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# INVESTMENT COMMITTEE MARKET COMMENTARY

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## U.S. EQUITIES

**U.S. equity markets suffered another consecutive weekly decline as President Donald Trump's strategist Stephen Bannon departed the White House on Friday, following the prior day's selloff fueled by a terrorist attack in Barcelona and rumors that Trump's economic adviser Gary Cohn might resign.**

a) **Dow Jones -0.77% MTD -0.75% YTD +11.43%** b) **S&P 500 -0.58% MTD -1.64% YTD +9.76%**
c) **Russell 2000 -1.17% MTD -4.65% YTD +0.85%**

**Drivers:** I) **Stephen Bannon**, President Donald Trump's controversial chief strategist, is **leaving the White House** after a volatile tenure during which he clashed with other top staffers and defended the president in the wake of his response to the violence in Charlottesville, Va. Bannon is the latest in a series of top officials to leave Trump's administration.

II) **U.S. retail sales surged in July** to the **highest level of 2017**, supported by strong demand for new autos and Amazon's Prime Day shopping specials. Sales at retailers nationwide jumped 0.6% last month, beating economists forecast of a 0.4% increase. Steady hiring, the lowest unemployment rate in 16 years and rising incomes have boosted spending in 2017, keeping the economy on a path of growth for the eighth straight year.

III) **Housing starts came in at a 1.16 million** seasonally **adjusted annual rate**, the Commerce Department reported. That's 4.8% below June's pace, and 5.6% lower compared to a year ago. It also missed the Street consensus forecast of a 1.23 million rate. Builders broke ground on fewer homes in July, but new home construction continues to grind slowly and steadily higher.

IV) Americans were almost as optimistic about the economy in August as they were at the start of the year, when President Donald Trump took office. The **University of Michigan's sentiment index climbed to 97.6** in August from 93.4 in July, sitting just below a 98.5 reading in January that marked a 13-year high. The Michigan survey saw a **sizable increase** in the number **of people** who said their own **financial well-being had improved**.

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 -1.73%** (YTD +9.15%), Mid-Caps -2.92% (YTD +6.38%) and **Small Caps -4.65%** (YTD +0.85%). Style: **Value -4.69%** (YTD -1.44%) and **Growth -3.76%** (YTD +4.26%). Industry Groups (Leaders): Info. Tech -0.20% **(**YTD +21.38%), **Tech -0.17%** (YTD +19.09%), Healthcare -2.33% (YTD +14.07%), **Utilities +2.42%** (YTD +13.99%), **Consumer Discretionary -3.38% (**YTD +9.13%), Industrials -1.64% (YTD +8.99%), Materials -1.64% (YTD +8.99%), Consumer Staples -0.24% (YTD +8.09%), Financials -1.91% (YTD +6.59%) and REITs -1.62% (YTD +5.82%). (Laggards): Telecom -2.13% (YTD -6.70%) and **Energy -6.39%** (YTD -16.13%).

## EUROPEAN EQUITIES

**The MSCI Europe index up +0.20% last week, despite the negative impact from the terrorist attacks in Spain and traders worrying that the US President's political controversies will hamper his ability to implement tax cuts and other pro-growth legislation.**

**Drivers:** I) The **ECB published minutes** from its July 19 and 20 Governing Council monetary policy meeting. The minutes **did not contain any new revelations**. The Council maintained its positive assessment of the economy as "economic growth had gathered some further momentum, with some upside risks to the short-term outlook".

II) The **Euro-zone flash second quarter real gross domestic product** increased a quarterly 0.6% after advancing 0.5% in the first quarter. On the year, GDP was revised up a tick from the preliminary **flash reading to 2.2%**, the **fastest pace since January to March 2011**. This confirms that the quarterly expansion was built on a solid performance by Germany (0.6%) and supported by Spain (0.9%).

III) **Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was higher by +0.20% for the week (MTD -1.06% YTD +17.54%).**

### ASIAN EQUITIES

**Asian markets joined a global decline Friday as the ongoing political turmoil in Washington put President Trump's stimulus and tax plans in jeopardy and a deadly attack in Barcelona, Spain that left the world unnerved. The Dow Jones Asia Index declined by -0.18% for the week, (MTD -1.76% YTD +17.87%).**

**Drivers:** I) **In Japan**, the first estimate of **second quarter gross domestic product** was up 1.0% on the quarter or at an **annualized pace of 4.0%.** When compared with the same quarter a year ago, GDP was up 2.1%. The main expenditure components contributing to the quarterly increase were private consumption (0.5%), private non-residential investment (0.4%) and public demand (0.3%).

II) **In China**, both July industrial output and retail sales increased less than anticipated. Fixed asset investment slowed along with aggregate yuan financing. And increases in house prices eased as well leading to concerns about growth in the country. Meanwhile, **the International Monetary Fund revised upward its growth forecast** for China, but warned the country's debt is on a dangerous trajectory.

III) **Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was down by -1.31% (MTD -2.28% YTD +2.85%), the Hang Seng Index rose by +0.54% (MTD -1.19% YTD +21.87%) and the Shanghai Composite advanced by +1.88% (MTD -0.13% YTD +5.32%).**

### FIXED INCOME

**Treasury yields were essentially flat in a volatile week of trade that included political turmoil in President Donald Trump's administration, diverging economic data, dovish Fed minutes and a terrorist attack in Spain.**

**Performance:** I) **The 10-year Treasury yield was slightly higher last week ending at 2.196% up from 2.191%. The 30-year yield was down last week falling from 2.789% to 2.776%.**

II) **Performance for the week, month-to-date and year-to-date. The Bloomberg Barclays US Aggregate Bond Index rose +0.07% last week, MTD +0.48% and YTD +3.21%. The Bloomberg Barclays US MBS TR was up +0.03% last week, MTD +0.39% and YTD +2.20%. The Bloomberg Barclay's US Corporate HY Index rose +0.02%, MTD -0.69% and YTD +5.36%.**

### COMMODITIES

**The DJ Commodity Index was down -0.47% last week and is lower month to date -1.34% (YTD -3.36%) due to a rise in the USD and investor frustration regarding the slow rebalancing of oil supplies.**

**Performance:** I) **Oil prices declined** last week falling -0.12% down to $48.73 and is lower month to date -2.87% (YTD -9.57%). Oil fell last week despite a strong 3% surprise rally on Friday, based on unconfirmed reports of a unit shutdown at one of the largest oil refineries in the U.S., as well as data showing a weekly fall in the number of active domestic oil rigs.

II) The **ICE USD Index**, a gauge of the U.S dollar's movement against six other major currencies, **rose +0.34%** from 93.10 to 93.42 for the week (MTD +0.60% YTD -8.75%). The U.S. dollar rallied on Friday after it was revealed White House chief strategist Steve Bannon would be leaving the administration.

III) **Gold was lower as risk aversion has eased** with stocks eking out small gains, and some traders may have decided to take profits after trading above the $1,300 level. Gold dropped by -0.36 last week, falling from $1295.0 to $1290.3 (MTD +1.32% YTD +12.00%).

## 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 -0.63% MTD and +2.86% YTD.**
**II) Equity Hedge has fallen -0.89% MTD and is up +3.70% YTD.**
**III) Event Driven has declined MTD -0.84% and is higher YTD +4.77%.**
**IV) Distressed Debt is lower at -0.84% MTD and is positive YTD +2.22%**
**V) Macro/CTA fell by -0.36% MTD and is down -0.17% YTD.**
**VI) Relative Value Arbitrage has fallen -0.33% and is higher by +2.30% YTD.**

## ECONOMIC DATA WATCH AND MARKET OUTLOOK

Heading into the new trading week, **investors are beginning to worry** that seven months into the Trump administration, the **on-going political turmoil may stifle** a **continued rise in equity prices**. After several days of political strife that culminated with the resignation of White House strategist Steve Bannon, market concerns are rising as to the ability of President Trump to deliver any pro-business legislation. With the country divided as well as having an un-cooperative Congress, investors are dealing with the **possibility that nothing will get done on the growth agenda** for the next four years. Markets have seen gains since Trump's election win, based on hopes that the president will push through tax cuts and reduce regulations that had stymied U.S. corporations.

**Material drops in the market indexes** have been prompted primarily by **geo-political worries** such as North Korea, upheaval in the White House and global terrorism. **Each drop** in the market has been met with **buying on dips by investors**, as continued low interest rates and a lack of attractive alternatives, has brought investors back to stocks. Should the recent fall in equity prices not see a similar bounce in buying, then market sentiment has truly taken a change for the worse. Thus far, equity investors have seen prices rise, supported by **strong corporate earnings and accelerating global economic growth.**

In turning to **next week's economic calendar**, **Janet Yellen, speaking at the Jackson Hole Economic Policy Symposium next Friday**, will be the most important event. Whether the Fed begins balance-sheet unwinding at the September FOMC or the December meeting is the vital question for economic policy.

**Durable goods orders** will be released on Friday and is expected to **show appreciable strength** behind sharp headline weakness. A conspicuous monthly decline of 5.7% is the estimate for July durable goods orders in a plunge, however, that would not completely reverse June's aircraft-boosted gain of 6.5%. And underneath the headline solid strength is expected with ex-transportation orders up 0.4% and with **core capital goods** (nondefense ex-aircraft) predicted **to show new life with a 0.5% gain**. A solid core number would build for second-half factory momentum.

**Housing**, which has been struggling higher, will be the week's sector theme beginning on Tuesday with FHFA house prices followed on Wednesday and Thursday with new and existing home sales. Consensus forecasts are pointing to **moderate strength** for the week's housing numbers.

**New home sales** entered the Spring on the downturn before jumping higher to a 600,000 plus annualized rate in both May and June. Prices came down in June while supply improved which could be positives for July sales. Yet forecasters are calling for **no change in July at 610,000.**

**Existing home sales** are expected to **move higher in July to a 5.570 million** annualized rate from June's 5.520 million. Expectations are based on a strong rise in the pending home sales index which tracks contract signings and more times than not correctly signals changes for final sales. Prices in the June existing homes report, in contrast to the new homes report, were on the rise and could limit July's sales results.