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INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

U.S. equity markets posted records highs last week, led by gains in technology stocks as investors seemed to ignore a weaker-than-expected May jobs report.

a) **Dow Jones +0.69% MTD +0.98% YTD +8.52%** b) **S&P 500 +1.01% MTD +1.14% YTD +9.91%**
c) **Russell 2000 +1.71% MTD +2.57% YTD +4.09%**

Drivers: I) The **U.S. added a modest 138,000 new jobs in May** and hiring earlier in the spring was weaker than initially reported, adding to evidence that the tightest labor market in years is making it harder for companies to fill open jobs. The **unemployment rate**, meanwhile, **fell again to 4.3%** from 4.4% and hit its lowest level since 2001, the Labor Department reported. Economists had estimated a 185,000 increase in nonfarm jobs.

II) **Average hourly pay rose 0.2% in May** to $26.22. Although a tight labor market has not resulted in rapidly rising wages as seen in the past, workers are collecting slightly larger paychecks. Over the past 12 months hourly pay has increased 2.5%, significantly faster compared to a few years ago. Many economists predict wages will rise faster in the months ahead as companies compete within a dwindling supply of available skilled workers.

III) Aided by rising incomes and tax refunds, Americans boosted spending in April at the fastest rate since the end of 2016 in another sign the economy has sped up during the spring. Lower inflation that reflects falling oil prices also gave households an extra cushion. **In April, consumer spending climbed 0.4%** to mark the biggest gain since December, the government said Tuesday. This matched the consensus estimate of economists.

IV) Inflation as measured by **the PCE index**, meanwhile, **rose 0.2% in April**, as did another "core" measure that strips out food and energy. Inflationary pressures continued to retreat in a partial reflection of lower gas prices. The rate of inflation over the **past 12 months slowed to 1.7%** in April from a multiyear high of 2.1% in February. The core rate of inflation dropped to a 1.5% rate from 1.6% in March and 1.8% in February.

V) **Equity prices in June are higher with Small-Cap, Growth, Materials and Healthcare leading equity price performance. The laggards for the month are Large-Cap, Value and Energy.**

Capitalization: Large Caps +1.20% (YTD +9.82%), Mid-Caps +1.36% (YTD +8.38%) and **Small Caps +2.57%** (YTD +4.09%). Style: **Value +1.86%** (YTD +1.94%) and **Growth +1.97%** (YTD +7.63%). Industry Groups (Leaders): Consumer Discretionary +1.44% (YTD +25.52), Information Technology +1.40% (YTD +21.39%), Technology +1.27% (YTD +18.89%), Consumer Staples +0.80% (YTD +15.37%), **Healthcare +1.86%** (YTD +13.31), Utilities +0.86% (YTD +12.65%), **Materials +1.50%** (YTD +8.80%), REITs +1.27% (YTD +5.65%), and Financial Services +0.83% (YTD +1.25%). (Laggards): Telecommunication +0.65% (YTD -7.59%) and **Energy -0.51%** (YTD -12.99%).

EUROPEAN EQUITIES

The MSCI Europe index was up +1.24% last week, despite geopolitical concerns in the UK where Prime Minister Theresa May's Conservative Party's seemingly huge margin of victory in the June 8 snap election according to opinion polls has eroded and its lead over the opposition Labor party is dwindling.

Drivers: I) **In the U.K**., all **eyes were on opinion polls** ahead of the June 8 election. A YouGov survey for The Times newspaper out late Wednesday showed **a three-point lead** for the ruling Conservative Party over the opposition Labor Party. This marks a dramatic shift from the 20-point advantage the Conservatives had in April when the election was announced.

II) The **European Union's statistics agency** reported **consumer prices were 1.4% higher** in May than a year earlier, a decline in the inflation rate from 1.9% in April, when it was in line with the ECB's target. That is the **lowest inflation rate recorded this year**, and below the 1.5% forecast by economists. The low rate of inflation is likely to reinforce the European Central Bank's reluctance to quickly unwind its stimulus programs.

III) **Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was higher by +1.24% for the week (MTD +0.96% YTD +17.75%).**

ASIAN EQUITIES

Asian markets rallied last week, boosted by strong global corporate earnings and the continuation of accommodative central bank policies. The Dow Jones Asia Pacific Index was up +1.72% for the week, (MTD +1.69% YTD +15.01%).

Drivers: I) **China's official manufacturing purchasing managers index was 51.2 in May**, unchanged from April, according to the China Federation of Logistics and Purchasing. The May reading released Wednesday beat a median of 51.0 forecast by economists. Manufacturing activity in China held steady in May as the property market remained buoyant, signaling **stronger-than-expected economic momentum** in the second quarter.

II) **Japanese industrial production rose 4.0%** on month in April, government data showed Wednesday, posting the biggest jump in nearly six years. Output of cars and semiconductor production equipment buoyed the figures for the biggest percentage gain since June 2011, when industrial production jumped 4.2% in the aftermath of the massive earthquake and tsunami that struck Japan earlier that year.

III) **Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was higher by +2.49% (MTD +2.68% YTD +6.37%), the Hang Seng Index rose by +1.13% (MTD +0.97% YTD +17.28%) and the Shanghai Composite declined by -0.15% (MTD -0.37% YTD +0.06%).**

FIXED INCOME

Treasury yields fell to their lowest levels since November 10, as investors have pared back their expectations for economic growth and inflation.

Performance: I) **The 10-year Treasury yield was lower last week ending at 2.162%% down from 2.247%. The 30-year yield fell last week dropping from 2.914% to 2.814%.**

II) **Performance for the week, month-to-date and year-to-date. Barclays US Aggregate Bond was up +0.49% last week, MTD +0.19% and YTD +2.57%. The Barclays US MBS TR was higher by +0.27% last week, MTD +0.06% and YTD +1.81%. The Barclay's US Corporate HY Index rose +0.31%, MTD +0.21% and YTD +5.01%.**

COMMODITIES

The DJ Commodity Index was down -1.98% last week and is lower month to date -0.60% (YTD -5.87%) as industrial metals such as zinc and copper declined due to worries over the financial health of China, and the fall in oil due to rising U.S. production.

Performance: I) **Oil prices were lower** last week falling **-4.27%** down to $47.74 and is down month to date -1.20% (YTD -11.41%). Oil closed at its lowest level in more than three weeks, suffering its largest weekly loss in a month as **rising U.S. production** and President Trump's withdrawal from the Paris Climate Accord added to fears of a persistent supply glut.

II) The **ICE USD Index**, a gauge of the U.S dollar's movement against six other major currencies, **dropped -0.75%** from 97.40 to 96.67 for the week (MTD -0.32% YTD -5.58%). The U.S. dollar index hit multi-month lows against numerous rivals after the closely watch **May jobs report came in much weaker than expected**, raising concerns about economic growth and the pace of the Federal Reserve's plans to normalize interest rates.

III) **Gold prices rose last week by +0.90%,** closing at its highest level of the month. Gold hit its highest close since April, with prices up a fourth week in a row, after the reading on U.S. job growth fell short of forecasts for a strong payroll jump in May. The sub-par report cast some doubt on the pace of gold-negative U.S. interest-rate hikes this year. Gold was higher by +0.90% rising from $1270.1 to $1281.5 (MTD +0.48% YTD +11.24%).

HEDGE FUNDS

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

Performance:

I) The HFRX Global Hedge Fund Index is higher at +0.24% MTD and +2.59% YTD.
II) Equity Hedge has risen +0.45% MTD and is up +3.31% YTD.
III) Event Driven has advanced MTD +0.11% and is higher YTD +4.76%.
IV) Distressed Debt is lower at -0.01% MTD and is positive YTD +1.97%
V) Macro/CTA is higher by +0.40% MTD and is up +0.06% YTD.
VI) Relative Value Arbitrage is up +0.04% and is up +1.54% YTD.

ECONOMIC DATA WATCH AND MARKET OUTLOOK

In looking forward to the **coming week**, there is a **troika of events all converging on June 8** that **could ignite a bout of market volatility**. The testimony of former FBI director James Comey, the U.K. election and the ECB monetary policy meeting, could the stall the inexorable rise we have seen in equities markets. Thursday, Comey will testify before the Senate Intelligence Committee on Russia's role in the U.S. presidential election and whether or not he was pressured to drop a probe on possible collusion between Trump's campaign and Russian officials.

In the U.K., the British will head to the polls in a **snap election to pick their representatives to the House of Commons**. Prime Minister Theresa May's Conservative Party currently has a 17-seat working majority but as **support for the Conservatives wanes**, the outcome of the election could reshape the U.K. Parliament and lead to **greater uncertainty** as the country negotiates its way out of the European Union.

On the same day, the **European Central Bank** could set off shock waves of its own if it **unexpectedly announces a policy shift** to **gradually remove Europe from its massive stimulus program** at its monetary policy meeting. Economists at Deutsche Bank believe while the ECB is not yet ready to announce an exit from its quantitative easing program next week, it **could hint that a tapering is imminent** in a bid to prepare the markets.

In looking forward to next week's **economic calendar**, May updates on the service sector begin the week, first with PMI services, which accelerated in the mid-May flash, followed by ISM non-manufacturing which rose strongly in April. **ISM non-manufacturing** stood out last year as reporting consistently strong results, stronger perhaps than actual growth. New orders have been over 60 in three of the last five reports and have been getting a boost from exports. Delivery times are slowing and input costs rising, both consistent with strong demand. April's strong index of 57.5 did not match what were mostly weak results in the month's government data yet **forecasters do not see much of a change in ISM's index, at a consensus 57.0.**

Also on **Monday factory orders will be reported**, which will close the books on April which looks to have been a weak a month for manufacturing. Factory orders have been improving though are still struggling to keep in positive ground. Aircraft orders have been a plus this year but April's advance data in the durable goods report showed a downswing, one that pulls **Economist's consensus is minus 0.2%** versus March's marginal 0.2% gain.

Wednesday's consumer credit and Thursday's jobless claim reports will focus attention on the health of the consumer. Credit growth has been moderate and steady with consumer credit posting gains in the $15 to $20 billion range. The revolving component has been uneven though growth in nonrevolving credit, reflecting vehicle financing and student loans, has been steady and sizable. **A $17.0 billion increase is expected for consumer credit in April.**