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INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

U.S. equity markets were down last week due to angst over comments made by Fed Chair Jerome Powell and President Trump's tariff announcement. Major indices posted declines on Tuesday through Thursday.

a) **Dow Jones -2.97%, MTD -1.96%m, YTD -0.30%** b) **S&P 500 -1.98%, MTD -0.81%, YTD +1.01%**
c) **Russell 2000 -1.00%, MTD +1.39%, YTD +0.01%**

Drivers: I) Last week market's focused on **Fed Chair Jerome Powell**, and whether he would **hint at a fourth rate hike this year** versus the three that are already expected. **On Tuesday**, Powell stressed the **strengths of the economy** which, whether a clue or not, **raised expectations** for that **fourth hike**. On **Thursday** morning Powell **turned the emphasis around**, that the strength is not excessive, and that overheating is not a risk.

II) As background on **President Trump's** move to **impose** 25% **tariffs** on imported steel and 10% tariffs on aluminum, it is important know **the effects of trade on GDP** which have been **extremely negative**. The second estimate of Q4 GDP was released last week and showed the **trade gap** was an **annualized $652.6 billion.** This gap, compared to the rate of the third quarter, accelerated by more than $50 billion and ended up **pulling down Q4 GDP by 1.1%**. Without the trade gap, GDP would have easily exceeded 3.0% for the quarter.

III) The Federal Reserve's preferred **PCE inflation index rose 0.4% in January**, spurred on by a strong economy and tight labor market. But the inflation rate is far from excessive, as the yearly increase in the **PCE was flat at 1.7%** for the third month in a row. And the 12-month advance in the core rate was flat at 1.5% for the fourth straight month.

IV) **Consumer spending** in **January rose only 0.2%** as shoppers cut back after the holidays. And spending fell for the first time in a year, adjusted for inflation, as economists had forecast a 0.3% increase in spending. At the same time, though, **incomes rose 0.4%** and after-tax incomes posted the **biggest gain since 2012** in the wake of the **Trump tax cuts**. Real disposable income surged 0.9%.

V) **Equities in March are lower with Small-Cap, Value, Telecom and Consumer Staples leading equity price performance. The laggards for the month are Large-Cap, Growth, Industrials and Financials.**

Capitalization: **Large Caps -0.68%** (YTD +0.93%), Mid-Caps -0.05% (YTD -0.57%) and **Small Caps +1.39%** (YTD +0.01). **Style: Value +1.02%** (YTD -2.51%) and **Growth +0.82%** (YTD +1.01%). **Industry Groups (Leaders):** Info. Tech -0.61% **(**YTD +6.73%), Technology -0.65% (YTD +5.99%), Consumer Discretionary -0.92% **(**YTD +4.56%), **Financials -1.50%** (YTD +1.93%) and Healthcare -0.55% (YTD +1.31%). **(Laggards): Industrials -2.02%** (YTD -0.60%), Materials -1.18% (YTD -2.54%), **Telecom +0.53%** (YTD -3.99%), **Consumer Staples +0.57%** (YTD -5.52%), Utilities -0.22% (YTD -6.99%), Energy +0.29% (YTD -7.20%) and REITs -0.87% (YTD -9.26%).

EUROPEAN EQUITIES

The MSCI Europe index was lower last week falling -3.56%. European stocks were hit with losses, particularly the export heavy DAX Index, after President Donald Trump said he's imposing tariffs on steel and aluminum imports to the U.S., engendering worries that a global trade war could break out.

Drivers: I) The **Euro-zone February** flash harmonized index of **consumer prices was up 1.2%** from a year ago, down from 1.3% in January. Excluding energy, food, alcohol and tobacco, the yearly rate was steady at 1.0% while without just energy and unprocessed food, inflation was flat at 1.2%.

II) **European politics** weighed on investors with **British Prime Minister Theresa May** outlining her much-anticipated **vision for the UK's post-Brexit relationship with the European Union**. On Sunday, Italians will vote in a general election and in Germany, the Social Democratic Party will announce the outcome of last week's party membership vote on whether to join Chancellor Merkel in a new Grand Coalition.

III) **Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was lower by -3.56% for the week (MTD -2.40% YTD -3.17%).**

ASIAN EQUITIES

Asian markets were down led by Japan which tumbled, as the yen surged, and investors worried about a potential trade war and the prospect of the ECB and Bank of Japan exiting from their respective extraordinary stimulus programs. The Dow Jones Asia Index dropped by -1.74% for the week, (MTD -0.73%, YTD -0.74%).

Drivers: I) **Bank of Japan Governor Haruhiko Kuroda** said the BoJ will **consider an exit from its extraordinary monetary policy** if its **inflation target is achieved during fiscal 2019**. In his testimony, Kuroda said that this doesn't affect his "overshooting commitment," which pledges the BoJ to **continue expanding the monetary base until inflation exceeds 2%** in a stable manner. Even with the recent easing in the pace of bond purchases by the BoJ, the monetary base is still increasing at an annual rate of more than 9%.

II) In **India, fourth quarter gross domestic product** was **up an annual 7.2%**, up from 6.4% in the previous period and the best performance since the third quarter of 2016. This also supports hopes that the negative effects of the goods and services tax (GST) introduced in the middle of last year and the ban on high value currency notes implemented in November 2016 have started to fade.

III) **Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was lower by -3.20% (MTD -4.02% YTD -6.90%), the Hang Seng Index declined by -2.27% (MTD -0.84% YTD +2.04%) and the Shanghai Composite was down by -1.05% (MTD -0.15% YTD -1.59%).**

FIXED INCOME

Bond market yields were down last week as Federal Reserve Chairman Jerome Powell, last Thursday told the Senate Banking Committee that he saw no sign of significant wage inflation but expected wages to rise in the future.

Performance: I) **The 10-year Treasury yield was lower last week ending at 2.863 down from 2.867%. The 30-year yield fell last week dropping from 3.157 to 3.139%.**

II) **Performance for the week, month-to-date and year-to-date. The Bloomberg Barclays US Aggregate Bond Index rose by +0.02% last week, MTD -0.02% and YTD -2.11%. The Bloomberg Barclays US MBS TR was higher by +0.06% last week, MTD +0.05% and YTD -1.77%. The Bloomberg Barclay's US Corporate HY Index was down by -0.20%, MTD -0.49% and YTD -0.74%.**

COMMODITIES

The DJ Commodity Index was lower by -0.70 last week and is up month to date +0.05% (YTD +0.74%). The index was lower due to rising oil stockpiles and rally in the USD.

Performance: I) The price of **oil pulled back last week by -3.33%** down to $61.45 and is lower month to date in March -0.31% (YTD +2.24%). Oil prices declined as the Energy Information Administration report showed that US **stockpiles grew by 3 million barrels**, which was higher than expected.

II) The **ICE USD Index**, a gauge of the U.S dollar's movement against six other major currencies, **rose +0.11%** from 89.88 to 89.98 for the week (MTD -0.69%, YTD -2.51%). The U.S. dollar was up slightly as Bank of Japan Gov. Haruhiko Kuroda said his central bank would start thinking about exiting its QE program in April 2019

III) **Gold was negative for the week** as the US dollar settled in at a six-week high. Gold was lower by -0.51% last week, dropping from $1330.5 to $1323.7 (MTD +0.44%, YTD +1.42%).

HEDGE FUNDS

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

Performance:

I) The HFRX Global Hedge Fund Index is lower at -0.29% MTD and -0.32% YTD.
II) Equity Hedge is down -0.53% MTD and is up +1.33% YTD.
III) Event Driven has risen MTD +0.16% and is lower YTD -2.54%.
IV) Distressed Debt is lower by -0.13% MTD and is positive YTD +0.22%
V) Macro/CTA has declined by -0.71% MTD and is down -1.95% YTD.
VI) Relative Value Arbitrage has fallen by -0.15% and is higher by +1.17% YTD.

ECONOMIC DATA WATCH AND MARKET OUTLOOK

As we look ahead to **next week's trading session**, investors are under no illusion that the **volatile markets this year** have any resemblance to the idyllic calm seen in the financial markets of 2017. Higher bouts of market **volatility have been driven** by the battle between the **negative forces** of potentially **higher interest rates and inflation**, versus the **positive global economic backdrop** and benefits to be garnered from the **US tax rate reduction**. Now the White House has thrown in tariffs for steel and aluminum, which is raising concerns over a trade war which would be deleterious to global economic growth.

As expected, **global equity markets swooned on the news of US tariffs.** Global equity markets were already biased to the downside, due to statements from new **Fed Chair Jerome Powell**, that intimated a forth rate hike in 2018 was plausible. Chairman Powell in further testimony in front of Congress, **softened his hawkish view** by down playing recent wage pressures and stating that he saw little signs of runaway inflationary pressures. The hope for investors over the short term are **concerns over the rise in inflation will moderate**, and **President Trump will only enact moderate tariffs**. This should hopefully **refocus markets** and investors **to the strong global economic and earnings growth that are still present.**

In turning to **next week's economic calendar**, **strong job growth** and a **deeper decline in the unemployment rate** are the predictions for the week. Friday's employment report where **nonfarm payrolls** are expected **to rise 205,000** and the **unemployment rate** is seen **dropping to 4.0%.** Despite the strength, no new pressures are expected for the report's wage data. Specifically, **wage pressures are not seen for February** as average hourly earnings are seen rising only 0.2% in the month with the year-on-year rate **unchanged at 2.9%.**

Monday starts the week with service sector updates from the **PMI and ISM reports**, both of which have been showing increasing strength. **PMI services** moved higher in the flash for February and are expected to **hold at the 55.9 level** for the final reading. New orders and business confidence showed special strength in the flash report. The **ISM non-manufacturing index** is **expected to slow** a bit in February, to a **still robust 58.8** versus January's unusually strong 59.9. With the new orders and employment indexes both over 60, the January report was one of the very strongest on record.

On Tuesday we will get the report on **factory orders** where weakness is forecast for January factory orders, at a **consensus decline of 1.2%** and one based on sharp declines in advance data on the durables side of this report. And **weakness** was the wide result for January durables, especially for **core capital goods** which showed weakness in both orders and shipments.

Trade data will be the highlight on **Wednesday**, as the international trade deficit is **expected to widen** in January to $55.1 billion from February's already **steep deficit of $53.1 billion**. Advance data on the goods portion of this report showed sharp deepening with a 2.2% February drop in exports.