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INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

U.S. equity markets rallied last week as the S&P 500 and NASDAQ Composite both up for seven straight sessions, finished in record territory despite mixed U.S. economic data.

a) **Dow Jones +1.35% MTD +1.00% YTD +7.78%** b) **S&P 500 +1.47% MTD +1.54% YTD +8.81%**
c) **Russell 2000 +1.11% MTD -1.20% YTD +2.35%**

Drivers: I) Orders for long-lasting goods such as planes and appliances fell in April for the first time in five months, implying that a recovering U.S. manufacturing industry is still expanding, but at a more moderate pace. **Durable-goods orders dropped 0.7% last month** amid weakness in most key segments of heavy industry, the government reported. Economists had forecast a 1.0% decline in orders.

II) The government raised the **growth rate for the first quarter to 1.2% from its original 0.7% level**. The temporary economic malaise appears to be a fading as the economy is picking up speed during the spring. Economists forecast a 3.0% growth in the second quarter and some estimates have it even higher. The first-quarter slowdown was the result of a **temporary pullback in consumer spending** and the production of business inventories.

III) **Consumer sentiment was up slightly in May** as Americans grew more optimistic about economic growth, but more pessimistic about current conditions. The University of Michigan's confidence index rose to 97.1 from 97.0 in April. It had hit 97.7 in a mid-May reading and economists expected no change from that reading for the full month. Some of the pessimism is due to the present political divide we are seeing in the U.S.

IV) Sales of previously-owned homes dropped in April after a robust first quarter, as falling inventory continued to constrain demand. **Existing-home sales ran at a seasonally adjusted annual rate of 5.57 million**, the National Association of Realtors reported. That was a **2.3% decline from March's selling pace**, which was revised down a bit but still stood at a 10-year high, though 1.6% higher compared to a year ago in April.

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 Telecommunications.**

Capitalization: Large Caps +1.43% (YTD +8.68%), Mid-Caps +1.06% (YTD +7.08%) and **Small Caps -1.20%** (YTD +2.35%). Style: **Value -1.32%** (YTD +0.51%) and **Growth +0.08%** (YTD +5.94%). Industry Groups (Leaders): **Consumer Discretionary +7.07%** (YTD +25.24), Information Technology +4.33% (YTD +19.71%), Technology +3.75% (YTD +17.23%), **Consumer Staples +4.52%** (YTD +15.24%), Healthcare +0.64% (YTD +10.96), Utilities +3.30% (YTD +10.74%), Materials -0.32% (YTD +6.96%), REITs +1.16% (YTD +4.79%), and Financial Services +0.32% (YTD +1.95%). (Laggards): **Telecommunication -2.91%** (YTD -9.77%) and Energy -1.89% (YTD -11.07%).

EUROPEAN EQUITIES

The MSCI Europe index was down -0.10% last week, a small weekly loss, as oil and gas shares declined on disappointment stemming from OPEC's agreement to extend production cuts.

Drivers: I) In **Germany, the flash manufacturing PMI hit a 73-month high at 59.4**, above an estimate of 58.0, even as services activity was at a three-month low. Separately, the closely watched Ifo business climate survey climbed to 114.6, an all-time high. The strong German data added to the evidence that, not only the German economy, but the entire eurozone economy could become the positive growth surprise of 2017,

II) **First quarter GDP in Germany was up a quarterly 0.6%** matching its flash reading as did annual workday adjusted growth of 1.7%. Equipment spending (1.2%) and, construction (2.3%) were especially robust although the latter was probably boosted by seasonally good weather. Private consumption was up a modest 0.3% while government expenditure gained 0.4%.

III) **Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was lower by -0.10% for the week (MTD +4.55% YTD +16.30%).**

ASIAN EQUITIES

Asian markets overcame Moody's downgrades of Mainland China and Hong Kong's credit ratings on Wednesday to finish in the positive column. Gains ranged from 0.1% (STI) to 2.9% (Kospi). The Dow Jones Asia Pacific Index was up +0.95% for the week, (MTD +2.42% YTD +13.06%).

Drivers: I) Moody's downgraded China's credit rating for the first time since 1989. **Moody's cut China's rating by one notch to A1 from Aa3** in its first downgrade of the country in nearly 30 years, saying it expects the financial strength of the economy to erode in coming years **as growth slows and debt continues to rise.**

II) **Moody's cut Hong Kong's local and foreign currency ratings** by a notch to A1 due to concerns over the **country's rising debt and slow pace of economic reforms**. Moody's said: "The downgrade in Hong Kong's rating reflects Moody's view that credit trends in China will continue to have a significant impact on Hong Kong's credit profile due to close and tightening economic, financial and political linkages with the mainland."

III) **Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was higher by +0.49% (MTD +2.55% YTD +3.79%), the Hang Seng Index rose by +1.70% (MTD +3.99% YTD +15.97%) and the Shanghai Composite advanced by +0.63% (MTD -1.41% YTD +0.21%).**

FIXED INCOME

Treasury yields were up slightly last week, despite a string of mixed U.S. economic data, which was enough to halt the two-week yield slide for government bonds.

Performance: I) **The 10-year Treasury yield was higher last week ending at 2.247%% up from 2.236%. The 30-year yield rose last week climbing from 2.898% to 2.914%.**

II) **Performance for the week, month-to-date and year-to-date. Barclays US Aggregate Bond was up +0.03% last week, MTD +0.47% and YTD +2.08%. The Barclays US MBS TR was higher by +0.09% last week, MTD +0.41% and YTD +1.54%. The Barclay's US Corporate HY Index rose +0.32%, MTD +0.77% and YTD +4.69%.**

COMMODITIES

The DJ Commodity Index was down -1.04% last week and is lower month to date -0.28% (YTD -3.89%) prompted by the sharp decline in oil, as markets participants were disappointed OPEC was not more aggressive in its plan to cut production.

Performance: I) **Oil prices were lower last week falling -1.31%** down to $49.87 and is up month to date +1.38% (YTD -7.46%). OPEC last Thursday renewed an agreement with 10 other crude-oil producers to cap output through March 2018. But market participants were looking for more aggressive action to reduce the oil glut.

II) The **ICE USD Index**, a gauge of the U.S dollar's movement against six other major currencies, **rallied +0.29%** from 97.12 to 97.40 for the week (MTD -1.66% YTD -4.86%). The U.S. dollar index climbed a bit after the first revision to gross domestic product for the first quarter showed the economy grew slightly faster than a previous GDP reading.

III) **Gold prices rose last week by +1.15%, closing at its highest level of the month**. Prices rose for a third week in a row as a fresh round of geopolitical jitters offset expectations for higher U.S. interest rates, which would otherwise be bearish for gold prices. Gold was higher by +1.15% rising from $1255.7 to $1270.1 (MTD +0.04% YTD +10.25%).

HEDGE FUNDS

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

Performance:

I) The HFRX Global Hedge Fund Index is higher at +0.35% MTD and +2.44% YTD.
II) Equity Hedge has fallen -0.31% MTD and is up +3.12% YTD.
III) Event Driven advanced MTD +0.97% and is higher YTD +4.68%.
IV) Distressed Debt is lower at -0.17% MTD and is positive YTD +2.01%
V) Macro/CTA is higher by +0.40% MTD and is down -0.43% YTD.
VI) Relative Value Arbitrage is up +0.40% and is up +1.63% YTD.

ECONOMIC DATA WATCH AND MARKET OUTLOOK

As we head into a holiday shortened week, we will be greeted by **data packed week as equities continue their push to record levels** in a time of **fundamental strength but political uncertainty**. Equities spent the week trending cautiously higher, recovering from a May 17 plunge on reports that President Donald Trump asked then-FBI Director James Comey to shut down an investigation into former National Security Adviser Mike Flynn.

The recovery in equities also coincided with Trump's first trip as president abroad, causing some to speculate that investor focus on the Russia probes may return when the president returns to the U.S. mainland. Meanwhile, a batch of economic data will keep investors busy during the holiday shortened week.

In looking forward to next week's economic calendar, markets will be **keying on April consumer spending data**. The report will also include the **Fed's PCE inflation indexes where continued weakness is expected**. Consumer spending is expected to improve in April, at a **consensus gain of 0.4 %** against however a very weak comparison of no change in March. **Personal income** was also weak in March, up only 0.2%, and a better performance is expected with the **consensus also at 0.4%.**

Price data are **not expected to rebound** much with the consensus for the very closely watched core PCE index (less food & energy) looking for only a **0.1% gain** and a year-on-year rate of 1.5% which would be 0.1% lower than March.

Consumer confidence, in contrast to consumer spending **has been very strong**, follows on Tuesday amid expectations for continued strength. Hovering near 20-year highs, the consumer confidence index has been showing the most strength of any of the consumer gauges. The report's sample has been showing strong demand in the labor market and expects demand to remain strong through the year. Only marginal retracement is expected for the May report with the **consensus at 119.0 vs April's 120.3**.

Pending home sales follow on Wednesday and will offer an advance indication on the Spring success of the resale market. This year's month-to-month path of existing home sales has been accurately relayed by the pending home sales index which tracks initial contract signings. This **index fell 0.8% in March** and was followed by an even more sizable decline in final sales. Housing data in general have been strong and forecasters see a **rebound for April, at a consensus gain of 0.5%.**

The all-important **nonfarm payroll data comes out on Friday**, as **gain of 185,000 is the consensus estimate** for May. This would be a second straight solid showing following April's 211,000 rise. In another sign of strength, the **unemployment rate** is **expected to hold** at an expansion **low of 4.4%. Average hourly earnings**, which have been weak, are **expected to remain weak**, **up only 0.2%** vs 0.3% in April and making for a year-on-year rate of 2.6% versus April's 2.5%.