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# INVESTMENT COMMITTEE MARKET COMMENTARY

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## U.S. EQUITIES

**U.S. equity markets had a good week, rising early as the Trump administration unveiled its tax reform plans. The Dow Jones Industrial Average booked the best performance in the postwar era under a first-term president of +14.22%, when measured from Election Day through the 100th day in office.**

a) **Dow Jones +1.91% MTD +1.45% YTD +6.71%** b) **S&P 500 +1.53 MTD +1.03% YTD +7.16%**
c) **Russell 2000 +1.50% MTD +1.10% YTD +3.59%**

**Drivers:** I) The **positive returns in equities** have continued despite **intensifying doubts** about **President Trump's** ability to overhaul taxes, loosen regulations and boost infrastructure spending. Those factors have represented a trio of **fiscal-stimulus pledges** that have propelled the markets to record highs. But Trump's difficulties in getting a health-care bill to replace Obamacare have raised doubts about the President's negotiating skills.

II) **GDP increased at a sub-par 0.7%** annual rate in the first three months of the year, down from 2.1% and 3.5% in the second half of 2016. The steep drop-off stemmed from the **smallest increase in consumer spending** since the **end of 2009**, caused by fewer sales at car dealers. Consumer outlays rose just 0.3%, a steep drop from the 3.5% gain at the end of 2016. Government also reduced spending and businesses slowed inventory production.

III) The **employment-cost index rose 0.8%** in the first three months of 2017, the Bureau of Labor Statistics reported Friday. The employment-cost index is a closely followed gauge that reflects how much companies, governments and nonprofit institutions pay their employees in wages and benefits. The **index has grown 2.4% over the past 12 months, the fastest pace since 2015** and the second-best result since 2008.

IV) **U.S. house prices hit their highest level since July 2014** as demand remains hot, especially in the Pacific Northwest and Dallas. The S&P/Case-Shiller 20-city index rose 5.9% in the three-month period ending in February compared to the same period a year ago, an acceleration from its 5.7% yearly increase in January.

V) **Equity prices in April ended higher with Small-Cap, Growth, Info. Technology and Consumer Discretionary leading equity price performance. The laggards for the month are Mid-Cap, Value and Telecom.**

**Capitalization:** Large Caps +1.06% (YTD +7.15%), **Mid-Caps +0.77%** (YTD +5.96%) and **Small Caps +1.10%** (YTD +3.59%). Style: **Value +0.15%** (YTD +1.86%) and **Growth +1.51%** (YTD +5.85%). Industry Groups (Leaders): **Consumer Discretionary +2.59%** (YTD +16.97), **Information Technology +2.40%** (YTD +14.73%), Technology +1.99% (YTD +12.99%), Consumer Staples +1.73% (YTD +10.26%), Healthcare +1.66% (YTD +10.26), Materials +1.42% (YTD +7.30%), Utilities +0.77% (YTD +7.21%), REITs +0.09% (YTD +3.59%), and Financial Services -0.85% (YTD +1.63%). (Laggards): **Telecommunication -3.14%** (YTD -7.06%) and Energy -3.01% (YTD -9.35%).

## EUROPEAN EQUITIES

**The MSCI Europe index was up +4.39% last week, staging a strong rally at the start of week after centrist Emmanuel Macron came out on top in the first round of the French presidential election.**

**Drivers:** I) **German inflation picked up** considerably in April, largely driven by price increases for package holidays and other vacation-related services around Easter. The annual inflation rate, measured by harmonized European Union standards, **rose to 2.0% from 1.5% in March**, Germany's statistics office reported. The outcome was in line with economists' forecasts.

II) **German retail sales rose 0.1%** from the month before, adjusted for seasonal swings and calendar effects, the statistics office, Destatis, reported Friday. Total turnover jumped 2.3% from March 2016, in inflation-adjusted terms, supported by the fact that there were two shopping days more this year than in March 2016. Destatis also revised retail sales data higher going back to May 2015, because a "larger company in the online business", believed to be Amazon, had set up a branch office in Germany.

III) **Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was higher by +4.39% for the week (MTD +3.53% YTD +11.24%).**

## ASIAN EQUITIES

**Asian markets were higher last week, as the market-friendly result of the first round of elections in France helped the region start the week strongly. Stocks gave back some of their gains as investors refocused on local issues. The Dow Jones Asia Pacific Index was up +1.20% for the week, (MTD +1.23% YTD +10.39%).**

**Drivers:** I) **Japanese prices rose at a slower-than-expected rate in March** amid persistent sluggishness in consumption, casting further doubt over the direction of inflation just a day after the Bank of Japan lowered its price forecast for the year started April. The core consumer price index rose 0.2% from a year earlier in March, matching the rate of the previous month, according to the Ministry of Internal Affairs and Communications.

II) **Profits in China's industrial sector rose 23.8%** from a year earlier last month, slowing from a 31.5% year-over-year growth in the first two months, official data showed last Thursday. Growth in raw-material products outpaced the increase for finished goods in March, leading to a moderation in profit growth for large industrial firms, National Bureau of Statistics economist He Ping said in a statement.

III) **Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was higher by +3.09% (MTD +1.52% YTD +0.43%), the Hang Seng Index rose by +2.38% (MTD +1.94% YTD +11.88%) and the Shanghai Composite declined by -0.58% (MTD -2.11% YTD +1.64%).**

## FIXED INCOME

**Treasury yields rose after the Commerce Department reported that the personal-consumption expenditures, or PCE Index were higher at a 2.4% annual pace in the first quarter, exceeding the central bank's target of 2% for the first time in several years.**

**Performance:** I) **The 10-year Treasury yield was higher last week ending at 2.281% up from 2.231%. The 30-year yield rose last week climbing from 2.888% to 2.953%.**

II) **Performance for the week, month-to-date and year-to-date. Barclays US Aggregate Bond was down -0.16% last week, MTD +0.77% and YTD +1.59%. The Barclays US MBS TR was lower by -0.08% last week, MTD +0.65% and YTD +1.13%. The Barclay's US Corporate HY Index rose by +0.64%, MTD +1.15% and YTD +3.84%.**

## COMMODITIES

**The DJ Commodity Index was higher last week by +0.20% and is down month to date -1.65% (YTD -3.62%) led by a rebound in industrial metals such as copper and nickel, though the industry outlook is weakening.**

**Performance:** I) The price of oil was lower last week falling -2.12% to $49.19 and is down month to date -3.26% (YTD -8.72%). **Oil prices ended down** for a second straight month as investors became concerned the **Organization of the Petroleum Exporting Countries may not extend their production cuts** into the second half of 2017

II) The **ICE USD Index**, a gauge of the U.S dollar's movement against six other major currencies, was negative dropping -0.92% from 99.96 to 99.04 for the week (MTD -1.51% YTD -3.26%). The U.S. dollar index **dropped as U.S. GDP growth came in at its lowest pace in three years** and centrist candidate Emmanuel Macron's first-place finish in Sunday's French election vote.

III) **Gold prices fell last week**, but posted a monthly gain of 1.43%, as data showing weak U.S. economic growth weighed on the dollar. Gold was lower by -1.32% dropping from $1286.5 to $1269.5 (MTD +1.43% YTD +10.20%).

## Hedge Funds

**Hedge fund returns in April ended 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 +0.75% MTD and +2.12% YTD.**
**II) Equity Hedge rose +0.70% MTD and is up +3.41% YTD.**
**III) Event Driven advanced MTD +0.70% and is higher YTD +3.68%.**
**IV) Distressed Debt is higher at +0.43% MTD and is positive YTD +2.02%**
**V) Macro/CTA is up by +0.12% MTD and is down -0.64% YTD.**
**VI) Relative Value Arbitrage is higher at +0.19% and is up +1.22% YTD.**

## Economic Data Watch and Market Outlook

As we look ahead to next week, **investors are confronted with** possible stock-market **catalysts** during another **heavy week of earnings reports** as the Federal Reserve holds its May policy meeting and a **great deal of economic data** is released, topped off by the April jobs report on Friday. Investors are dealing with the quandary of whether equity markets will continue to reach new highs, or finally succumb to the long-anticipated correction.

On the **economic data front**, there will be a great deal of suspense in the week, but it should not be centered on **Wednesday's FOMC statement where no change**, given the softness of economic growth, is the **consensus expectation**.

**Friday's employment report that will be the week's focus** with the consensus calling for significant improvement, at **185,000 for April's nonfarm payrolls** versus **March's disappointing 98,000**. But the unemployment rate, which in March came in at an expansion low of 4.5%, is expected to retrace 0.1% of the improvement to a consensus 4.6%.

Starting **Monday**, we will see reports on **personal income and spending** that will offer a March breakdown of the first-quarter's disappointing GDP data. Personal income has been rising at a moderate to solid rate though consumer spending has been very weak. Forecasters see **income rising 0.3%**in March following February's 0.4% gain with **spending at only plus 0.1%.**

**ISM manufacturing**, which has been strong, could move Monday's markets though construction spending, where housing data components have been solid, may deserve the greater attention. The ISM manufacturing index has been **signaling unusually strong conditions** and has beaten the consensus for the last seven reports in a row. New orders, in the mid-60s, are at three year highs with export orders at a four-year high. Backlog orders are piling up to a six year high with employment also at a six-year high.

**Tuesday's vehicle sales** will not only offer definitive indications on the economic strength of April but also offer the **first clues on second-quarter GDP**. Vehicle sales have been offering reliable indications for changes in the motor vehicle component of the monthly retail sales report. After spiking late last year, vehicles sales have been **moving sharply lower** and pulling down consumer spending. Total unit vehicle sales were very weak in March, hitting a 2-year low at a 16.6 million annualized rate. This makes for an easy comparison and forecasters see sales rising to a 17.2 million rate in April with North American-made models at 13.5 million versus March's 13.3 million.

**Thursday's ISM non-manufacturing report**, specifically the employment component, could affect expectations for the April employment on Friday. ISM non-manufacturing slowed noticeably in March and **offered an accurate advance indication** for what turned out to be a **generally weak month for the economy**. But most readings in the report remained very strong in March including new orders at 58.9 and export orders at a 10-year high of 62.5. The consensus for **April points to strength, at 55.8 versus March's 55.2.**