INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

U.S. equity markets rallied on Friday, paring back losses the market had suffered during the week as tensions escalated between the US and North Korea. An Associated Press report revealed that the US and North Korea have been conducting back channel talks for several months, soothing some concerns.

a) **Dow Jones -0.91% MTD +0.02% YTD +12.30%** b) **S&P 500 -1.37% MTD -1.06% YTD +10.40%**
c) **Russell 2000 -2.67% MTD -3.52% YTD +2.04%**

Drivers: I) U.S. President Donald Trump on Thursday warned that his threat on Tuesday to unleash "fire and fury" on North Korea "maybe wasn't tough enough." Trump's comments came as North Korean leader Kim Jong Un made an explicit threat to strike a U.S. military base in Guam. North Korean leader **Kim Jong Un** ordered his military's strategic forces to carefully **examine an operational plan for a missile strike on Guam** military base.

II) **U.S. consumer prices remained soft** for the fifth straight month in July, raising more questions about whether inflation will eventually rise to hit the Federal Reserve's 2% annual rate target. The consumer price index **rose a seasonally adjusted 0.1% in July**, the Labor Department reported. Economists had expected the CPI to increase by 0.2%. Food prices rose 0.2% in July while energy prices slipped 0.1%.

III) The **core inflation rate which came in at only 0.1% last month**, was held down by a **sharp decline in new vehicle prices**, which fell 0.5%, the biggest decline since August 2009. The cost of cell phones continued to decline, falling 0.3%. The index of used cars fell 0.5%, its seventh consecutive decline. In addition, the index for lodging away from home fell a sharp 4.2%, the biggest decline since the series began in December 1997.

IV) The number of **job openings rose to a new record in June** while hiring decreased, evidence of the difficulties companies are having finding suitable employees. The Labor Department reported on Tuesday that openings jumped to 6.16 million from 5.7 million in May. Large gains came in professional and business services, health care and social assistance and construction.

V) **Equity prices in August are lower with Large-Cap, Growth, Technology and Utilities leading equity price performance. The laggards for the month are Small-Cap, Value, Energy and Consumer Discretionary.**

Capitalization: Large Caps -1.16% (YTD +10.15%), Mid-Caps -2.32% (YTD +7.03%) and **Small Caps -3.52%** (YTD +2.04%). Style: **Value -3.32%** (YTD -0.04%) and **Growth -2.80%** (YTD +5.30%). Industry Groups (Leaders): **Consumer Discretionary -2.66% (**YTD +25.98%), Information Tech -0.24% **(**YTD +21.33%), **Tech -0.11%** (YTD +19.16%), Healthcare -1.65% (YTD +15.19%), Consumer Staples -0.91% (YTD +14.86%), **Utilities +0.92%** (YTD +12.32%), Industrials -0.62% (YTD +10.13%), Materials -2.05% (YTD +8.53%), Financials -1.47% (YTD +7.07%) and REITs -1.90% (YTD +5.52%). (Laggards): Telecom -1.72% (YTD -6.93%) and **Energy -4.03%** (YTD -14.01%).

EUROPEAN EQUITIES

The MSCI Europe index down -2.24% last week, as investors continued to be rattled by the escalating tensions between North Korea and the United States. On the week, the FTSE and CAC were down 2.7% while the DAX retreated 2.3% and the SMI tumbled 3.2%.

Drivers: I) **Germany's trade surplus widened slightly in June**, though both imports and exports declined, data from the country's statistics office showed. Exports declined by 2.8% on the month in June. It was the first decline in exports this year, after five straight months of positive gains. Imports fell at a steeper pace of 4.5%.

II) **June industrial production in Germany** excluding construction **dropped 1.1%** on the month, reversing almost all of May's 1.2% gain. Annual growth slowed from 4.9% to 2.5%, the weakest showing since March. The monthly decline in overall production was more than matched by the key manufacturing sector where output was down 1.4%, its first decline since December last year.

III) **Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was lower by -2.24% for the week (MTD -1.25% YTD +17.31%).**

ASIAN EQUITIES

Asian markets were declined last week as the escalation in tensions surrounding North Korea continued to push investors toward safe haven assets such as the Japanese yen, the Swiss franc and gold. The Dow Jones Asia Index declined by -1.70% for the week, (MTD -1.59% YTD +18.08%).

Drivers: I) **In China, July consumer prices were up 1.4% on the year, down from 1.5% in June**. The index rose 0.1% on the month after a decline of 0.2% in June. The small decline in the headline inflation rate was driven by a smaller increase in non-food prices, down from 2.2% in June to 2.0% in July. This, in turn, largely reflects transportation and communication costs, which fell 0.2% in July after increasing by 0.1% in June.

II) **In Japan**, the **June private sector machinery orders** (excluding volatile items) **dropped 1.9%** on the month (seasonally adjusted) in June after tumbling 3.6% in May. On the year, orders retreated 6.6%. The monthly change was driven by the manufacturing sector where orders dropped 5.4%. In contrasts, non-manufacturing orders (excluding volatile items) rose a monthly 0.8% but dropped 6.9% on the year.

III) **Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was down by -1.11% (MTD -0.98% YTD +4.22%), the Hang Seng Index fell by -2.46% (MTD -1.72% YTD +21.22%) and the Shanghai Composite dropped by -1.64% (MTD -1.97% YTD +3.38%).**

FIXED INCOME

Treasury yields declined last Friday, extending the largest five-day decline since April, after consumer-price inflation missed expectations, one of many anemic data releases this week that have cut into the odds that the Federal Reserve will push for an aggressive pace of monetary tightening this year.

Performance: I) **The 10-year Treasury yield was lower last week ending at 2.191% down from 2.264%. The 30-year yield was down last week falling from 2.842% to 2.789%.**

II) **Performance for the week, month-to-date and year-to-date. The Bloomberg Barclays US Aggregate Bond Index rose +0.24% last week, MTD +0.41% and YTD +3.14%. The Bloomberg Barclays US MBS TR was up +0.23% last week, MTD +0.36% and YTD +2.18%. The Bloomberg Barclay's US Corporate HY Index declined -0.75%, MTD -0.71% and YTD +5.34%.**

COMMODITIES

The DJ Commodity Index was up +0.36% last week but is lower month to date -0.87% (YTD -2.90%) as gold led the way as tensions between the US and North Korea escalated, and oil rose as the growth in US rig counts may have hit a plateau.

Performance: I) **Oil prices declined last week** falling -1.47% down to $48.79 and is lower month to date -2.75% (YTD -9.46%). Oil rallied on Friday, but was lower for the week, as data showed that the number of active U.S. oil rigs rose only slightly for the week, raising the likelihood that drilling activity has stabilized.

II) The **ICE USD Index**, a gauge of the U.S dollar's movement against six other major currencies, **fell -0.42%** from 93.49 to 93.10 for the week (MTD +0.26% YTD -9.06%). The U.S. dollar finished the week lower as **weak July inflation figures**, as well as new comments earlier Friday from President Trump warning North Korea against threatening the U.S. or its allies.

III) **Gold was higher**, scoring its strongest weekly gain in four months on Friday to settle at the highest level in more than two months, as festering North Korean tensions prompted haven demand for precious metals. Gold rose by +2.43 last week, rising from $1264.3 to $1295.0 (MTD +1.69% YTD +12.41%).

HEDGE FUNDS

Hedge fund returns in August are lower, as all the core strategies Equity Hedge, Event Driven, Distressed, Macro and Relative Value are in negative territory.

Performance:

I) The HFRX Global Hedge Fund Index is lower at -0.70% MTD and +2.78% YTD.
II) Equity Hedge has fallen -1.09% MTD and is up +3.49% YTD.
III) Event Driven has declined MTD -0.79% and is higher YTD +4.83%.
IV) Distressed Debt is lower at -0.76% MTD and is positive YTD +2.30%
V) Macro/CTA fell by -0.85% MTD and is down -0.67% YTD.
VI) Relative Value Arbitrage has fallen -0.10% and is higher by +2.53% YTD.

ECONOMIC DATA WATCH AND MARKET OUTLOOK

Heading into the new trading week, **earnings reports and economic data releases** may push the U.S. and North Korea war of words into the background. The retail sector is scheduled to report next week, winding down what has been a better than expected earning's season. In addition, the market will be keep a watch eye on Tuesday's July retail sales report from the Department of Commerce. This will give us a clue as to whether the consumer will help power the US economy forward. The retail sales report may also help to reconcile the **growing disparity between strong soft, versus moderate hard economic data.**

Specifically, the last reading for consumer spending showed growth of less than 0.1% in June, its most anemic monthly growth since January 2016, continuing a steady downtrend that's existed since March. At the same time, the last reading for consumer confidence showed its second highest level in 16 years at 121.1 back in July. June's reading was 117.3, which is similarly near 16-year highs. What is most important is not necessarily how consumer's feel, but how much they are spending.

In turning **to next week's economic calendar**, as previously mentioned, consumer spending starts the week off on **Tuesday with retail sales** expected to rebound in moderate strength. Retail sales have been among the most disappointing of any economic indicator this year but expectations are looking for a constructive **rebound in July.** The Street consensus is calling for a **0.3% gain versus a 0.2% decline** in June.

The Empire State Index out on Tuesday, will start the week's manufacturing data off which follow on **Thursday with industrial production** and the Philly Fed. Expectations for manufacturing is for moderate strength. Driven by another month of unusual strength for the mining component, **industrial production rose 0.4% in June** to overshadow a less impressive 0.2% gain for the more important and mostly sluggish manufacturing component. Industrial production is seen rising 0.3% in July with manufacturing posting another 0.2% gain

Housing data also begins on Tuesday with the housing market index followed on the next day by housing starts and permits. For housing, volatility along an improving path is the likely outcome. **Optimism among home builders has been fading** in recent months as the housing market index, reflecting a downturn in buyer traffic, came in at 64 in July versus high 60 readings earlier in the year. **High prices for new homes along with thin supply have been holding back the market**. The consensus for August is 65.

Wednesday sees FOMC minutes from last month's meeting which produced no action or clue as to when balance-sheet unwinding begins. Federal Reserve policy makers held steady, holding rates unchanged and offering no hints whether balance sheet unwinding would begin as early as the September meeting or perhaps later in the year. The **great impediment to balance sheet deleveraging is inflation** which was described as "declining" versus "somewhat declining" at the June meeting. Any dissent in the FOMC minutes over unwinding, whether sooner or later, could move the markets.

Friday finishes up with August consumer sentiment, a report that has long faded and is running far behind the rival consumer confidence report which has been holding steady at record highs.