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INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

U.S. equity markets saw the DJIA hit another record high last week, while the NASDAQ tumbled by more than -2.50% on Friday after Goldman Sachs warned that the FAAAM stocks were getting over-extended.

a) **Dow Jones +0.33% MTD +1.31% YTD +8.89%** b) **S&P 500 -0.27% MTD +0.87% YTD +9.61%**
c) **Russell 2000 +1.18% MTD +3.79% YTD +5.33%**

Drivers: I) **Goldman Sachs** warned on Friday that **technology stocks** Facebook (-3.30%), Apple (-3.88%), Alphabet (-3.40%), Amazon (-3.16%) and Microsoft (-2.27%) may have become **over-extended** in price. The FAAAM stocks which have seen a multi- month rally thus far in 2017, have **accounted for 43.0% of the NASDAQ's gain.**

II) The **CBOE Volatility Index VIX,** a measure of the market's expectation for volatility over the coming 30 days, **dropped last week to 9.37**, a level **not seen since December 1993**. Market pundits believe equity volatility should rise in the coming weeks. We are confronted with political grid lock in Washington and typical bouts of summer illiquidity could rock the markets and bring spikes in volatility.

III) The service-oriented companies which now employ a majority of Americas, grew at a slightly slower, but still rapid pace in May, signaling steady-as-she-goes for the U.S. economy. The **Institute for Supply Management** on Monday said its **nonmanufacturing index fell 0.6 points** to 56.9% in May. Despite the slight drop, the majority of respondents' comments continue to indicate **optimism about business** conditions and the overall economy

IV) **Consumer borrowing fell in April**, suggesting an expected rebound in spending in the second quarter may not be as robust as hoped. Consumer credit rose $8.2 billion in April to a seasonally adjusted $3.82 trillion, posting an annual growth rate of 2.6%, the Fed reported. This is down from a $19.5 billion gain in March. The April increase was well below economist estimates for a $17 billion gain, the **slowest** monthly **growth** rate **since August 2011**.

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

Capitalization: Large Caps +0.89% (YTD +9.48%), Mid-Caps +0.94% (YTD +7.93%) and **Small Caps +3.79%** (YTD +5.33%). Style: **Value +2.91%** (YTD +3.00%) and **Growth +2.42%** (YTD +8.11%). Industry Groups (Leaders): Consumer Discretionary +1.22% (YTD +25.25), **Information Technology -0.78% (**YTD +18.77%), Technology -0.78% (YTD +16.49%), Consumer Staples +0.17% (YTD +14.64%), Healthcare +1.99% (YTD +13.45), Utilities -0.30% (YTD +11.37%), **Materials +3.01%** (YTD +10.42%), REITs +1.01% (YTD +5.37%), and **Financial Services +4.45%** (YTD +4.88%). (Laggards): Telecommunication +0.81% (YTD -7.43%) and Energy +1.56% (YTD -11.19%).

EUROPEAN EQUITIES

The MSCI Europe index was down -1.21% last week, as the U.K.'s general election left the British government with a hung parliament, sparking expectations that the country will seek a softer version of its exit from the European Union.

Drivers: I) The **U.K.'s Conservatives came up short of a majority** in Thursday's "snap" general election. On Friday, votes had been counted in 649 of the 650 total constituencies, and Prime Minister Theresa May's Conservative Party won 318 seats. A party needs 326 seats to hold a majority in the House of Commons; if there is no majority party, the **parliament is considered "hung."**

II) The ruling **Conservative Party** has **lost its parliamentary majority**, fueling lots of uncertainty about the country's future Brexit negotiations. **Talk about** a new EU referendum and **another general election** are already making the rounds. Analysts say a hung parliament could slow and muddle the process of the U.K. leaving the European Union. A hung parliament creates all kind of doubts, uncertainty and indecision over Brexit.

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III) **Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was lower by -1.21% for the week (MTD -0.27% YTD +16.32%).**

ASIAN EQUITIES

Asian markets were mixed last week shrugging off the political uncertainty in the U.K., the ECB meeting and testimony of former U.S. FBI Director Comey. Markets were more effected by fluctuations of the Japanese Yen. The Dow Jones Asia Pacific Index was lower by -0.31% for the week, (MTD +1.39% YTD +14.66%).

Drivers: I) Revised **first quarter GDP in Japan grew by 0.3%** on the quarter down from the preliminary estimate of 0.5%. **GDP advanced an annualized 1.0%** and down from the preliminary estimate of 2.2%. The downward revision was mostly driven by household consumption, which is now estimated to have grown at an annualized rate of 1.1% (compared with a previous estimate of 1.4%) and contributed only 0.1% to quarterly growth.

II) The **May consumer price index in China increased was up 1.5%** on the year after increasing 1.2% in April. The annual change was primarily driven by a smaller decline in food prices which were down 1.6% for the smallest decline in four months. Non-food inflation, meanwhile, declined slightly from 2.4% to 2.3%, reflecting a smaller increase in transportation and communication prices.

III) **Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was lower by -0.81% (MTD +1.85% YTD +5.51%), the Hang Seng Index rose by +0.37% (MTD +1.34% YTD +17.71%) and the Shanghai Composite advanced by +1.70% (MTD +1.32% YTD +1.76%).**

FIXED INCOME

Treasury yields rose last week after the must anticipated Congressional testimony of former FBI Director James Comey was more benign than expected.

Performance: I) **The 10-year Treasury yield was higher last week ending at 2.200% up from 2.162%. The 30-year yield rose last week climbing from 2.814% to 2.855%.**

II) **Performance for the week, month-to-date and year-to-date. The Barclays US Aggregate Bond fell -0.15% last week, MTD +0.05% and YTD +2.42%. The Barclays US MBS TR was lower by -0.08% last week, MTD -0.02% and YTD +1.73%. The Barclay's US Corporate HY Index fell -0.09%, MTD +0.12% and YTD +4.92%.**

COMMODITIES

The DJ Commodity Index was up +0.03% last week and is lower month to date -0.57% (YTD -5.84%) as oil fell due to an unexpected rise in reserves and a drop in global demand for gold.

Performance: I) **Oil prices were lower** last week falling -3.85% down to $45.90 and is down month to date -5.00% (YTD -14.82%). Oil suffered its third-straight weekly loss as an unexpected **climb in U.S. crude supplies** cast a shadow on efforts to cut global supplies. Another weekly rise in the number of active U.S. oil rigs, which have climbed each week for more than five months, prompted concerns of further gains in production.

II) The **ICE USD Index**, a gauge of the U.S dollar's movement against six other major currencies, **rose +0.63%** from 96.67 to 97.28 for the week (MTD +0.31% YTD -4.98%). The U.S. dollar index strengthened against major currencies on Friday, **particularly against the British pound**, which fell to a seven-week low after the Conservative Party lost its parliamentary majority in the U.K. general election.

III) **Gold prices fell last week by -1.00%**. Gold fell for the first time in three weeks as the testimony of U.S. FBI Director James Comey and the ECB meeting offered little drama, and the unexpected election results in the U.K. had an isolated effect. Gold was lower by -1.00% falling from $1281.5 to $1268.8 (MTD -0.52% YTD +10.14%).

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HEDGE FUNDS

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

Performance:

I) The HFRX Global Hedge Fund Index is higher at +0.26% MTD and +2.61% YTD.
II) Equity Hedge has risen +0.49% MTD and is up +3.35% YTD.
III) Event Driven has declined MTD -0.15% and is higher YTD +4.48%.
IV) Distressed Debt is lower at -0.04% MTD and is positive YTD +1.94%
V) Macro/CTA is higher by +0.91% MTD and is up +0.56% YTD.
VI) Relative Value Arbitrage is down -0.02% and is up +1.48% YTD.

ECONOMIC DATA WATCH AND MARKET OUTLOOK

In looking **forward to the coming week**, all **eyes** will be on the **Federal Reserve Wednesday** for signs of how it will follow through with a widely anticipated interest-rate hike and how that will bear on cyclical stocks like tech, which experienced a sharp selloff on Friday. A **Fed rate hike is expected** by the market, as the CME Group's FedWatch Tool showing a **99.6% probability** for a quarter-point rate hike, and a 0.4% probability for a half-point one.

As to technology stocks, despite the **sell-off of the FAAAM names last Friday** of between -2.30% to -3.90%, the **sector is up a healthy 31.0% over the past 12 months** according to FactSet. The initial attention of investors was focused on the Fed's intention of a rate hike in September in the face of a moderate economic recovery. Some of the focus will now turn to thoughts about the possible **effect of further rate hikes on cyclical stocks**. Will a rise in rates have a negative effect on technology stocks which depend on economic growth?

Continued controversy out of Washington is also weighing on the minds of investors. While some may argue that probes into Russia's involvement in the 2016 election are hampering President Donald Trump's ability to consummate deals on tax and health-care reform, the patience of investors for this excuse is waning.

In turning to **next week's economic calendar**, **Wednesday's FOMC** will dominate the week and will include updated FOMC forecasts, where retracement for inflation and growth estimates are possible, along with Janet Yellen's quarterly press conference. The meeting is widely expected to **produce an incremental hike** in the Fed's policy rate despite the ongoing stream of weak economic data.

Inflation has been among the **weakest of any data** and will dominate the week's economic reports beginning with producer prices on Tuesday followed by consumer prices on Wednesday. Consumer prices proved unexpectedly weak in both March and, despite a jump in producer prices in April. April's weakness included medical care and once again communications where providers are in a price war. The **consensus for consumer prices in May calls for no monthly change** (versus a 0.2%increase in April) with the year-on-year rate seen falling to 2.0% (versus 2.2%).

Retail sales on Wednesday will offer an update on consumer spending which has also been weak and with very **little strength expected for the May** report. Weakness in consumer spending has been perhaps 2017's most important economic theme, reflecting low wages and belying high levels of employment and strong consumer confidence. April was supposed to have been a rebound month for retail sales but gains were only moderate. Similar weakness is expected for **May with headline retail sales seen up only 0.2%** following April's 0.4% gain.

Major reports on manufacturing and housing will be crowded together late in the week including industrial production and both the Philly Fed and Empire State reports all on Thursday. The housing market index, which has been very strong, will be reported on Thursday with housing starts and permits, which have not been strong, to close out the week on Friday.

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