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INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

U.S. equity markets were higher last week driven by solid corporate earnings, plus President Donald Trump's promise of a much-awaited tax-overhaul plan and ahead of the first round of France's closely watched presidential election.

a) **Dow Jones +0.51% MTD -0.45% YTD +4.71%** b) **S&P 500 +0.87 MTD -0.49% YTD +5.54%**
c) **Russell 2000 +2.58% MTD -0.40% YTD +2.06%**

Drivers: I) Thus far, just under 20.0% of **S&P 500 Index companies** have reports earnings results; of these, 65.0% have beaten analysts' sales estimates, while **76.0% have exceeded analysts' earnings per share estimates**. Up to date expectations for the first quarter calls for sales growth of 6.9% and 9.6% increase in EPS which are the best results for both since the fourth quarter of 2011.

II) **President Trump** told the Associated Press he will **unveil a tax-reform package next week** and promised a "massive tax cut" for individuals and businesses. He said it would be released "Wednesday or shortly thereafter" but declined to give details. He said the cuts will be "bigger I believe than any tax cut ever."

III) **Manufacturing output lost momentum in March**, dragged down by weakness in the auto sector, according to Federal Reserve data. Factory output fell 0.4%, the first decline since last August, and the drag would have lowered overall March industrial production if not for utilities output. The gain saw a record 8.6% rise in utilities output as colder temperatures returned following warm weather in the first two months of the year

IV) **Sales of previously-owned homes climbed higher in March** as solid demand for housing boosted the market. Existing-home sales came in at a seasonally adjusted annual rate of 5.71 million, a 4.4% monthly increase, the National Association of Realtors reported Friday. That was the **strongest selling pace since February 2007** and was 5.9% higher than a year ago.

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

Capitalization: Large Caps -0.43% (YTD +5.57%), **Mid-Caps -0.13%** (YTD +5.01%) and Small Caps -0.40% (YTD +2.06%). Style: **Value -0.62%** (YTD +1.08%) and **Growth +0.17%** (YTD +4.45%). Industry Groups (Leaders): Consumer Discretionary +1.46% (YTD +15.68), Information Technology -0.16% (YTD +11.87%), Technology -0.27% (YTD +10.49%), **Consumer Staples +1.57%** (YTD +10.09%), Healthcare -0.82% (YTD +7.56), Utilities +0.87% (YTD +7.31%), REITs +2.16% (YTD +5.73%), Materials -0.36% (YTD +5.43%) and Financial Services -2.43% (YTD +0.01%). (Laggards): **Telecommunication -1.74%** (YTD -5.72%) and **Energy -3.06%** (YTD -9.40%).

EUROPEAN EQUITIES

The MSCI Europe index was down -0.08% last week as investors were cautious in the run-up to the French election to be held this Sunday with the results too close to call according to recent polls.

Drivers: I) As Sunday's first round **presidential election in France** nears, the polls are showing a very close race between four candidates, creating a scenario that could shake-up European financial markets next week. Two **anti-European Union candidates,** Marine Le Pen and Jean-Luc Melenchon have a serious chance of making it into the final round runoff on May 7, **raising fears** this could be the beginning of the **end for the euro-zone**.

II) Most of the **economic data released in Europe were positive** with the exceptions of German producer prices which increased less than anticipated. UK retail sales fell 1.80% for the month. However, on the upside were the flash April **manufacturing PMI** adding 0.6 to a reading of 56.8 while the **services PMI** added 0.2 to 56.2. **The composite was up 0.3 to 56.7, the highest since April 2011.** The February merchandise trade surplus widened and consumer confidence was higher in the flash April reading.

III) **Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was lower by -0.08% for the week (MTD -0.83% YTD +6.56%).**

ASIAN EQUITIES

Asian markets were mixed last week as geopolitical concerns that weighed on equities, were only offset partially by positive earnings reports. The Dow Jones Asia Pacific Index was up +0.47% for the week, (MTD +0.03% YTD +9.08%).

Drivers: I) Focus was on the latest growth data from China. First quarter gross domestic product increased 6.9 percent from a year ago after rising 6.8 percent in the fourth quarter and 6.7 percent in the four preceding quarters. Industrial output for the first quarter improved to 6.8 percent from a year ago after increasing 6.0 percent in the fourth quarter while retail sales eased slightly to 10.0 from 10.4 percent. Official data show that China's economy has grown in a range of 6.7 percent to 7.2 percent for the last 11 quarters — an amazingly long period of stability by international standards

II) March merchandise trade surplus narrowed to ¥614.7 billion from ¥813.4 billion in February. Exports increased 12.0 percent on the year, up from 11.3 percent in February. Imports were up 15.8 percent on the year after increasing 1.2 percent in February. Exports to most of Japan's major Asian trading partners showed strong growth.

III) **Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was higher by +1.56% (MTD -1.53% YTD -2.58%), the Hang Seng Index fell by -0.91% (MTD -0.37% YTD +9.28%) and the Shanghai Composite declined by -2.25% (MTD -1.53% YTD +2.24%).**

FIXED INCOME

Treasury yields were relatively unchanged last week, as investors did not take profits despite a strong two rally due to legislative uncertainty in the U.S. and the hotly contested Presidential run-off in France.

Performance: I) **The 10-year Treasury yield was lower last week ending at 2.231%% down from 2.234%. The 30-year yield fell last week dropping from 2.891% to 2.888%.**

II) **Performance for the week, month-to-date and year-to-date. Barclays US Aggregate Bond was flat +0.00% last week, MTD +0.93% and YTD +1.75%. The Barclays US MBS TR was lower by -0.05% last week, MTD +0.73% and YTD +1.21%. The Barclay's US Corporate HY Index rose by +0.18%, MTD +0.49% and YTD +3.17%.**

COMMODITIES

The DJ Commodity Index was lower last week by -3.05% and is down month to date -1.86% (YTD -3.82%) prompted by the sharp drop in industrial metal prices due to geo-political uncertainty and the decline in demand for steel.

Performance: I) **The price of oil was lower** last week falling -5.01% to $50.26 and is down month to date -1.16% (YTD -6.73%). Oil prices fell last week with West Texas Intermediate dropping below the $50-a-barrel mark for the first time in over two weeks, as investors **question OPEC's ability to bring down excess stockpiles.**

II) The **ICE USD Index**, a gauge of the U.S dollar's movement against six other major currencies, **was negative dropping -0.61%** from 101.58 to 99.96 for the week (MTD -0.60% YTD -2.36%). The U.S. dollar index has been falling in recent weeks, as hopes are fading that the administration will be able to deliver on its legislative agenda.

III) **Gold prices fell last week**, but erased much of the week's losses as the metal rallied on Friday due to investor anxiety regarding the outcome of the first round of France's presidential election this week-end. For the week gold was lower by -0.28% dropping from $1290.1 to $1286.5 (MTD +2.79% YTD +11.67%).

HEDGE FUNDS

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

Performance:

I) The HFRX Global Hedge Fund Index is lower at -0.01% MTD and +1.65% YTD.
II) Equity Hedge has dropped -0.16% MTD and is up +2.53% YTD.
III) Event Driven is lower MTD -0.19% and is higher YTD +3.15%.
IV) Distressed Debt is higher at +0.51% MTD and is positive YTD +2.11%
V) Macro/CTA is lower by -0.24% MTD and is down -1.00% YTD.
VI) Relative Value Arbitrage is higher at +0.12% and is up +1.14% YTD.

ECONOMIC DATA WATCH AND MARKET OUTLOOK

As we look ahead to next week, investors will want to see if **President Trump has thrown a life line to the markets**, to help it break out of its multi-week trading malaise. The president on Friday said he will reveal a "massive" tax package that will deliver cuts "bigger I believe than any tax cut ever." The president plans to unveil the details on Wednesday, reiterated by a Saturday tweet: "Big TAX REFORM AND TAX REDUCTION will be announced next Wednesday."

Some of the **stock market's inertia** since the S&P 500 index hit a record on March 1 has been blamed on the **absence of meaningful policy change since Trump took office**. As a result, any hints that the president is committed to delivering on tax reform and deregulation will help to offset worries about soft economic data, most notably tepid auto and retail sales.

Recent soft data maybe a positive for the market, as it **may throttle back the pace of rate hikes from the Fed**, which would be a boost for equities. Even so, with the much-anticipated tax reform a step closer to reality, investors will be inspired to return to the market to propel stocks higher. With **corporate-friendly measures** coming on the back of an **upbeat earnings season** will give the **market added upside** momentum. Analysts are projecting one of the best quarterly earnings in more than five years pushed by a recovery in both the U.S. and global economies.

On the economic data front, the first look at what looks to be a soft first quarter will headline the week's data on Friday. The week starts getting heavy on Tuesday with **home price updates from FHFA and Case-Shiller**, where strength has been constructive, but still limited, followed by consumer confidence which surged to yet greater highs in the prior report.

The **FHFA house price index** had been showing some of the best strength of any indicator on household wealth, but came to a halt in January with a monthly no change and a 0.5% drop in the year-on-year rate to 5.7% that is now tracking at Case-Shiller's 20-city pace. The consensus is calling for a **moderate 0.4% monthly rebound** in February that, however, is not likely to give much lift to the year-on-year rate.

Increasingly optimistic assessments of the labor market along with positive expectations for rising incomes have been fueling the **strongest run in consumer confidence** since the dotcom days. Acceleration in this index has far surpassed acceleration in the rival consumer sentiment index and has beaten the Wall Street consensus in 4 of the last 5 month. Forecasters see the consumer confidence index **retracing some of its gains in April**, at a consensus **123.6 vs March's 125.6.**

Thursday's heavy run includes durable goods, where aircraft may once again skew orders higher, and advance data on the nation's trade gap that could prove a swing factor for Friday's GDP report. Street consensus for **first-quarter GDP is only 1.1%** in what would be **a slow start to the year.**

Friday will be the release of the employment cost index, a closely watched barometer for wage inflation that has been showing modest pressure. It is expected to rise by 0.6% for the quarter.