTD +5.02%) and Materials -2.06% (YTD +3.63%). (Laggards): **Financial Services -3.51%** (YTD -1.10%), **Telecommunication +1.94%** (YTD -2.44%) and Energy -0.92% (YTD -7.40%).

EUROPEAN EQUITIES

The MSCI Europe index fell by -0.11% last week after President Trump told The Wall Street Journal the U.S. currency "is getting too strong" and he would prefer the Federal Reserve to keep interest rates low.

Drivers: I) In **Germany, the April ZEW survey found analysts somewhat more upbeat about the economy**. Not only was there an improvement in the assessment of current conditions, but expectations were also more optimistic. **The current conditions gauge was up almost three points at 80.1**, **its fourth rise in the last five months** and its highest level since July 2011. Expectations rose a sharper 6.7 points to 19.5, their best reading since August 2015.

II) Data from the **UK** indicated that **consumer and producer output prices were up 2.3% and 3.6%** respectively on the year. The ILO jobless rate for the three months ending in February remained at 4.7 %. However, the claimant count unemployment climbed by a surprising 25,000 in March. And average weekly earnings excluding bonuses continued to be soft.

III) **Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was lower by -0.11% for the week (MTD -0.75% YTD +6.64%).**

ASIAN EQUITIES

Asian markets were lower led by a drop in the Nikkei, due to a rise in the value of the yen to the USD as the currency remains a safe-haven currency. A stronger yen reduces exporters' overseas profits when re-patriated. The Dow Jones Asia Pacific Index was essentially flat up by +0.09% for the week, (MTD -0.44% YTD +8.56%).

Drivers: I) In **Japan**, February private sector **machinery orders** (excluding volatile items) were **up 1.5%** on the month (seasonally adjusted) after dropping 3.2% in January. This series, which excludes orders for ships and those from electric power companies, is considered a proxy for capital expenditures. The rebound in February was largely driven by the manufacturing sector, which posted an increase in orders of 6.0% after dropping sharply by 10.6% in January.

II) In **China**, March **consumer prices were up 0.9%** on the year after increasing 0.8% the month before. For the month, the CPI was down 0.3%. Inflation remains well below the 2.5% level recorded in January. Weaker food prices are the main factor weighing on headline inflation in March, down 4.4% on the year.

III) **Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was lower by -1.76% (MTD -3.03% YTD -4.07%), the Hang Seng Index fell by -0.05% (MTD +0.57% YTD +10.28%) and the Shanghai Composite declined by -1.23% (MTD +0.73% YTD +4.59%).**

FIXED INCOME

Treasury yields were lower last week in the aftermath of the U.S. Navy's attack on Syrian targets, which sent investors rushing to the safety of government bonds, pushing prices higher and yields firmly lower.

Performance: I) **The 10-year Treasury yield was lower last week ending at 2.234% down from 2.382%. The 30-year yield fell last week dropping from 3.007% to 2.891%.**

II) **Performance for the week, month-to-date and year-to-date. Barclays US Aggregate Bond was up +0.61% last week, MTD +0.93% and YTD +1.75%. The Barclays US MBS TR was higher by +0.46% last week, MTD +0.78% and YTD +1.26%. The Barclay's US Corporate HY Index rose by +0.06%, MTD +0.36% and YTD +3.00%.**

COMMODITIES

The DJ Commodity Index was up last week by +0.54% and is up month to date +1.19% (YTD -0.84%) driven by a lower USD and expectations OPEC will renew its production cuts for another six months.

Performance: I) The price of **oil was higher** last week rising +1.18% to $52.91 and is up month to date +4.05% (YTD -1.82%). Oil prices posted a third consecutive weekly advance, as traders continued to weigh the prospects and timing for a balance between supply and demand in the market.

II) The **ICE USD Index**, a gauge of the U.S dollar's movement against six other major currencies, was **negative** dropping -0.54% from 101.13 to 100.58 for the week (MTD +0.02% YTD -1.76%). The U.S. dollar index fell after President Trump's comments earlier in the week that the **U.S. currency was "getting too strong"** and that he would like to see interest rates stay low.

III) **Gold prices were higher** for a third week in a row, bolstered as the U.S. dollar fell after U.S. President Donald Trump said the currency has been trading at "too strong" of a level. For the week gold was higher by +2.70% climbing from $1256.1 to $1290.1 (MTD +3.08% YTD +11.99%).

HEDGE FUNDS

Hedge fund returns in April are mixed with the core strategies Event Driven, Distressed and Relative Value in positive territory, while Equity Hedge and Macro are down for the month.

Performance:

I) **The HFRX Global Hedge Fund Index is lower at -0.10% MTD and +1.56% YTD.**
II) **Equity Hedge has dropped -0.35% MTD and is up +2.34% YTD.**
III) **Event Driven is up MTD +0.00% and is higher YTD +2.95%.**
IV) **Distressed Debt is higher at +0.34% MTD and is positive YTD +1.93%**
V) **Macro/CTA is lower by -0.17% MTD and is down -0.93% YTD.**
VI) **Relative Value Arbitrage is higher at +0.13% and is up +1.15% YTD.**

ECONOMIC DATA WATCH AND MARKET OUTLOOK

Looking ahead to next week, **equity markets have held up well despite growing tensions** in Syria, threats of military action by North Korea and the bombing of Islamic State targets in Afghanistan. The opening of financial markets on Monday will be confronted with investors being on edge. There have been promises of a major event coming out of North Korea over the weekend and the USS carrier Carl Vinson sent in the wake of heightened aggressions toward the Korean Peninsula. Ultimately, there's the question of how much support China will lend the U.S. following the meeting between Trump and Xi.

With all the geo-political concerns, major **U.S. equity markets were down just over 1.00% last week** as investors are still hoping to see low **double digit earnings growth** from U.S. companies for the first quarter. Over that same period, the CBOE Volatility Index has jumped 29% to 15.96, but is still below its long-term average of 20, while haven assets like gold settled at their highest levels since the November election. What is crucial is what happens this weekend, as markets detest uncertainty.

Since the use of **cruise missiles in the 1990s**, **stocks have to varying degrees bounced back** from situations warranting those strikes relatively **quickly**. The last time the issue was of any real market concern, before President Trump's Syria strike, was in 2013, when a strike by the U.S. was aborted by President Barack Obama that lacked international support.

On the economic data front, **housing** looks like the strength of what may be a mixed week for economic news. Gains are expected for Tuesday's industrial production report despite March's heavy weather having pulled down factory hours. Hours worked in the factory sector fell sharply in March likely tied to the Category 3 storm Stella that hit the Northeast at mid-month. Though fewer hours point to reduced volumes, **forecasters** are calling for a **0.3 percent rise in manufacturing production**.

Housing starts and permits have been positive but the March outlook is mixed with a drop expected for starts but continued strength for permits. Growth in single-family starts is rising at a mid-single digit rate with permits, in a strong positive for the new home market, moving at a double-digit rate. For multi-family units, starts are rising in the double digits though permits, after five years of steady and strong building, have begun to slow. Forecasters see **housing starts in March falling back to a 1.262 million** annualized pace but with building permits continuing to strengthen to a 1.250 million rate.

Friday's highlight will be **existing home sales,** where a big jump is expected. Existing home sales have been trending steadily near the 5.550 million annualized rate for the last four reports, not showing much momentum, but still holding at expansion highs. **Forecasters are calling for a significant gain** to a consensus **5.605 million** in April.

Wednesday's focus will be the Beige Book with updates on the labor market and consumer spending to be closely watched. The week will also include April updates from two regional reports that have been signaling exceptional strength for the factory sector: Empire State on Monday and the Philly Fed on Tuesday.