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INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

U.S. equity markets finished in record territory, rallying for a fourth straight week. Markets were supported by the Q4 GDP report though lower than expected, reinforced the notion that the US economy is solid.

a) **Dow Jones +2.09%, MTD +7.77%, YTD +7.77%** b) **S&P 500 +2.23%, MTD +7.55%, YTD +7.55%**
c) **Russell 2000 +0.66%, MTD +4.76%, YTD +4.76%**

Drivers: I) The **U.S. expanded at a 2.6%** annual rate in fourth quarter, extending one of the best stretches of growth during the current eight-and-a-half-year-old upturn. GDP fell **short of the Street's 3.0% forecast due to** lower inventory production and a **larger trade deficit**. **Consumer spending**, the main engine of the economy, **rose a strong 3.8%,** the biggest increase in almost two years.

II) **Consumer spending accelerated to a 3.8%** annual pace of growth, the fastest pace in almost two years. Americans spent more on new cars and trucks, clothing and health care, among other things. **Businesses** also **contributed**, they **increased spending on equipment** by 11.4% and investment in new housing jumped 11.6%.

III) The **annual rate of inflation**, measured by the **PCE index, rose to 2.8% in the fourth quarter,** the highest rate since 2011. Yet, inflation year over year was under 2% and less worrisome. The Federal Reserve is not under a great deal of pressure to raise U.S. interest rates with inflation still relatively low.

IV**) Existing-home sales hit a 5.57 million** seasonally adjusted annual rate in December, the National Association of Realtors reported. The consensus forecast was for a 5.73 million annual rate. Existing-home sales were down 3.6% for the month, though they were **up 1.1% compared with a year ago**. Sales for all of 2017 were just 1.1% higher than in the previous year, but that was still enough to make it the **best year since 2006.**

V) **Equities in January are higher with Large-Cap, Growth, Consumer Discretionary and Healthcare leading equity price performance. The laggards for the month are Small-Cap, Value, Real Estate and Utilities.**

Capitalization: **Large Caps +7.32%** (YTD +7.32%), Mid-Caps +5.72% (YTD +5.72%) and **Small Caps +4.76%** (YTD +4.76). **Style: Value +3.52%** (YTD +3.52%) and **Growth +6.26%** (YTD +6.26%). **Industry Groups (Leaders): Healthcare +10.84%** (YTD +10.84%), **Consumer Discretionary +10.56% (**YTD +10.56%), Info. Tech +8.74% **(**YTD +8.74%), Technology +8.32% (YTD +8.32%), Financials +8.10% (YTD +8.10%), Energy +7.50% (YTD +7.50%), Industrials +6.74% (YTD +6.74%), Materials +5.96% (YTD +5.96%), Consumer Staples +3.30% (YTD +3.30%) and Telecom +2.33% (YTD +2.33%). **(Laggards): Utilities -3.06%** (YTD -3.06%) and **REITs -2.30%** (YTD -2.30%).

EUROPEAN EQUITIES

The MSCI Europe index was higher last week rising by +1.60%, but erased earlier gains, when it was pulled lower by a euro rally. The European Central Bank said eurozone growth was surprisingly strong and offered only limited pushback against the Trump administration's support for dollar weakness.

Drivers: I) At its January meeting last week, the **ECB made no changes to its interest rates**, keeping the deposit rate at a negative 0.4% and the refinancing rate at 0%. The bank also kept its forward guidance in place, saying rates will "remain at their present levels for an extended period of time, and well past the horizon of the net asset purchases." The **central bank reiterated** the **€30 billion-a-month bond-buying program** is intended to **run until the end of September** or "beyond if necessary."

II) January's **Euro-zone flash composite PMI was 58.6**, up 0.5 points from December, **a 139-month high.** Compared with December, January's report showed a much better balance and while strength was again most apparent in manufacturing, its outperformance was notably less marked this time. While the flash manufacturing PMI lost a full point to a still very solid 59.6, its service sector counterpart gained a point to 57.6, a 125-month peak.

III) **Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was higher by +1.60% for the week (MTD +6.56%, YTD +6.56%).**

ASIAN EQUITIES

Asian markets advanced on the week with those in Japan and Taiwan the exceptions. Stocks in Japan were hampered by the continuous rising value of the yen against the U.S. dollar. The Dow Jones Asia Index rose by +1.73% for the week, (MTD +6.94%, YTD +6.94%).

Drivers: I) As universally expected, the **Bank of Japan left its policy interest rate at minus 0.1%** where it has been since January 2016 indicating that the **BoJ's divergence with other major central banks will continue.** The target level for the 10-year JGB yield remains around 0.0%. Governor Haruhiko Kuroda noted that corporate earnings were rising, and household income has improved. But inflation remains far below the 2% target. Kuroda said the Bank would **continue its monetary easing** to **reach the 2% goal** as soon as possible.

II) **Japan's core inflation rose for a 12th straight month** in December but failed to gain any additional upward momentum, a reading that may temper recent speculation about possible monetary policy tightening in Japan. The core consumer price index in December **rose 0.9%** from a year earlier, unchanged from its pace in November, per data from the Ministry of Internal Affairs and Communications. This matched a forecast by economists.

III) **Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was lower by -0.74% (MTD +3.81%, YTD +3.81%), the Hang Seng Index rose by +2.79% (MTD +10.76%, YTD +10.76%) and the Shanghai Composite was up by +2.01% (MTD +7.59%, YTD +7.59%).**

FIXED INCOME

Treasury yields on Friday rose, as investors sold government paper, after a solid reading of U.S. gross domestic product for the fourth quarter. Though trading for long-dated yields were muted for the week, short-dated yields maintained their persistent climb on strong economic data and higher rate-hike expectations.

Performance: I) **The 10-year Treasury yield was higher last week ending at 2.662 up from 2.659%. The 30-year yield fell last week declining from 2.935 to 2.913%.**

II) **Performance for the week, month-to-date and year-to-date. The Bloomberg Barclays US Aggregate Bond Index dropped by -0.02% last week, MTD -0.95% and YTD -0.95%. The Bloomberg Barclays US MBS TR was down -0.12% last week, MTD -0.93%, YTD -0.93%. The Bloomberg Barclay's US Corporate HY Index rose by +0.27%, MTD +0.89% and YTD +0.89%.**

COMMODITIES

The DJ Commodity Index was higher by +2.60 last week and is higher month to date +3.63% (YTD +3.63%), as the drop in the US dollar helped to support energy and precious metal prices.

Performance: I) The price of **oil rose last week by +4.20%** up to $66.24 and is higher month to date for January +10.20% (YTD +10.20%). Oil prices rallied higher, as the overall **decline in the dollar** helped prices post a gain for the week, lifting the U.S. benchmark to another settlement at its **highest in more than three years**.

II) The **ICE USD Index**, a gauge of the U.S dollar's movement against six other major currencies, **fell -1.82%** from 90.67 to 89.02 for the week (MTD -3.55%, YTD -3.55%). The U.S. dollar fell sharply last week after Treasury Secretary Mnuchin cited the positive effects of its decline on "trade and opportunities"

III) **Gold was higher last week, driven higher by the US dollar,** which has been declining in light of Wednesday's comments from Treasury Secretary Steven Mnuchin who said a "weak dollar was good for trade." Gold was up by +1.67% last week, climbing from $1331.1 to $1353.3 (MTD +3.69%, YTD +3.69%).

HEDGE FUNDS

Hedge fund returns for January are in positive territory, with all core strategies Equity Hedge, Event Driven, Distressed, Macro and Relative Value higher for the month.

Performance:

I) The HFRX Global Hedge Fund Index is higher at +2.76% MTD and +2.76% YTD.
II) Equity Hedge is up +3.75% MTD and is up +3.75% YTD.
III) Event Driven has advanced MTD +2.05% and is higher YTD +2.05%.
IV) Distressed Debt is higher by +1.39% MTD and is positive YTD +1.39%
V) Macro/CTA has risen by +4.38% MTD and is up +4.38% YTD.
VI) Relative Value Arbitrage has advanced by +1.23% and is higher by +1.23% YTD.

ECONOMIC DATA WATCH AND MARKET OUTLOOK

As we look ahead to **next week's trading session**, investors may see a bit **more volatility** as **earnings reports accelerate and the Federal Reserve will hold its first meeting of 2018**. There will be 125 S&P 500 companies, including 10 Dow Jones components reporting, which include several **high-profile technology companies.** The group will include the famous FAAMG stocks, Facebook, Amazon, Apple, Microsoft and Goggle parent, Alphabet.

The **technology sector** has been a **robust performer** and this trend is expected to continue, as the sector is projected to come in with an **estimated 18.0% increase in EPS**. Strength is being driven by secular themes within cloud computing, software-as-a-service, and internet companies. Bets are ahead of other cyclical groups due to robust upside from Hardware and Semiconductors.

This **earnings season is off to a stellar start** with **79% of companies beating earnings per share estimates**, according to strategists at J.P. Morgan. **Revenue** is also healthy with sales **up 7% year-over-year and 80% of companies beating estimates, the highest in eight years.**

In turning to **next week's economic calendar**, **Friday's January employment report** will highlight an extraordinarily busy week for economic news. Personal income and outlays on **Monday** will break out December's consumer share of fourth-quarter GDP. **Personal income is seen rising 0.3%** which would match November's gain while consumer spending is expected to slow slightly to 0.5% versus November's very solid 0.6% gain. The **PCE price index** is expected to **inch only 0.1% higher for a year-on-year rate of 1.7%.**

The quarterly **employment cost index** comes out on **Wednesday**, as data for the fourth quarter will offer an important clue whether **wage inflation** is beginning to take hold. Expectation for the fourth-quarter employment cost index are an **estimated 0.6% rise**. The ECI jumped 0.7% in the third quarter for a **year-on-year 2.5%,** both near the highest rates of the expansion. Pressures in Q3 were evenly split between wages and benefits.

On **Wednesday, the FOMC announcement** could offer clues whether policy makers maybe raising their assessment of the economy and concerns about the high level of employment. No rate hike is the consensus expectation for the January FOMC, the last to be chaired by Janet Yellen. We should watch for any indications whether **strong economic growth and full employment** are **pushing policy makers toward four rate hikes** this year **versus the three that are already expected**. The federal funds target is expected to hold at a midpoint of 1.375% inside a range of 1.25 and 1.50%.

On **Friday, the employment report** will be released, where solid payroll growth, low unemployment, and moderate wage pressures are expected**. Street consensus for January** growth in non-farm payrolls is **176,000** in what would compare with a moderate, but still favorable 148,000 in December. The **unemployment rate** is expected to hold unchanged at a **17-year low of 4.1%,** which would continue to point to full employment and the **risk of wage inflation** which did show some December pressure as average hourly earnings rose 0.3% with January's expectations also at a 0.3% gain.