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INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

U.S. equity markets plunged on Friday, causing stock indexes to suffer their worst weekly loss in more than two years as a potential trade war with China weighted on investors.

a) **Dow Jones -3.68%, MTD -4.00%, YTD -2.56%** b) **S&P 500 -5.93%, MTD -4.50%, YTD -2.76%**
c) **Russell 2000 -4.77%, MTD -0.05%, YTD -1.41%**

Drivers: I) **Last week, President Trump** instructed the office of **the U.S. Trade Representative** to recommend **a list of tariffs on Chinese products** totaling up to $60 billion. The tariffs are expected to **target sensitive technologies** that the U.S. considers vital to the U.S. economy in the years ahead. Advanced technologies such as robotics and high-speed wireless communications are among them.

II) China for years has restricted how foreign investors and businesses operate in China even as Chinese companies get easier access to Western markets. For example, **China imposes a 25% tariff** on imports of **foreign autos while the U.S. only charges 2.5%**. The US government has been talking to Chinese leaders for more than a year without any success, noting that the Obama and Bush administrations were also stifled in their efforts.

III) The **Federal Reserve on Wednesday lifted the U.S. Fed Fund rate by 0.25%** (range 1.50% to 1.75%), and stuck to three rate hikes in 2018. They provided an upbeat forecast for the economy, estimating GDP growth will come in at 2.7% for the year. The Fed also expects the UE rate to fall to 3.80% and inflation to remain muted at 1.90%, but central bankers did **push up their expected rate path in 2019 and 2020**, however.

IV) **Durable-goods orders jumped 3.1%** in February, essentially reversing a big drop at the start of the year and posting the largest gain since last summer. Business investment also rebounded in a good sign for the U.S. economy. Economists had forecast a 1.8% increase in orders for durable goods. Orders for passenger planes and autos both rose, but even after exclusion, orders minus transportation climbed a solid 1.2%.

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

Capitalization: **Large Caps -4.18%** (YTD -2.63%), Mid-Caps -1.96% (YTD -2.47%) and **Small Caps -0.05%** (YTD -1.41). **Style: Value -1.29%** (YTD -4.74%) and **Growth -0.28%** (YTD -0.10%). **Industry Groups (Leaders):** Consumer Discretionary -3.41% **(**YTD +1.93%), Info. Tech -5.17% **(**YTD +1.83%) and Technology -5.40% (YTD +0.93%). **(Laggards):** Consumer Staples -4.24% (YTD -10.04%), Telecom -4.02% (YTD -8.33%), **REITs +0.39%** (YTD -8.12%), **Materials -5.67%** (YTD -6.96%), Energy +0.73% (YTD -6.79%), **Utilities +0.72%** (YTD -6.11%), **Financials -6.83%** (YTD -3.59%), Industrials -4.65% (YTD -3.27%) and Healthcare -4.97% (YTD -3.19%).

EUROPEAN EQUITIES

The MSCI Europe index was down last week dropping -2.44%. European equities fell as the U.S. government announced new trade restraints against China and disappointing Eurozone private sector data and weak German business sentiment weighed on the markets.

Drivers: I) The **Euro Zone March flash composite output index fell 1.8 points** from its final February reading to 55.3, its lowest mark in 14 months. Both the manufacturing and service sectors recorded a decline in their respective expansion rates. Growth of **aggregate new orders** slowed for a third straight month and job creation, while **still solid**, was the least robust in half a year.

II) In Germany, the **March ZEW survey** found analysts still **generally upbeat** about the current state of the German economy but notably **less confident about the outlook.** The current conditions index decreased 1.6 points to 90.7, its second consecutive fall from its January peak (95.2) but still historically very firm. However, expectations were trimmed more significantly, declining a sizeable 12.7 points to 5.1.

III) **Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was lower by -2.44% for the week (MTD -2.17%, YTD -2.94%).**

ASIAN EQUITIES

Asian markets tumbled as rhetoric and actions escalated regarding tariffs. U.S. tariffs on iron and steel went into effect on March 23 (Friday). Further tariffs aimed at China, were announced on Thursday and were immediately followed by counter-tariffs from China on American goods. The Dow Jones Asia Index dropped by -2.61% for the week, (MTD -3.12%, YTD -3.12%).

Drivers: I) **Asian stocks dropped on Friday**, the dollar weakened and safe-haven assets such as gold and the Japanese yen strengthened after U.S. President Donald Trump announced **tariffs on about $60 billion worth of Chinese imports** and **China** said it would **impose tariffs on up to $3 billion worth of U.S. goods** in retaliation. They have a 30-day consultation period, raising the chance that final measures could be watered down.

II) In **Japan**, **February merchandise trade balance** turned in a **small surplus of ¥3.4 billion** from a deficit of ¥944.1 billion in January. Japan normally records large trade deficits in January. Exports were up 1.8% on the year after increasing 12.3% the month. The easing in exports was mainly due to drop-in shipments to other countries in the region that observe lunar new year holidays, which took place in early February this year, but in late January last year.

III) **Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was lower by -4.88% (MTD -6.57%, YTD -9.37%), the Hang Seng Index declined by -3.85% (MTD -1.97%, YTD +0.88%) and the Shanghai Composite fell by -0.84% (MTD -0.52%, YTD -1.32%).**

FIXED INCOME

Bond market yields declined for the week despite the Fed raising the Fed Funds rate by 0.25%, as investors sought the safety of bonds due to worries over a US and China trade war, and the unexpected projection from the Fed of sticking with three instead of the rumored four interest rate hikes for 2018.

Performance: I) **The 10-year Treasury yield was lower last week ending at 2.817 down from 2.847%. The 30-year yield fell last week declining from 3.080 to 3.062%.**

II) **Performance for the week, month-to-date and year-to-date. The Bloomberg Barclays US Aggregate Bond Index rose by +0.03% last week, MTD +0.12% and YTD -1.97%. The Bloomberg Barclays US MBS TR was higher by +0.10% last week, MTD +0.25% and YTD -1.57%. The Bloomberg Barclay's US Corporate HY Index was negative by -0.38%, MTD -0.72% and YTD -0.97%.**

COMMODITIES

The DJ Commodity Index was higher by +0.30 last week and is down month to date -0.08% (YTD +0.60%). Energy was higher on potential declines in production and gold rallied on worries over US trade tariffs.

Performance: I) The price of **oil moved higher last week by +5.60%** up to $65.74 and is up month to date in March +6.65% (YTD +9.38%). Oil rose to an eight-week high, due to the growing risk of **renewed sanctions on Iran** and the possibility of an extension of OPEC production curbs into 2019.

II) The **ICE USD Index**, a gauge of the U.S dollar's movement against six other major currencies, **fell -0.79%** from 90.19 to 89.48 for the week (MTD -1.25%, YTD -3.05%). The U.S. dollar fell against its major counterparts as the **threat of a global trade war** pushed the currency to its lowest in over a month.

III) **Gold ended at its highest finish in five weeks,** notching a weekly gain of almost 3%, as the threat of a looming trade war between the U.S. and China intensified. Gold rose by +2.97% last week, climbing from $1313.9 to $1352.9 (MTD +2.65%, YTD +3.66%).

HEDGE FUNDS

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

Performance:

I) The HFRX Global Hedge Fund Index is lower at -0.33% MTD and -0.37% YTD.
II) Equity Hedge is down by -0.31% MTD and is up +1.56% YTD.
III) Event Driven has dropped MTD -1.02% and is lower YTD -3.69%.
IV) Distressed Debt is lower by -3.44% MTD and is negative YTD -3.10%
V) Macro/CTA has advanced by +0.19% MTD and is down -1.05% YTD.
VI) Relative Value Arbitrage has fallen by -0.07% and is higher by +1.26% YTD.

ECONOMIC DATA WATCH AND MARKET OUTLOOK

As we look ahead to **next week's trading session**, investors will be mending their wounds caused by the **largest weekly drop in equity prices seen in over two years**. The markets were **hit on multiple fronts**, headed by concerns over a US and China trade war, political uncertainty in Washington and the fallout from the Facebook scandal. **Equity markets** have completely **ignored the backdrop of solid global economic growth**, strong corporate earnings and central bank policies that remain accommodative for the remainder of 2018. Investors may need to **wait till earnings season in April** where growth is excepted at a 15% clip, before we see the **markets stabilize** and resume an upward trend.

In turning to **next week's economic calendar**, consumer data will be a central theme, starting with **consumer confidence on Tuesday**. This year's tax cut has offset any concerns over stock market volatility for the consumer confidence report. Income expectations have been solid and the assessment of the labor market strong. Another month of **exceptional strength is the call for March**, at a consensus 131.0 versus February's 130.8.

Housing will see updates from Case-Shiller on Tuesday, where home prices are expected to continue to rise. **Continuing strength** is the call for Case-Shiller home prices where Street consensus for the 20-city year-on-year rate is **6.2%.** Cities out West are leading the price gains and high prices are in part **reflecting low supply of available homes on the market.**

Pending home sales are expected to rebound 2.7% in February after experiencing a very sharp 4.7% decline in January which did not, however, result in weakness for final sales of existing homes which instead posted a solid February gain. Note that the consensus range, from 0.5% to 6.0% is very wide.

Consumer sentiment is out on Thursday, which should be **boosted by this year's tax cut**. Consensus for the final March reading of the consumer sentiment index is 102.0 which would be unchanged from the month's preliminary reading. General **confidence among lower income respondents** helped drive gains in the preliminary report where strength was centered in the current conditions component.

Thursday's major release will be **personal income and consumer spending.** Income proved steady and firm in January, but not spending, which was soft and which will be held back in February by the month's decline in retail sales. **Personal income** is seen **rising 0.4% in February** while **consumer spending**, getting a likely boost from spending on services, is expected to come in at a **gain of 0.2%.**

Price data look to remain subdued given the modest results of February's consumer price report. The **PCE price index** is expected to **rise 0.2% in February** for a **year-on-year rate of 1.7%** with the very closely watched **core PCE price index**, which excludes both food and energy, **also seen up 0.2% for a yearly 1.5%** which would be unchanged from January.

Fourth-quarter GDP get a final revision on Wednesday. Boosted by smaller drag from inventories, the third estimate for Q4 GDP is expected to come in at a **2.75 annualized rate versus 2.5% in the second estimate**. The consumer was the driver in the fourth quarter with consumer spending seen at a 3.8% rate.