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INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

U.S. equity market indexes rallied to record highs during the first week of 2018, buoyed by the optimism regarding the tax cut legislation, rising commodity prices and solid corporate earnings.

a) **Dow Jones +2.37%, MTD +2.37%, YTD +2.37%** b) **S&P 500 +2.63%, MTD +2.63%, YTD +2.63%**
c) **Russell 2000 +1.61%, MTD +1.61%, YTD +1.61%**

Drivers: I) The **U.S. created 148,000 jobs in December**. This was the slowest pace in three months, and below the 198,000 increase Street economists had predicted. The unemployment rate remained steady at 4.1% for the third straight month. **Worker pay increased 2.5%** from December 2016 to December 2017, up from 2.4% in the prior month.

II) The Institute for Supply Management's nonmanufacturing index fell 1.5 points to 55.9% in December. ISM's services gauge has decelerated each month since October, when it touched a 12-year high. The economy continues to grow, and has worked through the energy crisis that caused a drop in hiring, capital spending and inflation in 2015. But the expansion is getting old, thus growth cannot remain at the same pace forever.

III) The **Institute for Supply Management** reported last Wednesday its **manufacturing index rose to 59.7%**, the **second-highest reading of the year**, from 58.2% in November. Sixteen of the 18 industries tracked by ISM reported growth. Across the subcomponents, production rose to 65.8 from 63.9 and new orders jumped to 69.4 from 64. That is the fastest pace of new orders since January 2004.

IV) **In December,** the **Federal Reserve forecast three rate hikes for 2018,** but minutes of that central bank meeting released Wednesday, show a distinct **lack of unity with the projection**. On the dovish side, members believe that three rate hikes this year might be too aggressive arguing that might prevent a "sustained" return to the Fed's 2% inflation target. The more hawkish camp of a "few" officials thought the forecast of three rate hikes was too slow.

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

Capitalization: **Large Caps +2.53%** (YTD +2.53%), Mid-Caps +1.98% (YTD +1.98%) and **Small Caps +1.61%** (YTD +1.61). **Style: Value +1.30%** (YTD +1.30%) and **Growth +2.15%** (YTD +2.15%). **Industry Groups (Leaders): Information Tech +4.21% (**YTD +4.21%), **Materials +4.03%** (YTD +4.03%), Energy +3.95% (YTD +3.95%), Tech +3.83% (YTD +3.83%), Consumer Discretionary +3.27% **(**YTD +3.27%), Healthcare +3.26% (YTD +3.26%), Industrials +2.74% (YTD +2.74%), Financials +1.78% (YTD +1.78%) and Consumer Staples +0.16% (YTD +0.16%). **(Laggards): Utilities -2.49%** (YTD -2.49%), **REITs -1.92%** (YTD -1.92%) and Telecom -0.41% (YTD -0.41%).

EUROPEAN EQUITIES

The MSCI Europe index was higher last week rising by +2.32%, as shares had their best week since last April, propelled by optimism about a strengthening regional economy and brand-new highs in the U.S

Drivers: I) **In Germany**, retail sales surprisingly climbed higher while **unemployment declined** sending the unemployment rate in December to a **record low of 5.5%.** In the UK, data was mixed with the services and composite PMIs gaining but the manufacturing PMI declining.

II) **December's** flash harmonized index of **consumer prices was up 1.4% on the year**, down from November's 1.5%. Core HICP rates held steady at their respective mid-quarter levels. The narrowest measure, which excludes energy, food, alcohol and tobacco, remained at a 0.9% annual rate while omitting just energy and unprocessed food the rate was stable at 1.1%. Both measures have now been flat for three consecutive months.
III) **Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was higher by +2.32% for the week (MTD +2.32% YTD +2.32%).**

ASIAN EQUITIES

Asian markets climbed higher as more investors exhibited optimism towards growth, especially in Japan and China. The main impetus came from the several positive purchasing managers' index reports. The Dow Jones Asia Index rose by +2.52% for the week, (MTD +2.52% YTD +2.52%).

Drivers: I) **Economic data in Japan** over the holiday period were good. The stronger global economy along with domestic political stability and the Bank of Japan's ultra-easy monetary policy are underpinning Japanese corporate earnings. In Japan, **household spending and retail sales advanced as did industrial production**. The composite PMI was unchanged, but services fell.

II) The **OECD projects** that the **global economy will grow** by 3.6% this year, **3.7% in 2018** and 3.6% in 2019. Expansion in the **major emerging market economies is improving**, on the back of renewed infrastructure investment in China and recovery from recession in major commodity-exporting economies, but remains softer than in the past. **Growth in China** is projected at 6.8% in 2017, **6.6% in 2018**, and 6.4% in 2019, partly reflecting the ongoing rebalancing in China's growth model.

III) **Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was higher by +4.17% (MTD +4.17%, YTD +4.17%), the Hang Seng Index rose by +2.93% (MTD +2.93%, YTD +2.93%) and the Shanghai Composite was up by +2.56% (MTD +2.56%, YTD +2.56%).**

FIXED INCOME

Treasury yields rose last week and there was a steepening of the Treasury curve, as the lower than expected jobs data pushed down near-term pricing of hikes on the short end of the curve.

Performance: I) **The 10-year Treasury yield was higher last week ending at 2.477 up from 2.410%. The 30-year yield rose last week advancing from 2.743% to 2.808%.**

II) **Performance for the week, month-to-date and year-to-date. The Bloomberg Barclays US Aggregate Bond Index dropped by -0.32% last week, MTD -0.32% and YTD -0.32%. The Bloomberg Barclays US MBS TR was down -0.17% last week, MTD -0.17% and YTD -0.17%. The Bloomberg Barclay's US Corporate HY Index rose by +0.73%, MTD +0.73% and YTD +0.73%.**

COMMODITIES

The DJ Commodity Index was lower by -0.17 last week and is down month to date -0.17% (YTD -0.17%), as the rally in energy was offset by profit taking in industrial metals copper and nickel.

Performance: I) The price of **oil rose last week by +2.48%** up to $61.59 and is higher month to date for December +2.42% (YTD +2.42%). Oil prices scored a third weekly gain a row on the back of a **seventh-straight drop in U.S. crude supplies** and ongoing concerns over unrest in Iran.

II) The **ICE USD Index**, a gauge of the U.S dollar's movement against six other major currencies, **fell -0.31%** from 92.30 to 92.01 for the week (MTD -0.31%, YTD -0.31%). The U.S. dollar traded lower as the market reacted to the **weaker-than-expected jobs report**. The U.S. added only 148,000 jobs in December, compared with the Street consensus forecast of 195,000.

III) **Gold rallied last week** as **tepid jobs** and **wage-growth** readings, prompted investors to interpret the news as **possibly slowing interest-rate increases** for the Federal Reserve in 2018. Gold was up by +1.16% last week, rising from $1305.1 to $1320.3 (MTD +1.16%, YTD +1.16%).

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 +1.06% MTD and +1.06% YTD.
II) Equity Hedge is up +1.18% MTD and is up +1.18% YTD.
III) Event Driven has advanced MTD +1.13% and is higher YTD +1.13%.
IV) Distressed Debt is higher by +0.67% MTD and is positive YTD +0.67%
V) Macro/CTA has risen by +1.58% MTD and is up +1.58% YTD.
VI) Relative Value Arbitrage has advanced by +0.49% and is higher by +0.49% YTD.

ECONOMIC DATA WATCH AND MARKET OUTLOOK

As we look ahead to next week, the **equity markets began the year** with the **best start to a New Year since 1964**. We saw the Dow Jones Industrial Average pierce the 25,000 level for the first time in history and the S&P 500 continued to reach record highs. The question confronting investors, is **how long can this trend last** without a sizable pullback? **We have not experienced a down equity market month, since October 2016**. Equity markets have been propelled by solid hard and soft economic data, strong corporate balance sheets, earnings and tax legislation. We will get a first glimpse of how well we have done on the earnings front, as **financials begin the reporting parade next week.**

In turning to **next week's economic calendar**, updates on the consumer and inflation highlight a busy week for economic data. **Consumer credit on Monday** will offer the latest on credit-card use. Revolving credit **has been on the rise** indicating less reluctance among consumers to run up their credit cards. **Revolving credit rose $8.3 billion in October** for the **biggest monthly gain since November 2015**. Nonrevolving credit, which tracks vehicle financing and student loans, rose $12.2 billion. After October's $20.5 billion increase, **consumer credit is expected to rise $18.0 billion in November.**

Inflation data for December begins on **Thursday** when we get the report on **producer prices**, where strength is the call. Consumer inflation has been very subdued but not at the wholesale level, rising 0.4% in each of the past three producer price reports that included gains for service prices which are considered an advanced indication of wider pressures ahead. Prices for legal services showed special pressure in November as well as oil, fruits and vegetables and light trucks. For **December, forecasters see the PPI-FD rising** a more **subdued 0.2%,** the less food and energy rate also up 0.2%, and again up 0.2% for less food, energy and trade services.

On **Friday consumer prices** will be the headline, where we **may see a downturn**. Gasoline prices gave a 0.4% headline boost to the December CPI which for this key series was an outsized gain. Other prices were flat or weaker including apparel, medical care, and housing. For December, **forecasters see the overall CPI rising** only **0.1%** with the less food and energy rate at 0.2%. **Year-on-year**, the **consensus gain for the CPI is 2.1%** with the core at 1.7%.

On **Friday's retail sales report** will offer conclusive data on the holiday shopping season. Expectations for retail sales point to **broad and solid gains**. November's opening of the holiday shopping season proved very strong as retail sales showed broad strength with a 0.8% gain. Non-store sales rose sharply and pointed to a fast holiday opening for e-commerce. Electronics and appliance stores along with restaurants also posted strong numbers that speak to discretionary strength. Retail sales in December are **expected to rise a solid 0.5%** with ex-auto sales at 0.4%. Two core readings, less auto, gas and control group sales, are expected to post respective increases of 0.5 and 0.3%.