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INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

U.S. equity markets were lower last week as investors were confronted with negative news stories focused on President Donald Trump and his inner circle's relationship with Russia, as well allegations the President asked FBI Director James Comey to stop an investigation of former NSA Head Michael Flynn.

a) **Dow Jones -0.32% MTD -0.34% YTD +6.35%** b) **S&P 500 -0.32% MTD +0.08% YTD +7.24%**
c) **Russell 2000 -1.09% MTD -2.28% YTD +1.23%**

Drivers: I) **Former FBI Director Robert Mueller III** was appointed as **special counsel** to oversee the federal investigation into Russia's alleged interference in the 2016 U.S. presidential election, giving him wide latitude to explore potential collusion between the Trump campaign and Moscow.

II) The **U.S. economy has slowed** since March and inflation has slid to the downside**, St, Louis Fed President James Bullard** said Friday, in remarks that **raise questions about the need for more interest rate hikes** from the U.S. central bank. Although Fed watchers expected in March that the Fed would raise rates again in June, "financial market readings" since then "have moved in the opposite direction," Bullard said.

III) The **rate of home construction slowed** in April as builders took a pause after a strong start to the year. Housing starts ticked down 2.6% to a 1.17 million annual pace, the Commerce Department reported, and stood just 0.7% higher than the same month last year. The consensus forecast was for a 1.26 million rate of starts.

IV) **Industrial production** in April **grew at its fastest monthly** rate **in** more than **three years**, on the back of expansive gains in the manufacturing sector. The Federal Reserve reported that industrial production grew 1% in April, exceeding the economist consensus for 0.5% growth. This is the fastest rate of growth since February 2014.

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

Capitalization: Large Caps -0.01% (YTD +7.13%), Mid-Caps -0.11% (YTD +5.84%) and **Small Caps -2.28%** (YTD +1.23%). Style: **Value -2.02%** (YTD -0.20%) and **Growth -1.15%** (YTD +4.63%). Industry Groups (Leaders): **Consumer Discretionary +5.36%** (YTD +23.24), **Information Technology +1.92%** (YTD +16.94%), Technology +1.59% (YTD +14.79%), Consumer Staples +1.34% (YTD +11.74%), Healthcare -0.52% (YTD +9.68), Utilities +0.73% (YTD +7.99%), Materials -1.32% (YTD +5.89%), REITs +0.44% (YTD +4.04%), and Financial Services -0.94% (YTD +0.68%). (Laggards): Energy +0.33% (YTD -9.06%) and **Telecommunication -2.65%** (YTD -9.52%).

EUROPEAN EQUITIES

The MSCI Europe index was higher by +1.60% last week, despite political uncertainty in the U.S., driven by corporate earnings that rose by an average of 23% during the first quarter, per J.P. Morgan. European sales growth of 10% was the strongest globally.

Drivers: I) **First-quarter European earnings** were the **best in six to seven years**, with above-average positive surprises and double-digit growth seen in all the main regions according to J.P. Morgan. Top line revenue growth was particularly strong, helped by higher commodity prices, the rise in inflation and the rebound in global economic activity.

II) **German producer prices** posted their **strongest annual gain in over five years** in April, as higher metals prices drove up the costs for intermediate goods, Germany's statistics office, Destatis reported. Producer prices jumped 3.4% from April last year, which is the strongest increase since December 2011. Economists had forecast a 3.2% rise. Stripping out energy prices, which tend to be volatile, Germany's PPI rose 2.8% on the year, the highest increase since October 2011.

III) **Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was higher by +1.60% for the week (MTD +4.66% YTD +16.42%).**

ASIAN EQUITIES

Asian markets were slightly higher last week despite investor worries over the political uncertainty in the U.S., as well as the troubles in Brazil amid a scandal involving the country's president. The Dow Jones Asia Pacific Index was up +0.24% for the week, (MTD +1.46% YTD +12.00%).

Drivers: I) **Japan's first quarter gross domestic product was up 0.5%** on the quarter or at an annualized rate of 2.2%. On the year, GDP was up 1.6%. Investment and government spending were flat on the quarter. The economy has now **grown for five consecutive quarters** for the first time since 2004.

II) **Malaysia's economy grew at its fastest rate in two years** in the first three months of 2017, powered by strong domestic demand, higher exports and a rise in manufacturing activity. It was also the third consecutive quarter of growth and beat expectations. Gross domestic product rose 5.6% in the three months ended March 31 from a year earlier, according to the country's central bank, Bank Negara Malaysia

III) **Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was lower by -1.47% (MTD +2.05% YTD +3.28%), the Hang Seng Index rose by +0.21% (MTD +2.25% YTD +14.03%) and the Shanghai Composite advanced by +0.23% (MTD -2.03% YTD -0.42%).**

FIXED INCOME

Treasury yields declined last week as bonds rallied as markets felt the controversy swirling around the White House may prevent Trump from delivering on fiscal stimulus policies, which would raise inflation and harm the market price of bond's.

Performance: I) **The 10-year Treasury yield was lower last week ending at 2.236%% down from 2.328%. The 30-year yield fell last week dropping from 2.991% to 2.898%.**

II) **Performance for the week, month-to-date and year-to-date. Barclays US Aggregate Bond was up +0.48% last week, MTD +0.44% and YTD +2.05%. The Barclays US MBS TR was higher by +0.37% last week, MTD +0.32% and YTD +1.45%. The Barclay's US Corporate HY Index rose +0.25%, MTD +0.45% and YTD +4.35%.**

COMMODITIES

The DJ Commodity Index was higher last week by +1.63% and is up month to date +0.76% (YTD -2.89%) driven by a sharp rise in oil prices prompted by expectations of further production cuts by OPEC, as well as the rise in the price of gold ignited by political worries in the U.S. and Brazil.

Performance: I) **Oil prices were higher last week** climbing +5.67% to $50.53 and is up month to date -2.72% (YTD -6.23%). Oil prices ended at their highest level in a month, scoring a more than 5% weekly gain as investors expressed optimism about possible price-supportive outcomes from a closely watched OPEC meeting next week.

II) The **ICE USD Index**, a gauge of the U.S dollar's movement against six other major currencies, weakened falling -2.09% from 99.19 to 97.12 for the week (MTD -1.94% YTD -5.14%). The U.S. dollar index fell against its major rivals on Friday, dropping to its **lowest level since November** as political uncertainty continued to flow out of Washington and depress sentiment.

III) **Gold prices rose last week** by +2.27%, to post their largest weekly gain since mid-April, as overall declines in the U.S. dollar and equities from a week ago fed safe-haven demand for the metal. The gold sector was supported by rising market volatility and political unrest in the White House. That was the largest gain since the week ended April 13. Gold was higher by +2.27% rising from $1227.8 to $1255.7 (MTD -1.09% YTD +9.00%).

HEDGE FUNDS

Hedge fund returns in May are mostly lower with the core strategies Equity Hedge, Distressed, Macro and Relative Value in negative territory, while Event Driven is higher for the month.

Performance:

I) The HFRX Global Hedge Fund Index is lower at -0.21% MTD and +1.88% YTD.
II) Equity Hedge has fallen -0.57% MTD and is up +2.84% YTD.
III) Event Driven advanced MTD +0.59% and is higher YTD +4.29%.
IV) Distressed Debt is lower at -0.50% MTD and is positive YTD +1.67%
V) Macro/CTA is lower by -0.64% MTD and is down -1.46% YTD.
VI) Relative Value Arbitrage is down -0.30% and is up +0.93% YTD.

ECONOMIC DATA WATCH AND MARKET OUTLOOK

As we head into the trading week before the long Memorial Day weekend, **market participants will fixate on potential downside risks** now that the earnings season has ended and we have yet to see any significant progress on the legislative front. Investors continue to anticipate the **long awaited 5.0% to 10% drop** in the equity markets. Bears argue that a market drop could be **caused by** further political intrigue from Washington, an aging bull market, higher than normal equity valuations and the Fed's desire to normalize rates.

The bulls conversely, are optimist **equity prices can rise** due to improving global growth, solid top and bottom line results from corporations around the globe, and positive U.S. economic data. In the end, we believe that it will be **global economic growth**, the rise in corporate earnings and the ability of the U.S. Congress and President Trump to pass pro-growth legislation that will **support higher equity prices**, and not the political turmoil surrounding the Trump administration.

In looking forward to **next week's economic calendar**, **housing starts** proved an unexpected disappointment in April. New home sales will be released on Tuesday and existing home sales on Wednesday, with respectable results expected for both. **New home sales** are one of the **biggest strengths this year**, posting a strong first quarter rate of 621,000 units in March that, second only to 622,000 in July last year, is by far the strongest of the expansion. **Prices have been firming** as supply remains low. Forecasters see March's rate for new home sales easing to 604,000.

Existing home sales flattened out late last year at the 5.550 million level but have been moving higher in recent reports, to a 5.710 million annualized rate in March and a 10-year high. Prices are rising and days on the market are falling, both consistent with **a market that is heating up**. April's consensus for existing home sales is 5.650 million.

On **Wednesday, the FOMC minutes** will be posted with details on the Fed's tapering plans the focus. The May FOMC produced no action and no commentary on tapering plans. Policy makers confirmed their confidence in consumer spending and restated their expectations that inflation data, both recently weak, would firm and eventually stabilize at their 2.0% target. **New details on tapering will be of special interest**, including when the unwinding will begin and how long it will take.

The week ends with both the **first revision to first-quarter GDP**, where little change is expected, and durable goods orders for April. Here expectations are wide with forecasters generally seeing a pullback for aircraft in what would be another disappointing signal for second-quarter GDP. Second-quarter GDP is expected to be **revised to 0.8% from an initial estimate of 0.7%.**

Aircraft orders lifted **durables** during the first quarter and was the support for March's solid 0.7% rise. The story is different though when excluding civilian aircraft, as the ex-transportation reading fell 0.2%. Forecasters see the aircraft factor playing out in April, with the **consensus for overall durable orders at -0.9%**, but ex-transportation at 0.4 %.