INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

U.S. equity markets rallied higher for the first week in July after the employment report showed the U.S. added 222,000 jobs in June, representing the second-largest job gain of the year and indicating the labor market remained healthy.

a) **Dow Jones +0.38% MTD +0.38% YTD +9.77%** b) **S&P 500 +0.14% MTD +0.14% YTD +9.49%**
c) **Russell 2000 +0.05% MTD +0.05% YTD +5.04%**

Drivers: I) The **U.S. created 222,000 new jobs in June** as hiring accelerated in the spring, showing that companies are still finding ways to add staff despite a growing shortage of skilled workers. The increase in new jobs was the largest in four months and second biggest rise of the year. Hiring was also stronger in May and April than previously reported. Employment gains in June easily exceeded the 180,000 estimates of economists.

II) **Hourly pay rose a 0.2%** to $26.25 an hour in June. Wages have risen just 2.5% over the past year, up a bit from the prior month but still well **below the usual gains** at this **late stage of an expansion.** Companies continue to find ways to restrain labor costs. Explanations for low wage growth range from low productivity, global competition, fewer middle-class jobs or a shift to younger, lower-paid workers from older, higher-paid ones.

III) **The Fed** said last month it **would begin to pare down its $4.5 trillion portfolio** of Treasury bonds and mortgage-backed securities sometime this year. At a meeting of senior bank officials, "several preferred to announce the start of the process within a couple of months," according to minutes of the June 13-14 FOMC meeting released last Wednesday. Fed watchers believe the process **could start as early as September**.

IV) The **trade deficit fell 2.3% in May**, due to fewer imports of cellphones and other consumer goods, but the longer-run outlook for the U.S. was still grim. The deficit fell to $46.5 billion in May from $47.6 billion in April, the Commerce Department reported. Economists had forecast a $46.3 billion gap. Exports continued to improve as the U.S. shipped $192 billion worth of goods and services to other countries, a 0.4% increase.

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

Capitalization: Large Caps +0.08% (YTD +9.36%), **Mid-Caps -0.22%** (YTD +7.75%) and Small Caps +0.05% (YTD +5.04%). Style: **Value -0.18%** (YTD +2.32%) and **Growth +0.17%** (YTD +7.51%). Industry Groups (Leaders): Consumer Discretionary -1.18% (YTD +20.90%), Information Tech +0.61% (YTD +17.34%), Healthcare -0.01% (YTD +16.46%), Tech +0.48% (YTD +14.76%), Consumer Staples -1.03% (YTD +12.63%), **Industrials +0.81%** (YTD +11.44%) Materials +0.63% (YTD +9.83%), **Financials +1.54%** (YTD +8.48%), Utilities -0.90% (YTD +7.68%) and **REITs -1.48%** (YTD +4.73%). (Laggards): Telecom -1.00% (YTD -11.66%) and **Energy -1.34%** (YTD -13.91%).

EUROPEAN EQUITIES

The MSCI Europe index was up +0.10% last week despite a drop on Friday, as stocks prices fell due to the drop in oil prices and concerns that the present accommodative monetary policy was coming to an end.

Drivers: I) **ECB policy makers** discussed how to signal their increasing confidence in the eurozone economy at their June policy meeting, and considered dropping a pledge to accelerate their massive bond-buying program, according to the minutes. ECB officials **took a small step toward reducing their large monetary stimulus** at a policy meeting in early June, by indicating the central bank is unlikely to cut interest rates further below zero.

II) **Eurozone manufacturing** ended the second quarter and the month of June at a final 57.4 which was 0.4 points above its final May reading. This was its **best result in 74 months.** Manufacturing production and new orders expanded at the quickest rates since the first half of 2011 and reflected strong demand in both the domestic and overseas markets.

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III) **Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was higher by +0.10% for the week (MTD +0.10% YTD +15.47%).**

ASIAN EQUITIES

Asian markets were mostly lower as they tracked the performances of European and U.S. markets after the ADP private employment report was weaker than anticipated. The markets also reacted negatively amid bets the European Central Bank will gradually remove policy accommodation soon. The Dow Jones Asia Pacific Index was lower by -1.15% for the week, (MTD -1.15% YTD +13.10%).

Drivers: I) **European and Japanese leaders** confirmed that they have **reached a political agreement on a free trade deal** to liberalize markets from dairy products to car parts. Speaking at a joint press conference in Brussels with Japanese PM Shinzo Abe, Donald Tusk, president of the EU Council, said that the deal proved wrong the claims of Brexit supporters that "it is easier to do trade outside of the European Union."

II) Activity in **China's service sector expanded at a slower rate in June**, a private gauge showed Wednesday, pointing to possible softness in the sector, in contrast with official data showing an improvement. The Caixin China services purchasing managers' index slipped to 51.6 in June from 52.8 in May, the second lowest level in 13 months, Caixin Media Co. and research firm Markit reported.

III) **Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was lower by -0.52% (MTD -0.52% YTD +5.26%), the Hang Seng Index fell by -1.70% (MTD -1.70% YTD +14.37%) and the Shanghai Composite advanced by +0.80% (MTD +0.80% YTD +3.68%).**

FIXED INCOME

Treasury prices dropped last week due to several factors including the looming downsizing of the Federal Reserve's balance sheet, as well as better than expected jobs data.

Performance: I) **The 10-year Treasury yield was higher last week ending at 2.386%% up from 2.301%. The 30-year yield climbed higher last week rising from 2.836% to 2.931%.**

II) **Performance for the week, month-to-date and year-to-date. The Bloomberg Barclays US Aggregate Bond Index dropped -0.37% last week, MTD -0.37% and YTD +1.90%. The Bloomberg Barclays US MBS TR was down by -0.25% last week, MTD -0.25% and YTD +1.09%. The Bloomberg Barclay's US Corporate HY Index fell -0.28%, MTD -0.28% and YTD +4.62%.**

COMMODITIES

The DJ Commodity Index was down -0.77% last week and is lower month to date -0.77% (YTD -6.13%) as energy and gold prices declined with the prospects of higher rates coming from global central banks.

Performance: I) **Oil prices plunged last week** dropping -4.31% down to $44.33 and is down month to date -4.31% (YTD -17.74%). Oil ended sharply lower last Friday as a **rise in U.S. crude production** and a weekly climb in oil rigs provoked concerns that OPEC led efforts to bring balance to the market is not at all successful.

II) **The ICE USD Index**, a gauge of the U.S dollar's movement against six other major currencies, **rose +0.37%** from 95.64 to 96.00 for the week (MTD +0.37% YTD -6.23%). The U.S. dollar index held on to modest gains following an **upbeat report on jobs** created in June, which should bolster the Federal Reserve's efforts to follow through with dollar-boosting monetary policy.

III) **Gold was lower last week** by -2.37%. Gold finished at its lowest level since March as upbeat monthly data on U.S. jobs supported expectations for at least one more interest-rate hike from the Federal Reserve this year. Gold dropped by -2.37% falling from $1241.4 to $1211.9 (MTD -2.37% YTD +5.20%).

HEDGE FUNDS

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

Performance:
I) The HFRX Global Hedge Fund Index is lower at -0.08% MTD and +2.48% YTD.
II) Equity Hedge has risen +0.02% MTD and is up +3.76% YTD.
III) Event Driven has declined MTD -0.13% and is higher YTD +4.47%.
IV) Distressed Debt is lower at -0.09% MTD and is positive YTD +2.47%
V) Macro/CTA is down by -0.39% MTD and is up -1.14% YTD.
VI) Relative Value Arbitrage is up +0.09% and is up +1.80% YTD.

ECONOMIC DATA WATCH AND MARKET OUTLOOK

Heading into the new week, the markets will be fixated on **Fed Reserve Chairwomen Janet Yellen's speaking before Congress** and the **start of the corporate earnings reporting season** which will have the **banks front and center.** In addition, investors will also focus on whether the technology sector can continue to rebound and whether the energy sector can break out of its slump.

With the prospect of **more Fed rate increases** this year, along with **balance sheet reductions** expected in September, and signals that other central banks are shying away from easing measures, **outlooks from banks** following their respective earnings will be a **key focus**, particularly after investment banks signaled a **downturn** in **second-quarter trading** activity back in June. When you look at the recent dividend and stock buy-back announcements, banks feel they can be more aggressive in their business and that can drive share prices higher.

In turning to **next week's economic calendar**, Janet Yellen's testimony on Wednesday will mute any reaction to data early in the week including job openings in **Tuesday's JOLTS report** which have been **accelerating sharply and underscoring the strength in labor demand**. Job openings in the JOLTS report are expected to edge lower to a consensus 5.975 million in May versus a very strong 6.044 million in April. Job openings have been running about 1 million above totals for hiring indicating that employers are having a hard time finding the right people.

In advance of Yellen's appearance, the Fed released its semi-annual monetary report which confirms the **FOMC's intention to begin unwinding its $4.5 trillion balance sheet before year end.**

Questions on the inflation outlook are certain to be front and center. **Inflation data** will in fact finish the week with **Friday's consumer price report** where a small rise is the consensus. Street consensus is not calling for strength in consumer prices, at a monthly gain of only 0.1% in June vs a 0.1% decline in May. The **yearly rate is seen dropping down to 1.7% from 1.9%.** Though this report has been lower by declines in cell phone service plans and pharmaceuticals, fundamental costs like housing and medical care have also been slowing.

A marginal gain is the expectation for **Friday's retail sales report** which, once again, is **expected to be held down** by **weak auto sales**. Industrial production at midmorning Friday rounds out the week and here too another month of softness is the call for the manufacturing component.

Retail sales need to rebound in June to help second-quarter consumer spending, but the **Street consensus is not expecting much strength**, at a gain of 0.1% versus an outright 0.3% decline in May. Unit vehicle sales proved flat in May, which is not a positive indication for the autos component of this report and has posted 4 monthly declines thus far in 2017.

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