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INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

U.S. stocks posted modest weekly gains for a second consecutive week, as it appears the market is generally ignoring disappointing earnings from large tech companies, because the vast majority of companies are still beating lowered estimates.

a) ***Dow Jones +0.62% MTD +1.92% YTD +4.16%*** b) ***S&P 500 +0.53% MTD +1.65% YTD +3.02%***
c) ***Russell 2000 +1.40% MTD +2.98% YTD +1.41%***

Drivers: I) ***Alphabet Inc. and Microsoft Corp. both disappointed Wall Street with their financial results as profits were hit by spending meant to remain competitive in the competitive tech sector.*** Alphabet's Google saw its overall revenue decline 5.5%, as it is experiencing ongoing impact from a move to less profitable mobile ads from desktop. While Alphabet's Chrome Web browser surpassed 1 billion monthly active users on mobile devices but the higher traffic-acquisition costs on mobile result in smaller profit.

II) ***Housing starts plunged nearly 9% in March to a seasonally adjusted annual rate of 1.09 million***, the Commerce Department reported. This badly missed estimates as economists had expected a pace of 1.17 million, ***but many analysts believe the data is unreliable and the overall trend in construction is up. Economists believe housing starts were likely depressed by the early Easter and they expect an April rebound.***

III) ***Home resales rebounded strongly in March, signaling solid demand in the housing market even as the recovery remains uneven.*** Sales rose 5.1% to a 5.33 million seasonally adjusted annual rate, the National Association of Realtors reported Wednesday. That was higher than the 5.3 million rate forecast by economists. Strong sales are still bumping up against lean inventory. ***The months' supply fell slightly, to 4.5 months, which is well below the long-term average of 6 months, which normally signals a healthy market.***

IV) ***The flash manufacturing purchasing managers index from Markit fell to a reading of 50.8 in April from 51.5 in March.*** That is the lowest level since September 2009. ***Lower rates of output and new business growth along with a weaker gain in employment were the main factors weighing on the index.***

V) ***Equity prices in April are mostly higher, with Small-Cap, Growth, Healthcare and Energy leading equity price performance. The laggards for the month are Mid-Cap and Value Stocks along with Utilities.***

Capitalization: Large Caps +1.79% (YTD +2.99%), ***Mid-Caps +1.63%*** (YTD +3.31%) and ***Small Caps +2.98%*** (YTD +1.41%). Style: ***Value +2.21%*** (YTD +8.36%) and ***Growth +2.31%*** (YTD +3.31%). Industry Groups (Leaders): Telecommunication -3.15% ***(YTD +12.76%), Energy +8.30%*** (YTD +11.93%), ***Utilities -4.58%*** (YTD +10.19%), Consumer Staples +2.04% (YTD +8.35%), Industrials +1.73% (YTD +7.01%), Consumer Discretionary +1.19% (YTD +2.67%), Technology -2.01% (YTD +1.94%), Information Technology -1.63% (YTD +0.86%) and ***Healthcare +6.05%*** (YTD +0.38%). (Laggards): Financial Services +4.67% (YTD -0.65%).

EUROPEAN EQUITIES

The MSCI Europe index was up last week rising +1.31%. European equities were higher last week helped by a rally in oil prices.

Drivers: I) ***The European Central Bank reaffirmed its commitment to tackle low inflation and sub-par growth, but stopped short of hinting at any further stimulus measures.*** The ECB left the deposit rate at negative 0.4% and the main refinancing rate at 0%. ECB President Mario Draghi's indicated the bank is in wait and see mode after announcing an aggressive round of easing measures in March.

II) ***The euro-zone economy entered its fourth year of recovery in April, but is stuck at a level of low growth and subdued inflation that shows few signs of abating***. Surveys of purchasing managers released last week indicate that private-sector activity slowed slight, and detected few signs of a pickup over coming months, with growth of new orders and employment remaining subdued. ***The composite PMI fell to 53.0 in April from 53.1 in March.***

III) ***Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index rose by +1.31% for the week (MTD +2.50% YTD -0.07%).***

ASIAN EQUITIES

Asian equity markets led by Japan's Nikkei Stock Average gained for a second consecutive week, as the yen weakened and hopes built among traders that the BOJ will provide more economic stimulus. The Dow Jones Asia Pacific Index was up +0.31% for the week, (MTD +2.89), (YTD +0.58%).

Drivers: I) ***Japanese exports fell for a sixth straight month in March, continuing their longest losing streak since 2012, as a global economic slowdown has been draining. Merchandise exports decreased 6.8% from a year earlier*** to Y6.457 trillion ($59.1 billion) last month, after a 4.0% drop the previous month, according to the Ministry of Finance. Overseas demand for Japanese steel and metal working machinery weakened.

II) ***Regulators in China approved a total of 72 companies to go public so far this year***, and Chinese firms are continuing to de-list from the U.S. in order to return to the mainland market. All-together, ***the market could face a flood of new shares that would weigh on appetite for existing ones.***

III) ***In Japan, it was reported that Mitsubishi Motors Corp. had violated emissions-related test regulations*** which sent the car maker's shares down 15%. At a news conference the firm's executives acknowledged the improprieties and said Mitsubishi would stop producing and selling affected vehicles.

II) Performance of Asian Indexes for the week, month-to-date and year-to-date. ***The Nikkei was higher by +4.30% (MTD +4.86% YTD -7.68%), the Hang Seng Index advanced by +0.71% (MTD +3.28% YTD -2.04%) and the Shanghai Composite fell by -3.86% (MTD -1.49% YTD -16.39%).***

FIXED INCOME

Treasury yields pushed to their highest level in a month, as strong gains in oil futures and high-yield debt dampened demand for safer assets including government debt.

Performance: I) ***The 10-year Treasury yield was higher last week ending at 1.889% up from 1.754%. The 30-year yield rose last week climbing from 2.562% to 2.708%.***

II) ***Performance for the week, month-to-date and year-to-date. Barclays US Aggregate Bond was down -0.43% last week, MTD -0.02% and YTD +3.02%. The Barclays US MBS TR fell by -0.28% last week, MTD -0.10% and YTD +1.88%. The Barclay's US Corporate HY Index rose last week by +1.13%, MTD +3.13% and YTD +6.54%.***

COMMODITIES

The DJ Commodity Index was higher last week climbing from 248.94 to 258.07 and is up month to date +6.09% (YTD +6.77%) led by surging oil prices which continue to be supported by declining production.

Performance: I) ***The price of oil finished higher for a third straight week on Friday, supported by expectations that U.S. crude production will continue to decline and the active U.S. rig count fell by 8 to 343***, down a fifth straight week. For the week the price of oil was higher, advancing from $40.40 to $43.75 per barrel.

II) ***The ICE USD Index***, a gauge of the greenback's movement against six other major currencies, ***was positive rising from 94.71 to 95.12 for the week. The US dollar staged a massive rally against the Yen, as they are expectations that the BOJ may need to increase stimulus at next week's meeting.*** For the week the Yen weakened dropping from ¥108.76 to ¥111.78 and the Euro fell from 1.1284 to 1.1226 against the USD.

III) ***Gold closed sharply lower on Friday as the U.S. dollar strengthened and expectations for higher interest rates, pulled the non-yielding metal lower.*** For the week gold was lower falling from $1235.8 to $1233.7.

HEDGE FUNDS

Hedge funds returns in April are higher, as all core strategies Equity Hedge, Distressed, Event Driven, Macro and Relative Value are in positive territory.

Performance:

I) ***The HFRX Global Hedge Fund Index is higher at +0.59% MTD and -1.30% YTD.***

II) ***Equity Hedge is positive at +0.62% MTD and has fallen -2.33% YTD.***

III) ***Event Driven is down MTD +0.57% and is down YTD -0.66%.***

IV) ***Distressed Debt is higher at +3.90% MTD and is positive YTD +2.35%***

V) ***Macro/CTA has risen by +0.35% MTD and is up +0.45% YTD.***

VI) ***Relative Value Arbitrage is positive at +0.75% and is down -2.02% YTD.***

ECONOMIC DATA WATCH AND MARKET OUTLOOK

Heading into next week investors will focus on earnings, as a third of the S&P 500's market cap will report and particular attention will be paid on the results for tech giant Apple Inc. and Facebook Inc., as well as energy titans Exxon Mobil and Chevron. Apple and Facebook earnings will likely fall under closer than usual scrutiny given that the tech sector has been getting clobbered this season with disappointing results from Microsoft Corp. and Google parent Alphabet Inc., another revenue decline from IBM Corp., and announced layoffs at Intel Corp.

Energy companies are going into the season with drastically reduced expectations, with those for the three biggest names reporting this week having plummeted over the first quarter. Since the beginning of the first quarter, estimates for Exxon Mobil dropped to 31 cents a share from 75 cents a share, those for Chevron swung to a 13 cents-a share loss from a profit of 55 cents a share, and expectations for ConocoPhillips's estimated per-share loss plunged to $1.05 from 19 cents, according to FactSet.

The energy sector, as a whole, is expected to turn in a year-over-year loss for the quarter, the first time any sector in the S&P 500 has reported an overall loss since financials reported one in the fourth quarter of 2008. ***The one upside to that, given the sharp rebound from sub-$30 a barrel oil prices seen in February, is that earnings declines in the sector will decrease moving forward.***

On the economic data front, Fed policy makers at this week's meeting are not expected to raise or lower the central bank's benchmark interest rate this month. But their statement following the two-day meeting will offer ***clues on the path for rates*** while the economy continues to see mixed results. Chairwoman Janet Yellen and her colleagues have emphasized caution amid an uncertain outlook in recent remarks, signaling a wait and see attitude for monetary policy.

First-quarter economic growth is unlikely to impress. Business spending has been hampered by falling corporate profits, exports stifled by a stronger dollar and consumer spending restrained by market turbulence. ***The Commerce Department's first reading of gross domestic product (projected to fall from 1.4% to 0.7%) on Thursday*** should help consolidate some of these trends into a broad look of the economy during the first three months of the year.

Through the first two months of the year, consumer spending on goods and services has barely moved ahead. On Friday, Commerce will release March data on retail sales (expected to rise from 0.1% to 0.2%) which is crucial part of the economy. If recent data is any indication, U.S. households have not been in a spending mode. Sales at retailers and restaurants slid 0.3% in March.

The employment-cost index is not well known but it is closely followed by policy makers as one of the better measure of wage growth. Through most of the expansion, wages and benefits have been advancing only slowly. Friday's release ***(estimated to remain flat at 0.6%) may show if the labor market is getting tight enough to prompt faster pay gains.***