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INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

U.S. equity markets saw the DJIA finish the week at a new record high, while the S&P 500 and Russell 2000 were down a bit prompted by the slide in Amazon, which reported disappointing earnings.

a) **Dow Jones +1.17% MTD +2.39% YTD +11.96%** b) **S&P 500 +0.00% MTD +2.13% YTD +11.67%**
c) **Russell 2000 -0.45% MTD +1.03% YTD +6.07%**

Drivers: I) **Less-than-spectacular corporate results from Amazon.com Inc**. which reported a 77% plunge in second-quarter earnings, added to a pause in the market's gains as Wall Street reassessed valuations of the market's best performers, which have helped equity benchmarks reach repeated records. Amazon shares declined 2.5%, having recovered from deeper losses earlier.

II) The failure of a Republican-led attempt to repeal or replace the Affordable Care Act in the late hours last Friday morning, was viewed as a proxy for President Donald Trump's ability to deliver on previously pledged pro-growth legislations, may also have dampened investor sentiment. Republicans also need to score victories before they hit the campaign trail, but so far, there is no sign of any tax relief that Trump voters have been expecting.

III) The **U.S. grew at a 2.6% annual pace** in second quarter, rebounding from soft stretch at the start of the year. Consumer spending, the main driver of the economy, led the way with a 2.8% increase, according to Commerce Department data. Inflation as measured by the PCE price index increased at a 0.3% annual rate. **First-quarter GDP was revised lower to 1.2%.**

IV) **Orders for durable goods soared** in June to a three-year high, but the gain was a bit misleading: a strong summer for **Boeing accounted for nearly the entire gain**. Durable-goods orders jumped 6.5% last month, the Commerce Department reported. Economists had forecast a 5.3% increase. If planes and autos are set aside, orders rose just 0.2% and a key measure of business investment fell for the first time in 2017.

V) **Equity prices in July are higher with Large-Cap, Growth, Con. Discretionary and Telecom leading equity price performance. The laggards for the month are Small-Cap, Value, and Industrials.**

Capitalization: Large Caps +2.06% (YTD +11.52%), Mid-Caps +1.51% (YTD +9.62%) and **Small Caps +1.03%** (YTD +6.07%). Style: **Value** +**0.93%** (YTD +3.46%) and **Growth +1.11%** (YTD +8.52%). Industry Groups (Leaders): **Consumer Discretionary +5.87% (**YTD +29.53%), Information Tech +4.82% **(**YTD +22.25%), **Tech +4.93%** (YTD +19.84%), Healthcare +0.73% (YTD +17.32%), Consumer Staples +2.65% (YTD +16.83%), Materials +2.45% (YTD +11.82%), **Industrials +0.40%** (YTD +10.99%), Utilities +2.04% (YTD +10.89%), Financials +1.09% (YTD +8.00%) and REITs +1.30% (YTD +7.69%). (Laggards): **Telecom +5.74%** (YTD -5.64%) and Energy +2.49% (YTD -10.57%).

EUROPEAN EQUITIES

The MSCI Europe index was up +0.34% last week, but ended on a down note last Friday after a weak Asia session and some late profit-taking in the tech sector heading into the U.S. close.

Drivers: I) In **Germany the July Ifo business climate** index climbed from 115.2 in June to 116.0, the **highest since** the survey began in **1991**. Strong business sentiment was broad-based with the index advancing to new 12-month highs for the manufacturing, construction and wholesale sectors. The retail sector fell, reversing the sharp increase recorded in June, but still leaving the index well above levels seen during the first quarter of the year.

II) The **UK and France** released their first estimates of **second quarter growth**. On the quarter, UK GDP improved to an increase of 0.3% from 0.2% while French GDP improved to 0.5% from 0.3%, both **solid readings**. On the year, UK GDP was up 1.7% and France, 1.8%. In the U.K., the latest quarterly advance was dominated by the services sector, which posted a 0.5% gain, up from a moderate 0.1% in the first quarter.

III) **Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was higher by +0.34% for the week (MTD +2.73% YTD +18.50%).**

ASIAN EQUITIES

Asian markets were mixed as investor sentiment was hurt by the resignation of Japan's Defense Minister Tomomi Inada over a series of missteps and a cover-up at her ministry that have contributed to a sharp plunge in public support for Prime Minister Shinzo Abe. The Dow Jones Asia Pacific Index was higher by +0.07% for the week, (MTD +3.07% YTD +17.94%).

Drivers: I) In Japan, over the past few weeks the **suspicion of scandal over favoritism** for a friend's business and missteps by cabinet ministers have **taken a toll on Prime Minister Abe**, who until recently was favored to win a third three-year term as party leader when his current term expires in September 2018. Japanese markets on Friday were down despite the release of better than expected economic data.

II) **June household spending in Japan climbed 2.3%** after declining 0.1% in May. This was the first positive reading after fifteen consecutive months in negative territory. Spending was **largely driven by housing**, up 25.1% on the year after a drop of 8.8% in May. A measure of core household spending, which excludes housing, motor vehicles and other volatile items and tends to track more closely the consumption component of gross domestic product edged up 0.1% after declining 0.8% in May.

III) **Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was down by -0.69% (MTD -0.36% YTD +5.43%), the Hang Seng Index rose by +1.00% (MTD +4.64% YTD +21.75%) and the Shanghai Composite advanced by +0.47% (MTD +1.90% YTD +4.82%).**

FIXED INCOME

Treasury yields rose for the week as the rise in commodity prices, particularly for oil, and some stronger-than-expected economic data raised growth and inflation expectations.

Performance: I) **The 10-year Treasury yield was higher last week ending at 2.292% up from 2.237%. The 30-year yield was higher last week rising from 2.809% to 2.897%.**

II) **Performance for the week, month-to-date and year-to-date. The Bloomberg Barclays US Aggregate Bond Index fell -0.21% last week, MTD +0.43% and YTD +2.72%. The Bloomberg Barclays US MBS TR was down -0.07% last week, MTD +0.43% and YTD +1.79%. The Bloomberg Barclay's US Corporate HY Index advanced +0.21%, MTD +1.10% and YTD +6.08%.**

COMMODITIES

The DJ Commodity Index was up +2.61% last week and is higher month to date +3.58% (YTD -2.02%) as energy rallied based on lower production commitment from OPEC and metals rose as the USD fell.

Performance: I) **Oil prices advanced last week** climbing +9.19% up to $49.79 and is higher month to date +7.47% (YTD -7.61%). Oil posted a weekly gain of more than 9.0%, the largest such rise since early December, with prices getting a lift from renewed production-curb commitments from OPEC members as well as uncertainty in Venezuela.

II) The **ICE USD Index**, a gauge of the U.S dollar's movement against six other major currencies, **fell -0.67%** from 93.97 to 93.34 for the week (MTD -2.40% YTD -8.83%). The U.S. dollar index suffered its third straight weekly decline after a reading on economic growth came in below expectations, though analysts said the currency was potentially nearing a bottom.

III) **Gold moved higher** as reports of another missile test by North Korea and continued weakness in the U.S. dollar boosted demand for the precious metal. Gold rose by +1.15 last week, climbing from $1261.1 to $1275.6 (MTD +2.75% YTD +10.73%).

HEDGE FUNDS

Hedge fund returns in July are higher, as all the core strategies Equity Hedge, Event Driven, Distressed, Macro and Relative Value are in positive territory.

Performance:

I) The HFRX Global Hedge Fund Index is higher at +0.94% MTD and +3.53% YTD.
II) Equity Hedge has risen +1.08% MTD and is up +4.86% YTD.
III) Event Driven has advanced MTD +1.05% and is higher YTD +5.71%.
IV) Distressed Debt is higher at +0.38% MTD and is positive YTD +2.95%
V) Macro/CTA is up by +0.75% MTD and is down -0.01% YTD.
VI) Relative Value Arbitrage is up +0.84% and is higher by +2.56% YTD.

ECONOMIC DATA WATCH AND MARKET OUTLOOK

Heading into the new week, the **next direction equity prices take** may well be determined by the **earnings announcements** from two tech market leaders, **Apple and Tesla**. The two technology superstars are poised to announce earnings on Tuesday and Wednesday respectively, as the market rally is looking tired despite seeing the major indexes reach new highs virtually every day. The Apple and Tesla reports may the bull market's last hope for an adrenaline boost, as they will end the earnings season for technology and momentum stocks.

Apple is the last of the FAAAM stocks (Facebook Inc., Apple, Amazon, Alphabet and Microsoft) to report and may well dictate which direction Tech stocks will take. Investors will be analyzing the recent quarter's earnings, as well any news regarding the anticipated launch of the iPhone 8. **Technology has done well**, despite sub-par earnings from Alphabet and Amazon. However, the market seems to have priced in positive earnings expectations, as good earners have traded flat, while those that missed have been severely punished on the downside. While many of these stocks have **shown superior earnings growth**, some have rallied greatly without the earnings support. As such, investors are beginning to wonder whether the higher rates of revenue and earnings growth will continue, or are **tech stocks priced to perfection**.

In turning to next week's economic calendar, the action starts with **pending home sales** on Monday where a long awaited bounce back is once again the expectation. Pending sales have fallen for three months in a row, highlighting what has been a soft stretch for existing home sales. Forecasters are predicting a **strong 0.9% bounce** back for June's data.

Personal income and outlays **on Tuesday** will separate out June's consumer data from last week's second-quarter GDP report and not much strength, for both consumer spending or PCE inflation is expected. **Personal income** in June is expected to **rise a respectable 0.4%** for a second month in a row. **Consumer spending**, however, is seen **up only 0.1%** thus remaining unchanged. Price data are not expected to improve with the PCE price index seen unchanged and the year-on-year rate down slightly to 1.3%.

Vehicle sales on Tuesday will open July's consumer data while **factory orders on Thursday** will close out June data on manufacturing. Unit vehicle sales have been soft, missing Street consensus each month this year. The consensus for July is an increase to a 16.8 million annualized rate from June's 16.6 million. These numbers will offer the first solid hints on how strong consumer spending was in July.

PMI and ISM reports are also out on Thursday and will offer clues on July conditions in the service sector. PMI services rose more than 1 point in the July flash to 54.2, which is the level where forecasters see the index holding. A highlight of the flash report was strength in new orders, which hit a 2-1/2 year high. Factory orders are expected to rise 2.6% in June.

Employment will end the week and is expected to **post another solid showing, at 180,000 for July nonfarm payroll** growth and a bounce back to a respectable 0.3% monthly gain in average hourly earnings. After rising a strong 222,000 in July, nonfarm payroll growth is expected to slow back to trend under 200,000, to a consensus 180,000 in July.