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INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

U.S. equity markets fell last week due to political uncertainty prompted by the firing of FBI Director James Comey, despite improvements in retail sales and an increase in the consumer price index.

a) **Dow Jones -0.35% MTD -0.02% YTD +6.69%** b) **S&P 500 -0.26 MTD +0.40% YTD +7.58%**
c) **Russell 2000 -0.98% MTD -1.20% YTD +2.34%**

Drivers: I) **Retail sales increased 0.4% in April**, the Commerce Department reported, and were 4.5% higher versus a year ago. A 0.2% monthly decline for March was revised up to a 0.1% increase. Sales at gas stations were 12.3% higher in April than a year ago, as the cost of oil rose. For the first four months of the year, online retail sales were 10.7% higher than during the same period last year, while sales at department stores were 5.2% lower.

II) **U.S. consumer prices rebounded in April, bolstering the Fed's case for continued interest-rate hikes.** The CPI rose a seasonally adjusted 0.2% in April because of higher energy costs, the Labor Department reported. This followed a 0.3% drop in the prior month. Energy prices jumped 1.1% in April, the biggest increase since January and are up 9.3% over the past year. Consumer prices have risen an unadjusted 2.2% over the past 12 months.

III) The **University of Michigan's** closely-watched **confidence gauge jumped to 97.7** from 97.0 in April. That was a stronger reading than the 97.2 median forecast of economists. Consumer sentiment improved in an early May report as Americans turned **more bullish on their income expectations**. Consumer plans to buy household durables were the strongest in a decade, while plans to buy a vehicle were at a three-year low.

IV) The U.S. central bank can keep raising interest rates with the labor market at full health and inflation stabilizing at 2%, said **Philadelphia Fed President Patrick Harker**. "We're essentially at normal now, and based on the strength of the economy, I continue to **see two more rate hikes** as appropriate this year," he said.

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

Capitalization: Large Caps +0.28% (YTD +7.45%), Mid-Caps -0.16% (YTD +5.79%) and **Small Caps -1.20%** (YTD +2.34%). Style: **Value -1.29%** (YTD +0.54%) and **Growth -0.61%** (YTD +5.21%). Industry Groups (Leaders): **Consumer Discretionary +4.53%** (YTD +22.27), Information Technology +2.60% (YTD +17.71%), Technology +2.23% (YTD +15.51%), Healthcare -0.14% (YTD +10.10), **Consumer Staples +2.85%** (YTD +13.40%), Materials -0.91% (YTD +6.32%), Utilities +0.10% (YTD +7.31%), REITs -0.89% (YTD +2.67%), and Financial Services +0.05% (YTD +1.68%). (Laggards): **Telecommunication -2.06%** (YTD -8.97%) and Energy -0.10% (YTD -9.45%).

EUROPEAN EQUITIES

The MSCI Europe index was lower by -0.04% last week, giving back a bit of the rally that occurred on expectations of an Emmanuel Macron victory in the French Presidential Election. Germany's quarterly gross domestic product jumped up, but industrial production declined in the eurozone in March.

Drivers: I) Germany's economy accelerated in the first quarter, driven by a revival in global trade and strong construction activity. **Germany's gross domestic product** grew at a quarterly rate of 0.6%, or **2.4% in annualized terms**, the Destatis statistics office reported. This met economists' forecasts and meant Germany's economy comfortably **outpaced the U.S**., which expanded by 0.7% annualized in the first quarter.

II) Europe's March **industrial production** (excluding construction) **fell 0.1%** and was the first monthly back-to-back decline since February/March 2016. However, annual output growth climbed from 1.4% to 1.9%. March's minor monthly drop was primarily **due to the energy sector where output fell 3.2%.** Elsewhere there were solid gains in non-durable consumer goods (2.1%) and durables (0.9%) and smaller increases in intermediates (0.3%) and capital goods (0.2%).

III) **Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was lower by -0.04% for the week (MTD +3.01% YTD +14.58%).**

ASIAN EQUITIES

Asian markets were higher last week even though they fell Friday after weak earnings from U.S. department stores sent American retailers lower overnight and prompted worries about weak consumer spending in the U.S. The Dow Jones Asia Pacific Index was up +1.39% for the week, (MTD +1.21% YTD +11.72%).

Drivers: I) The **Shanghai Composite was down 0.63%** on the week, its **fifth straight week of losses** due to on-going concerns over economic growth and regulatory measures aimed at curbing risky lending and speculation. April economic data showed that merchandise trade growth slowed and producer price inflation retreated more than expected in a sign manufacturing activity may be losing momentum along with other sectors of the economy.

II) In **China, April consumer price index increased 1.2%** on the year after rising 0.9% in March. For the month, the CPI edged up 0.1% after falling 0.3% in March. A smaller annual decline in food prices was the main factor pushing up headline inflation. Food prices dropped 3.5% compared with a decline of 4.4% in March. Non-food inflation also moved higher from 2.3% to 2.4%, with changes relatively steady for most categories of non-food spending.

III) **Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was higher by +2.25% (MTD +3.58% YTD +4.83%), the Hang Seng Index rose by +2.66% (MTD +2.04% YTD +13.79%) and the Shanghai Composite declined by -0.63% (MTD -2.26% YTD -0.65%).**

FIXED INCOME

Treasury yields were lower as weak retail earnings weighed on stocks and pushed up bond prices, overcoming new economic data that suggested inflation was on the horizon.

Performance: I) **The 10-year Treasury yield was lower last week ending at 2.328%% down from 2.351%. The 30-year yield rose last week climbing from 2.987% to 2.991%.**

II) **Performance for the week, month-to-date and year-to-date. Barclays US Aggregate Bond was up +0.20% last week, MTD -0.03% and YTD +1.56%. The Barclays US MBS TR was higher by +0.12% last week, MTD -0.05% and YTD +1.08%. The Barclay's US Corporate HY Index rose +0.30%, MTD +0.20% and YTD +4.09%.**

COMMODITIES

The DJ Commodity Index was higher last week by +0.93% and is down month to date -0.87% (YTD -4.46%) as industry metals copper and aluminum rebounded as demand from consuming industries rose.

Performance: I) **Oil prices were higher last week** climbing +2.90% to $47.82 and is down month to date -2.78% (YTD -11.26%). Oil bounced back from earlier weakness to trade slightly higher, putting it on track for a weekly gain of 2.90%. Investors remain hopeful that the Organization of the Petroleum Exporting Countries will extend a production-cut deal when it meets on May 25.

II) The **ICE USD Index**, a gauge of the U.S dollar's movement against six other major currencies, **strengthened** rising +0.63% from 98.57 to 99.19 for the week (MTD +0.15% YTD -3.11%). The U.S. dollar index ended higher as economic data came in slightly weaker than expected, but this does not impact expectations about a **June rate hike.**

III) **Gold prices fell last week** by -0.05%, but rallied for three straight sessions by Friday as the dollar drifted lower following slightly weaker-than-expected U.S. retail sales and inflation data. Gold was lower by -0.05% dropping from $1228.4 to $1227.8 (MTD -3.28% YTD +6.58%).

HEDGE FUNDS

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

Performance:

I) The HFRX Global Hedge Fund Index is higher at +0.17% MTD and +2.16% YTD.
II) Equity Hedge rose +0.03% MTD and is up +3.46% YTD.
III) Event Driven advanced MTD +0.77% and is higher YTD +4.47%.
IV) Distressed Debt is higher at +0.02% MTD and is positive YTD +2.21%
V) Macro/CTA is lower by -0.17% MTD and is down -0.99% YTD.
VI) Relative Value Arbitrage is down at -0.02% and is up +1.21% YTD.

ECONOMIC DATA WATCH AND MARKET OUTLOOK

Looking ahead to next week, the **strongest earnings season in nearly six years** has helped to shield the markets from the **political uncertainty** coming out of **Washington**. With the quarterly earnings season coming to a close, there are concerns that current political distractions may prevent the Trump administration from enacting the pro-growth agenda that investors are anxiously waiting for. Despite the political melodrama, **stocks have been remained remarkably stable**, with the S&P 500 moving within a daily range of 0.5% or less for 13 straight sessions, according to Dow Jones data. This is the longest such streak since September 1995, when the index moved within that range for 14 straight sessions. Not even the Comey firing disrupted that.

We believe a great deal of the **market's strength can be attributed to strong earnings**, which are directly supporting stock prices. This is helping to offset some of the political uncertainties in Washington and their potential effect on promised reforms that ignited gains for much of the year. With more than 90% of the S&P 500 having reported quarterly results, the index is on track for **earnings growth of 13.6% for the first quarter**, the strongest increase since the third quarter of 2011, according to FactSet.

In looking forward to next week's **economic calendar, manufacturing and housing are the week's highlights**, the former having promised strength and the latter having mostly delivered strength. Empire State on Monday and the Philly Fed on Thursday have both been signaling unusual acceleration for the factory sector and will provide their updates for May.

Data for the factory sector have yet to run higher though reasonable strength is expected for April manufacturing in Tuesday's industrial production report**. Manufacturing production is projected to rebound** from March's 0.4% drop with a **consensus gain of 0.3%. I**nclement weather was behind March's manufacturing drop and also March's record 8.6% monthly jump in utility output which lifted overall industrial production to a 0.5% gain. The consensus for the overall rate in April is 0.4% with the capacity utilization consensus at 76.3 percent versus March's 76.1 percent.

Strength in housing has been one of the pluses for the nation's economic data. The latest comes on Monday with what has been a very strong housing market index that has been reflecting unusual optimism among the nation's home builders. Improvement in traffic has been the key to the housing market index which has been tracking at unusual levels of strength. Traffic had been in extended contraction for most of the expansion until moving over the breakeven 50 level back in December and staying there in 4 of the last 5 months. **Sales readings**, well into the 70s, **have been very strong** and are expected to bolster **May's consensus level of 68**, unchanged from April.

Actual data on **housing starts** and permits have been up-and-down, but year-on-year growth in permits, led by multi-family units, is coming in at a 20% growth rate. Permit strength for multi-family starts saved what was otherwise a weak housing starts report for March. Rebounds are expected for April with the starts consensus at an **annualized rate of 1.256 million versus March's 1.215 million**. Permits are seen rising to a 1.271 million rate vs 1.260 million. One positive from **March was a large gain in single-family completions** which will help **boost** what is a **low supply of new homes** on the market.