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INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

U.S. equity markets were mixed last week as the DJIA posted its 27th record high led by energy shares, while the NASDAQ was dragged down for a second straight week by the continued decline in technology stocks.

a) **Dow Jones +0.59% MTD +1.91% YTD +9.52%** b) **S&P 500 +0.12% MTD +0.99% YTD +9.74%**
c) **Russell 2000 -1.00% MTD +2.75% YTD +4.27%**

Drivers: I) The **Federal Reserve raised** the key **U.S. Fed Funds rate** to between **1.00% to 1.25%,** and laid out a plan to shrink its massive $4.5 trillion balance sheet starting "this year," a pair of moves reflecting its view that an economic expansion now entering its ninth year is on stable ground. The intent is to raise the cost of borrowing for consumers and businesses to ensure the economy does not overheat and spark a bout of inflation.

II) Under the **plan to shrink its balance sheet**, the **Fed** will initially allow $6 billion a month in principal from maturing Treasury securities to runoff. That will increase in steps of $6 billion each quarter over a year until it reaches $30 billion a month. For mortgage-backed securities and federal agency debt, the Fed set an initial cap of $4 billion. That will increase in quarterly steps of $4 billion each quarter until it reaches $20 billion a month.

III) **Construction on new houses fell in May** for the third month in a row even though builders are optimistic about the economy, perhaps a sign a **shortage of skilled workers is holding the industry back**. The rate of housing starts declined by 5.5% to an annual rate of 1.09 million, marking the lowest level in eight months. Economists had forecast housing starts to total 1.23 million.

IV) **U.S. retailers in May** reported the **largest decline in sales in 16 months**, mostly due to lower gasoline prices and fewer Americans buying new cars and trucks. Sales at retailers nationwide fell 0.3% last month, the biggest drop since January 2016, the government reported Wednesday. The May sales report was generally weak across the board, as economists had forecasted a flat reading.

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

Capitalization: Large Caps +1.00% (YTD +9.60%), Mid-Caps +1.23% (YTD +8.23%) and **Small Caps +2.75%** (YTD +4.27%). Style: **Value +2.32%** (YTD +2.40%) and **Growth +1.96%** (YTD +7.63%). Industry Groups (Leaders): Consumer Discretionary -0.69% (YTD +22.88), **Information Technology -1.93% (**YTD +17.40%), Technology -1.80% (YTD +15.29%), Healthcare +2.56% (YTD +14.08), Consumer Staples -0.44% (YTD +13.95%), Utilities +1.33% (YTD +13.18%), Materials +2.23% (YTD +9.56%), **REITs +2.62%** (YTD +7.05%), and **Financial Services +4.80%** (YTD +5.23%). (Laggards): Telecommunication +0.97% (YTD -7.29%) and Energy +2.02% (YTD -10.78%).

EUROPEAN EQUITIES

The MSCI Europe index was down -0.28% last week, a second consecutive weekly decline, as shares of some supermarket chains were hit hard after Amazon.com Inc. unexpectedly said it's buying Whole Foods Market Inc. in a nearly $14 billion deal.

Drivers: I) U.K. and European supermarket chains tumbled on Friday after **Amazon Inc.'s deal to buy** upscale grocery chain **Whole Foods Market Inc**. in a $13.7 billion deal ignited concerns of increased competition in an industry already under pressure. Amazon brings incredible scale and pricing power that will make life a great deal tougher for anyone else.

II) **Inflation in Germany fell sharply in May**, a development that is likely to bolster expectations that the European Central Bank will not rush to unwind its stimulus program. Germany's annual inflation rate, measured by harmonized European Union standards, fell to 1.4% from 2.0% in April, the Destatis statistics office said. Inflation in Europe's largest economy is well under the ECB's target for the eurozone of "below, but close to" 2%.

III) **Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was lower by -0.28% for the week (MTD -0.54% YTD +16.00%).**

ASIAN EQUITIES

Asian markets were mostly lower on the week as investors weighed the actions (or non-actions) of central banks. The Nikkei, which was down four of five days, declined 0.3% for the week. The Dow Jones Asia Pacific Index was lower by -0.28% for the week, (MTD +1.10% YTD +14.34%).

Drivers: I) As widely expected the **Bank of Japan left monetary policy settings unchanged**. The BoJ's short-term policy rate for excess reserves remains at minus 0.1% while the target level for the long-term 10-year yield remains at around 0.0%. They also reaffirmed their commitment to keep expanding the monetary base until the annual increase in the consumer price index (excluding fresh food) exceeds their inflation target of 2.0%.

II) **China's** industrial production and retail sales increased at a steady pace in May, while property investment growth softened signaling a slowdown in overall activity in the second quarter. The annual growth in industrial production held steady at 6.5% while retail sales grew 10.7% on the year.

III) **Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was lower by -0.35% (MTD +1.49% YTD +5.14%), the Hang Seng Index fell by -1.62% (MTD -0.30% YTD +15.81%) and the Shanghai Composite declined by -1.12% (MTD +0.19% YTD +0.63%).**

FIXED INCOME

Treasury yields were lower last week, as the fixed income market reacted to continued weakness in inflation and the recent declines in consumer spending, consumer confidence, housing, manufacturing and inventories.

Performance: I) **The 10-year Treasury yield was lower last week ending at 2.152%% up from 2.200%. The 30-year yield declined last week falling from 2.855% to 2.776%.**

II) **Performance for the week, month-to-date and year-to-date. The Barclays US Aggregate Bond rose +0.26% last week, MTD +0.30% and YTD +2.69%. The Barclays US MBS TR was up by +0.02% last week, MTD -0.01% and YTD +1.75%. The Barclay's US Corporate HY Index rose +0.10%, MTD +0.22% and YTD +5.02%.**

COMMODITIES

The DJ Commodity Index was down -1.24% last week and is lower month to date -1.88% (YTD -7.08%) as oil's inexorable decline continued due to the supply overhang, and the drop in precious metals due to the rate increase from the U.S. Fed.

Performance: I) **Oil prices were lower** last week falling -2.65% down to $44.68 and is down month to date -7.53% (YTD -17.09%). Oil hit its lowest settlement of 2017, and registered their fourth weekly loss in a row, the longest such streak of declines in nearly two years. Data earlier in the week showed a rise in U.S. production and weak domestic gasoline demand which fed concerns that the global energy market **remained in large surplus.**

II) **The ICE USD Index**, a gauge of the U.S dollar's movement against six other major currencies, **fell -0.14%** from 97.28 to 97.14 for the week (MTD +0.16% YTD -5.11%). The U.S. dollar index fell a bit, paring some of the strong gains it made earlier in the week after the Federal Reserve's rate increase. The USD though gained ground against the yen after Japan's central bank left its ultra-easy monetary stance in place.

III) **Gold prices declined last week by -1.07%, falling from $1268.8 to $1255.2 (MTD -1.58% YTD +8.95%).** Gold fell in the wake of signals from the Federal Reserve for another increase to interest rates this year, sending the precious metal down for a second-straight week.

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 +0.00% MTD and +2.34% YTD.
II) Equity Hedge has risen +0.18% MTD and is up +3.04% YTD.
III) Event Driven has declined MTD -0.27% and is higher YTD +4.36%.
IV) Distressed Debt is lower at -0.08% MTD and is positive YTD +1.90%.
V) Macro/CTA is higher by +0.20% MTD and is down -0.14% YTD.
VI) Relative Value Arbitrage is down -0.05% and is up +1.45% YTD.

ECONOMIC DATA WATCH AND MARKET OUTLOOK

In looking forward to the coming week, **investors are focusing** more on how **technology,** the market-leading sector, will **dictate the direction of the broader indexes**, as the Federal Reserve has signaled a commitment to tightening and economic data remain lackluster. Tech stocks will remain a focus as their recent selloff has shown few signs of reversing following the Federal Reserve's rate hike and expectations of another one in September, coupled with a paring of the Fed's $4.5 trillion balance sheet.

The **market is seeing a rotation out of momentum driven growth areas** such as Technology, **into move value and defensive oriented sectors** such as Financials and Utilities. Last week, within the S&P 500, technology lost -1.2% while defensive Utilities were up +1.4%. The market is concerned that the **Fed** may be getting ahead of itself, **raising rates three times** this year, particularly as recent hard **economic data** is showing a **slow-down.** The ISM Manufacturing and Services sector have seen sub-par performance since peaking in February, and retail sales and inflation have been moribund as of late. Can the nascent green shoots of the economy we saw at the beginning of the year, weather another rate increase?

In turning to **next week's economic calendar**, sharp declines in housing starts and permits were among the prior week's biggest disappointments and point to moderation for this week's heavy slate of housing statistics. **Existing home sales are not expected to improve** in Wednesday's report for May. Like other housing data, existing home sales were disappointing in April following general strength during the first quarter. And forecasters are not looking for a rebound in May with economist's consensus at a **5.550 million** annualized rate **versus 5.570 million** in April. But prices have been on the rise and new supply has been coming into the market.

New home sales on Friday expected to **show only a moderate bounce** back from severe contraction in April. New home sales are perhaps the most volatile of any economic report, swinging from a 621,000-annualized rate in March down to a 569,000 rate in April. Economist's consensus for May is right in the middle at 590,000 in a result that, when compared with the 3-month average of 606,000, would be healthy though still slightly below the recent trend.

Growth in the FHFA house price index is expected to slow though still remain healthy. The FHFA house price index has been posting solid rates of growth though slight slowing is expected for April, to a **gain of 0.5% versus March's 0.6%.** Pacific and Mountain are the leading regions with the Mid-Atlantic trailing.

The **current account deficit** will be Tuesday's focus with jobless claims Thursday's focus. The current account deficit is expected to widen sharply in the first quarter, to $121.8 billion from $112.4 billion in the fourth quarter. But the range of estimates is wide, from $128.8 billion at the low end to $109.8 billion at the high end. The account deficit relative to GDP has been moderate, at 2.4% in the fourth quarter.

Jobless claims are very low and pointing to unusually **strong demand for labor**. Forecasters sees initial claims coming in at 240,000 in the June 17 week versus 237,000 in the prior week. Note that the June 17 week is also the sample week for the monthly employment report which will focus extra attention on the data.