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INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

U.S. equity markets were higher last week, led by the DJIA which was up for an eighth straight session on Friday, powered by a better than expected jobs report, supporting the premise that current market valuations can be supported by solid economic data.

a) **Dow Jones +1.22% MTD +0.94% YTD +13.33%** b) **S&P 500 +0.23% MTD +0.30% YTD +11.93%**
c) **Russell 2000 -1.17% MTD -0.88% YTD +4.84%**

Drivers: I) The **U.S. created 209,000 new jobs in July**, easily **beating Wall Street estimates** and showing the labor market still has plenty of strength more than eight years into an expansion. Economists had predicted a 175,000 increase in nonfarm jobs. The **unemployment rate fell to 4.3%** from 4.4%, **hitting a 16-year low.**

II) **Average wages climbed 0.3%** to $26.36 an hour, the government reported Friday. Hourly pay increased 2.5% from July 2016 to July 2017, unchanged from the prior month. The average workweek was flat at 34.5 hours. Hiring was led by professional firms, health-care providers and restaurants. **Wages usually rise 3% to 4% a year when an economy is running at essentially full employment.**

III) **Consumer spending** has been in a lull. At **only 0.06% in June**, consumer spending posted its smallest gain since January last year. The 3-month average, at 0.16%, is the lowest since January the year before that and one of the lowest of the cycle. Unit vehicle sales in July, the first indication on spending, were little better than flat.

IV) **June's factory report** offered good news on new orders and shipments. June's nearly **10% yearly rate for new orders is the best in 3 years**. The factory sector has emphatically emerged from the depression triggered by the 2014 collapse in oil prices. Alongside of orders, are shipments which are rising in the mid-single digits for the first time in 5 years.

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

Capitalization: Large Caps +0.27% (YTD +11.74%), Mid-Caps -0.39% (YTD +9.15%) and **Small Caps -0.88%** (YTD +4.84%). Style: **Value -0.66%** (YTD +2.72%) and **Growth -0.67%** (YTD +7.61%). Industry Groups (Leaders): Consumer Discretionary -0.17% **(**YTD +29.20%), Information Tech +0.71% **(**YTD +22.48%), Tech +0.82% (YTD +20.27%), Healthcare -0.49% (YTD +16.55%), Consumer Staples -0.04% (YTD +15.87%), **Utilities +1.13%** (YTD +12.56%), Industrials +0.89% (YTD +11.80%), Materials -0.01% (YTD +10.94%), **Financials +1.24%** (YTD +10.02%) and REITs +0.03% (YTD +7.59%). (Laggards): Telecom -0.37% (YTD -5.65%) and **Energy -1.38%** (YTD -11.64%).

EUROPEAN EQUITIES

The MSCI Europe index up +1.26% last week, rallied higher last Friday after the US released solid jobs data prompting investors to believe this will induce the Federal Reserve to raise rates a third time this year. This helped spark a rally in European banks, as their US operations would profit from higher interest rates.

Drivers: I) **German manufacturing orders rose in June** versus May, driven by a surge in domestic demand. Germany's economics ministry s reported that total orders for the important manufacturing sector increased by 1%. Economists had forecast a 0.5% rise. Domestic orders jumped by 5.1% from the previous month, after sliding in May. The **Ifo business-sentiment index** rose last month to its **highest level since German reunification**.

II) The first reading of **second-quarter gross domestic product** in the eurozone came in at **0.6%** growth quarter-over-quarter and at **2.1% year-over-year.** Those figures matched expectations of economists and compare with a reading of 0.5% growth in the first quarter. The recovery in investments has been strong over recent quarters and has likely continued to boost GDP growth in the second quarter.

III) **Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was higher by +1.26% for the week (MTD +1.01% YTD +20.00%).**

ASIAN EQUITIES

Asian markets were mixed as a continued weakening of the USD weighed on Asian indexes, as well as political uncertainty in Washington. In Japan, equities fell as the yen climbed to a seven week high and overshadowed optimism on corporate earnings. The Dow Jones Asia Pacific Index was higher by +0.67% for the week, (MTD +0.00% YTD +18.73%).

Drivers: I) In **Japan, June industrial production was up 1.6%** on the month and 4.8% from a year ago. The monthly gain reflected stronger output for transport equipment, general-purpose, chemicals and electrical machinery. This was offset by weaker output of electronic parts and devices, "other" manufacturing products and iron and steel.

II) The **Caixin China manufacturing** purchasing managers index, a private gauge, **rose to 51.1 in July** from 50.4 in June, hitting its highest level in four months. They attributed the rise to a solid **upturn in new export sales**. China registered a strong start to the year. The 6.9% growth rate in the first six months is well above the annual 6.5% target and provides a comfortable margin for Beijing to continue efforts to tackle rising levels of debt and other financial risk.

III) **Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was down by -0.04% (MTD +0.14% YTD +5.40%), the Hang Seng Index rose by +2.07% (MTD +0.76% YTD +24.27%) and the Shanghai Composite advanced by +0.27% (MTD -0.33% YTD +5.11%).**

FIXED INCOME

Treasury yields declined last week as the continued uncertainty regarding the Trump administration's ability to enact any pro-growth legislation in calendar year 2017 is waning.

Performance: I) **The 10-year Treasury yield was lower last week ending at 2.264% down from 2.292%. The 30-year yield was down last week falling from 2.897% to 2.842%.**

II) **Performance for the week, month-to-date and year-to-date. The Bloomberg Barclays US Aggregate Bond Index rose +0.16% last week, MTD +0.17% and YTD +2.88%. The Bloomberg Barclays US MBS TR was up +0.15% last week, MTD +0.13% and YTD +1.94%. The Bloomberg Barclay's US Corporate HY Index advanced +0.05%, MTD +0.04% and YTD +6.14%.**

COMMODITIES

The DJ Commodity Index was down -1.26% last week and is lower month to date -1.23% (YTD -3.25%) as energy rallied based on lower production commitment from OPEC and metals rose as the USD fell.

Performance: I) **Oil prices declined last week** falling -0.54% down to $49.52 and is lower month to date -1.29% (YTD -8.11%). Oil suffered a weekly loss, as investors focused on a decline in rigs drilling for oil against next week's OPEC meeting to assess compliance to an agreement to check global production.

II) The **ICE USD Index**, a gauge of the U.S dollar's movement against six other major currencies, **rose +0.16%** from 93.34 to 93.49 for the week (MTD +0.68% YTD -8.68%). The U.S. dollar rebounded off a near-15-month low last Friday after the closely watched U.S. jobs report exceeded expectations, which was seen as clearing a path for the Federal Reserve to tighten its balance sheet.

III) **Gold was lower** last week as the US dollar jumped after a key report on payrolls in July showed stronger-than-expected job creation. Gold fell by -0.88 last week, declining from $1275.6 to $1264.3 (MTD -0.71% YTD +9.75%).

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 -0.13% MTD and +3.38% YTD.
II) Equity Hedge has fallen -0.22% MTD and is up +4.41% YTD.
III) Event Driven has declined MTD -0.18% and is higher YTD +5.47%.
IV) Distressed Debt is lower at -0.06% MTD and is positive YTD +3.02%
V) Macro/CTA is down by -0.05% MTD and is up +0.14% YTD.
VI) Relative Value Arbitrage has fallen -0.03% and is higher by +2.60% YTD.

ECONOMIC DATA WATCH AND MARKET OUTLOOK

Heading into the new trading week, as **markets have posted solid returns** through the end of July, investors may still be **worrying about the historical track record** where stocks have tended to **perform poorly in August and September**. This **pattern** seen over the past 20 years, **may** have a chance to **be broken in 2017** as US companies reporting for the second quarter have posted solid earnings.

Earnings, particularly for the **large US exporters**, have gotten **a boost** from the surprising **weakness in the US dollar.** A decline in the US dollar of 10% adds approximately $3 per share to S&P 500 earnings, as estimated by Goldman Sachs. The US dollar is down about 8.7% for the year. Corporate earnings continue to be supportive of stocks. As of Friday, with **84% of S&P 500 companies** having released second-quarter results, **72% have reported better than expected earnings and 70% have beat sales estimates**, according to FactSet.

In turning to next week's **economic calendar**, of all the economic factors this year only inflation has been lagging. **Consumer prices** will be posted on **Friday** and forecasters are not calling for much of a rise, either overall or for the core. Street consensus is calling for a **monthly gain of 0.2%in July versus no change in June**. The **yearly rate is seen dropping to 1.8% from 1.9%.** Less food and energy, the rate is also seen rising a monthly 0.2% versus June's gain of 0.1% with this closely watched yearly rate also coming in at 1.8%, which however would be up from June's 1%. Though this report has been **prompted lower by declines in cell phone services, fundamental prices including housing costs have been slowing.**

Little strength is expected for **productivity on Wednesday** which nevertheless should get a **boost from the second quarter's solid GDP** performance which came in at 2.6%. For the first estimate of the second quarter, forecasters see nonfarm productivity **rising 0.8%** versus no change in the first quarter and unit labor costs at plus 1.4% versus the first quarter's 2.2% rise.

Other data to watch will be **job openings on Tuesday's JOLTS report** and **Thursday's jobless claims.** Job openings in the JOLTS report moved lower in May to 5.666 million even though hiring moved up to 5.472 million to narrow what has been a stubborn 2-year gap, suggesting employers are having a hard time finding the right people. But with payroll growth strong, forecasters see job openings continuing to decline, to a consensus 5.600 million.

Producer price data will also be released on **Thursday**, and may possibly offer new clues as to Friday's CPI reading. Like other inflationary data, producer prices have been soft and could only manage a 0.1% gain overall as well as for the core (less food and energy). With food prices flat in June and energy down, forecasters are calling for another **0.1% increase** overall but a slightly better 0.2% for the core (less food and energy).