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INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

U.S. equity markets were sharply higher in reaction to the US employment report and its combination of rising payrolls, increasing labor force participation and easing wage pressures.

a) **Dow Jones +3.34%, MTD +1.32%, YTD +3.02%** b) **S&P 500 +3.59%, MTD +2.75%, YTD +4.63%**
c) **Russell 2000 +4.20%, MTD +5.65%, YTD +4.21%**

Drivers: I) **US Nonfarm payrolls rose** an **outsized 313,000** in February to beat Street estimates by more than 80,000. The month's gain was one of the largest of the post-2009 expansion in strength underscored by upward revisions to prior months totaling 54,000. In addition, discouraged workers came back in force, which lifted the **labor force participation rate** by a sharp **0.3% to 67.0%** matching its **best reading of the last four years.**

II) Despite the job strength, the **monthly increase in average hourly earnings** came in **below expectations** at only **0.15%.** February's above average gain of 0.38%, based on Friday's equity-market rally, seems a distant memory as well as January's report of 0.26%. But it was not the monthly gain that caused the market melt down in January, it was the year-on-year rate of 2.9%. In February this rate came in **0.3% below the consensus at 2.6%.**

III) The **Institute for Supply Management's** survey **of service-oriented companies** such as hospitals, retailers and restaurants **fell slightly** in February one month after hitting a nearly 12-year high. The ISM non-manufacturing **index slipped to 59.5 from 59.9** in January. Overall, business outlook is picking up momentum due to the state of the stock-market and recent tax breaks.

IV) The **U.S. trade deficit climbed 5% in January** and hit a nearly **10-year high, rising to $56.6 billion** in January from $53.9 billion in December the Commerce Department reported. Exports fell 1.3%, largely reflecting a sharp drop in the volatile category of commercial aircraft shipments. Exports of oil, chemicals and other industrial supplies also declined. Imports were unchanged at $257.5 billion.

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

Capitalization: **Large Caps +2.88%** (YTD +4.54%), Mid-Caps +3.71% (YTD +3.17%) and **Small Caps +5.65%** (YTD +4.21). **Style: Value +4.42%** (YTD +0.77%) and **Growth +5.18%** (YTD +5.38%). **Industry Groups (Leaders): Info. Tech +3.71% (**YTD +11.36%), **Technology +3.46%** (YTD +10.38%), **Consumer Discretionary +2.13% (**YTD +7.78%), Financials +2.84% (YTD +6.42%), Healthcare +2.83% (YTD +4.75%), Industrials +2.29% (YTD +3.77%) and Materials +2.83% (YTD +1.42%). **(Laggards):** Telecom +3.28% (YTD -1.36%), Consumer Staples +2.22% (YTD -3.97%), Energy +2.57% (YTD -5.09%), **Utilities +0.67%** (YTD -6.16%) and REITs +2.77% (YTD -5.93%).

EUROPEAN EQUITIES

The MSCI Europe index was positive last week climbing +3.11%. European equities overcame obstacles such as an inconclusive Italian election, threats of US tariffs and weak economic data from Germany, France and the UK.

Drivers: I) The **European Central Bank left key interest rates** and its **asset purchase program (APP) unchanged** at its March meeting. The **Governing Council** (unanimously) decided to **remove from its official policy statement** the sentence stating that 'the Governing Council **stands ready to increase the asset purchase program** in terms of size and/or duration' should financial or economic conditions so dictate.

II) In **Germany**, January **manufacturing orders dropped** a monthly 3.9% and easily cancelled out a smaller revised 3.0% increase in December. January's monthly slide reflected a 3.3% drop in basics and a 5.0% drop in capital goods, only partially offset by a 2.4% increase in consumer and durable goods. There were also sizeable declines in both domestic and overseas demand.

III) **Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was higher by +3.11% for the week (MTD +0.64%, YTD -0.16%).**

ASIAN EQUITIES

Asian markets were mixed on the week as geopolitical tensions eased and investors were relieved that U.S. trade tariffs were less severe than investors had originally feared. The Dow Jones Asia Index dropped by -0.38% for the week, (MTD -1.12%, YTD -1.12%).

Drivers: I) the **Bank of Japan left its monetary policy unchanged.** The BoJ's short-term policy rate for excess reserves remains at minus 0.1% while the target level for the long-term 10-year yield stays at zero percent. The **BOJ** reaffirmed their **commitment to keep expanding the monetary base** until the annual increase in the consumer price index (excluding fresh food) **exceeds their inflation target of 2.0%** and stays above this level "in a stable manner".

II) In **Japan, fourth quarter gross domestic product** was revised upward to a quarterly gain of 0.4% from the first estimate of 0.1%. **Annualized growth was 1.6%**, up from 0.5%. On the year, GDP was up 2.1%. The upward revision reflects stronger private non-residential investment, now estimated at 1.0%, up from the initial estimate of 0.7%.

III) **Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was higher by +1.36% (MTD -2.71%, YTD -5.63%), the Hang Seng Index advanced by +1.22% (MTD +0.37%, YTD +3.28%) and the Shanghai Composite was up by +1.62% (MTD +1.47%, YTD +0.00%).**

FIXED INCOME

Bond market yields rose last week after February's employment report showed strong jobs gains but a muted wages number, which essentially keeps the central bank on track for three to four rate hikes this year.

Performance: I) **The 10-year Treasury yield was higher last week ending at 2.895 up from 2.863%. The 30-year yield rose last week jumping from 3.139 to 3.161%.**

II) **Performance for the week, month-to-date and year-to-date. The Bloomberg Barclays US Aggregate Bond Index fell by -0.12% last week, MTD -0.13% and YTD -2.22%. The Bloomberg Barclays US MBS TR was lower by -0.08% last week, MTD -0.02% and YTD -1.84%. The Bloomberg Barclay's US Corporate HY Index was positive by +0.35%, MTD -0.15% and YTD -0.40%.**

COMMODITIES

The DJ Commodity Index was higher by +0.08 last week and is up month to date +0.13% (YTD +0.82%). The index saw a rise in energy prices prompted by the lowering of geo-political concerns regarding North Korea.

Performance: I) The price of **oil rallied higher last week by +1.09%** up to $62.12 and is up month to date in March +0.78% (YTD +3.36%). Oil prices rose as the possibility of a meeting between U.S. President Donald Trump and North Korea's leader prompted investors to take some geopolitical risk out of the equation for the crude market.

II) The **ICE USD Index**, a gauge of the U.S dollar's movement against six other major currencies, **rose +0.13%** from 89.98 to 90.10 for the week (MTD -0.56%, YTD -2.38%). The U.S. dollar rallied against the yen last week as hopes of a breakthrough in the North Korean nuclear standoff rose and after the Bank of Japan reaffirmed its decision to maintain its ultra-easy policy stance in the coming months.

III) **Gold was essentially flat** as monthly data revealed a strong rise in U.S. jobs, but disappointing growth in wages. Gold was higher by +0.02% last week, climbing from $1323.7 to $1324.0 (MTD +0.46%, YTD +1.44%).

HEDGE FUNDS

Hedge fund returns for March are mixed for the month, with core strategies Distressed, Macro and Relative Value lower, while Equity Hedge and Event Driven are up.

Performance:

I) The HFRX Global Hedge Fund Index is up at +0.14% MTD and +0.10% YTD.
II) Equity Hedge is higher by +0.35% MTD and is up +2.23% YTD.
III) Event Driven has risen MTD +0.73% and is lower YTD -1.99%.
IV) Distressed Debt is lower by -0.09% MTD and is positive YTD +0.27%
V) Macro/CTA has declined by -0.45% MTD and is down -1.69% YTD.
VI) Relative Value Arbitrage has fallen by -0.25% and is higher by +1.08% YTD.

ECONOMIC DATA WATCH AND MARKET OUTLOOK

As we look ahead to **next week's trading** session, investors will try to discern **which geo-political or economic factors will be driving financial markets**. In February, the main factor was inflation, engendered by the unexpected rise in wages by 2.9%, which led to the potential nightmare of broader inflation and more aggressive Fed tightening. This bad dream scenario led to a market correction of more than 10%, the first of its kind in over two years.

This past Friday, the **jobs number** showed a **sharp increase of 313,000,** but **moderating wage growth**, which sent the US equities markets soaring higher. Earlier in the week, **the markets were roiled** by the **proposal of steel and aluminum tariffs,** but soon calm was the call as the White House was willing to provide exceptions to Canada, Mexico and potentially several other countries. Lost in the calamity has been the solid earnings reports coming out of corporate America. At the **close of earnings season**, it looks like **S&P 500 earnings** for Q4 hit the **14.8% mark**, while top line **revenue growth** came in at **8.2%** according the FactSet. This marked **the highest earnings growth since Q3 2011 (16.8%).** This will have the S&P 500 trading at a forward P/E of 17.0.

In turning to next week's **economic calendar**, inflation will be the week's special focus beginning on **Tuesday** with the **consumer price report** where any pressures at the core level could retrigger market concerns for a fourth rate hike this year. Indications of **price pressures** for wholesalers and importers **have yet to appear** in force in consumer prices. Though the prior report for January did show higher costs for basics, only a limited increase is expected for **February's core rate** (less food and energy) which is seen **up a modest 0.2%** with the **year-on-year** expected to **rise 1 tenth to 1.9%.** The consensus for the headline CPI is also a monthly gain of 0.2% for a yearly rate that is also seen up 0.1%, to 2.2%.

Keeping the inflation focus will be two reports that have shown increasing traction: **producer prices on Wednesday**. Boosted by increases in service prices, producer prices resumed their march higher in January though forecasters are calling for moderating increases in February. The **headline consensus is plus 0.2%.** Less food and energy is seen up 0.2% with less food, energy and trade services expected to rise 0.3%.

Consumer spending has been soft in recent months and February's retail sales report, where strength is the call, will be Wednesday's highlight. After weak results in December and January, **retail sales** are **expected to show some rebound** in February with Street consensus at a **solid 0.4%.** When excluding autos, where unit sales were flat in February, forecasters also see a 0.4% gain as they do when excluding both autos and also gasoline. When excluding autos, gas, food services and building materials, control group sales are expected to come in at a 0.5% gain.

The week ends with key data on the **housing sector**, starts and permits. **Less strength** is the expectation for February housing starts where the **consensus is a 1.284 million annualized rate versus January's 1.326 million**, as well as for housing permits, at a consensus 1.324 million rate vs 1.377 million. Starts and permits both surged in January led by the key single-family component. Note that the consensus ranges for both are wide.