INVESTMENT COMMITTEE MARKET COMMENTARY

U.S. EQUITIES

U.S. equity markets suffered their biggest weekly loss in over two years, as a better than expected jobs reported engendered fears of rising inflation which in turn caused bond yields to rise sharply.

a) **Dow Jones -4.11%, MTD -2.39%, YTD +3.34%** b) **S&P 500 -3.81%, MTD -2.16%, YTD +3.44%**
c) **Russell 2000 -3.77%, MTD -1.75%, YTD +0.82%**

Drivers: I) The **S&P 500 index fell** 59.85 points on Friday, or 2.1%, to close at 2,762.13 and **experienced a 3.8% weekly loss**. Friday's decline was the biggest one-day drop since September 2016. The index is down 3.9% from its all-time high set the previous week, as this **pullback** marked the **first of this magnitude in 14 months.**

II) The **U.S. created 200,000 new jobs** in the first month of 2018, showing that companies are still ready to hire more than eight years after an economic expansion began. The increase in hiring **exceeded Wall Street's forecast** which had predicted a **190,000** increase in nonfarm jobs. Unemployment remained at a 17-year low of 4.1%.

III) The most **important data point** coming out of the jobs report was the **rise in worker's pay**. Average hourly wages jumped 9 cents, or 0.3%, to $26.74. That pushed the **yearly increase to 2.9%** from 2.6%, marking the **highest level since** the end of the Great Recession in **June 2009**.

IV) The **PCE index**, the Federal Reserve's preferred inflation gauge, **rose by 0.1% in December**. The closely followed "core" rate that strips out food and energy rose 0.2%. The **rate of inflation over the past year slid to 1.7% from 1.8%**, however. The core rate was flat at 1.5%. Consumers spent more on big-ticket items such as new cars and trucks. They also devoted more of their budget to dinning out.

V) **Equities in February are lower with Small-Cap, Growth, Financials and Healthcare leading equity price performance. The laggards for the month are Large-Cap, Value, Energy and Materials.**

Capitalization: **Large Caps -2.11%** (YTD +3.26%), Mid-Caps -2.10% (YTD +1.58%) and **Small Caps -1.75%** (YTD +0.82). **Style: Value -2.08%** (YTD -0.75%) and **Growth -1.51%** (YTD +2.55%). **Industry Groups (Leaders):** Consumer Discretionary -1.95% **(**YTD +7.18%), **Healthcare -1.26%** (YTD +5.28%), **Financials -1.16%** (YTD +5.21%), Info. Tech -2.91% **(**YTD +4.33%), Technology -2.78% (YTD +4.11%), Industrials -2.17% (YTD +3.23%), **Energy -3.07%** (YTD +0.55%) and **Materials -3.91%** (YTD +0.01%). **(Laggards):** Telecom -1.39% (YTD -0.11%), Consumer Staples -2.26% (YTD -0.62%), **Utilities** -2.28% (YTD -5.26%) and REITs -2.87% (YTD -4.69%).

EUROPEAN EQUITIES

The MSCI Europe index was lower last week falling by -3.10% as the continued rise in global bond yields pressured equities along with mixed earnings reports. The euro strengthened further against the U.S. dollar, applying additional pressure to shares of European exporters.

Drivers: I) Preliminary **gross domestic product data for the Eurozone** and France indicate that the European **economies are continuing to grow**. Eurozone flash fourth quarter gross domestic product expanded a quarterly 0.6%, slightly slower than the 0.7% third quarter increase and was **up 2.7% from the same quarter a year ago**. France's economic growth accelerated slightly in the fourth quarter. Gross domestic product climbed 0.6% on the quarter.

II) **Eurozone manufacturing activity expanded** markedly at the start of the year, driven by solid expansions of both production and new orders according to the manufacturing PMIs. **January manufacturing PMI** for the Eurozone was **59.6**, down from the record final December reading of 60.6 but still points to a **very healthy Eurozone manufacturing secto**r. The data show robust, albeit smaller, gains in output and new orders
III) **Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was lower by -3.10% for the week (MTD -2.05% YTD +3.25%).**

ASIAN EQUITIES

Asian markets were primarily down for the week, due in part to rising bond yields and the U.S. dollar decline. It is the height of earnings season and mixed results from major U.S. companies helped induce some caution prior to Friday's U.S. monthly employment report for January, which was released after markets in Asia were closed. The Dow Jones Asia Index dropped by -1.01% for the week, (MTD -0.57%, YTD +5.86%).

Drivers: I) **Equity indexes in Japan and South Korea** suffered **earnings-related declines last week**, with Samsung Electronics falling more than 4% after rival Apple's latest quarterly financial results. In addition, China's benchmark index suffered its biggest weekly loss since 2016, with new worries about Beijing's campaign to cut financial risk and predictions of a slowing economy helping erase half of the market's year-to-date gains in just a few days.

II) **Japan's December household spending fell 0.1%** on the year after increasing 1.7% in November. The drop in headline annual growth was mainly driven by **weaker spending on food and housing**. Spending on food was up 1.1% down from 2.2% in November, while spending on housing dropped 23.3% on the year after a decline of 7.9% previously.

III) **Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was lower by -1.51% (MTD +0.76%, YTD +2.25%), the Hang Seng Index fell by -1.67% (MTD -0.87%, YTD +8.91%) and the Shanghai Composite was down by -2.70% (MTD -0.54%, YTD +4.68%).**

FIXED INCOME

Treasury yields led by the 10-year Treasury, hit a four-year high on Friday after the latest jobs report showed solid wage gains, effectively confirming the expected rate increase at the Federal Reserve's next meeting in March.

Performance: I) **The 10-year Treasury yield was higher last week ending at 2.842 up from 2.659%. The 30-year yield rose last week climbing from 2.913 to 3.088%.**

II) **Performance for the week, month-to-date and year-to-date. The Bloomberg Barclays US Aggregate Bond Index dropped by -0.88% last week, MTD -0.68% and YTD -1.82%. The Bloomberg Barclays US MBS TR was down -0.85% last week, MTD -0.61% and YTD -1.77%. The Bloomberg Barclay's US Corporate HY Index fell by -0.75%, MTD -0.40% and YTD +0.20%.**

COMMODITIES

The DJ Commodity Index was lower by -1.70 last week and is down month to date -0.68% (YTD +1.94%), as the rise in the USD and interest rates negatively impacted energy and precious metals.

Performance: I) The **price of oil declined** last week by **-1.78%** down to $65.06 and is higher month to date for January +10.20% (YTD +10.20%). Oil prices dropped as **U.S. oil production**, driven by shale extraction, **surpassed 10 million barrels a day** in November for the **first time in nearly 50 years**

II) The **ICE USD Index**, a gauge of the U.S dollar's movement against six other major currencies, **rose +0.19%** from 89.02 to 89.19 for the week (MTD +0.07%, YTD -3.36%). The U.S. dollar rose firmly against other major currencies as **U.S. jobs data showed that wages were rising**, underlining expectations for a pickup in inflation.

III) **Gold ended lower**, after a **stronger-than-expected U.S. jobs report** drove up the dollar and Treasury yields as the data provided groundwork for a potentially more aggressive Federal Reserve interest-rate response this year. **Gold was down by -1.33% last week**, falling from $1353.3 to $1335.2 (MTD -0.59%, YTD +2.30%).

HEDGE FUNDS

Hedge fund returns for February are primarily in positive territory, with core strategies Equity Hedge, Distressed, Macro and Relative Value higher for the month. Event Driven is down slightly in February.

Performance:

I) The HFRX Global Hedge Fund Index is higher at +0.08% MTD and +2.52% YTD.
II) Equity Hedge is up +0.11% MTD and is up +3.53% YTD.
III) Event Driven has declined MTD -0.21% and is higher YTD +1.55%.
IV) Distressed Debt is higher by +0.04% MTD and is positive YTD +1.56%
V) Macro/CTA has risen by +0.38% MTD and is up +4.19% YTD.
VI) Relative Value Arbitrage has advanced by +0.10% and is higher by +1.19% YTD.

ECONOMIC DATA WATCH AND MARKET OUTLOOK

As we look ahead to **next week's trading session**, investors will ponder if the **raging bull market has been temporarily stalled** by the **rise in interest rates.** US equity markets suffered their steepest decline in over two years, as the 10-year Treasury yield climbed to a four-year high above 2.83%. The **sharp advance in rates** was **prompted** by the **jobs reports rise in wages**, which markets believe may push the inflation rate to the Fed target of 2.0%. The climbing inflation rate may cause the **Fed to raise interest rates at a faster pace** than the expected three rate hikes for 2018.

Accelerating U.S. economic growth, full employment along with a **synchronized global expansion** and **rising commodity markets infers real**, or inflation-adjusted **short-term U.S. rates** may be set to **turn positive in 2018.** This means interest rates may move higher, and the yield curve can steepen more than the market expects. **However**, market pundits believe that while the market is likely to deal with higher volatility in 2018, **stocks can continue to climb higher**. **Corporate earnings growth** should **remain robust**, supported by tax benefits, increased government spending, and higher lending capacity.

In turning to **next week's economic calendar**, a light schedule will be led off on Monday by two indications on the service sector, Markit and ISM, both of which have been showing waning strength. **PMI services** was a bit weak at the headline level, held down by soft output and coming in under expectations at 53.3 for the January flash. But details **were solid including acceleration for both new orders and employment** and also traction for selling prices. Street consensus for the January final is the same as the flash, at 53.3.

The **ISM non-manufacturing index** has been **noticeably slowing**, dropping from the 60 area in October to what was a lower-than-expected 56.0 in December (revised from an initial 55.9). But most readings were **still** in the mid-50s to **indicate solid monthly growth** including new orders at 54.2, new export orders at 56.5, and employment at 56.3. Forecasters are calling for 56.2 in January.

Tuesday is the busiest day of the week, opening with the monthly trade report, where a deepening deficit is the call, the **JOLTS data** and the latest on job openings which have been slowing. Job openings are high but did fall 0.8% to 5.879 million in the last JOLTS report for November. Hires also fell, down 1.9% to 5.488 million. Openings have been moving lower after peaking at 6.140 million in July, while hires, despite November's fall, have been picking up and are still near their expansion high which was set in October at 5.592 million. **Street consensus for December job openings is for a small gain to 5.900 million.**

Wednesday's highlight will be consumer credit. Consumers have **been dipping into their savings** and have also been **drawing on their credit cards.** This has been happening to an increasing degree as revolving credit rose $11.2 billion in November and made a sizable contribution to total credit outstanding which climbed $28 billion for a 17-year high. November's rise in revolving credit was the second largest of the post-2008 expansion and hints at less reluctance among consumers to run up credit-card debt. **December's total consumer credit outstanding is expected to rise $20.0 billion.**