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INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

U.S. stocks were higher last week prompted by a surprise decision by the Bank of Japan to push a key interest rate into negative territory, that some speculate may cause the Federal Reserve to put off its plans to steadily raise interest rates. Despite the rally U.S. markets posted their worst January performance since 2009

a) ***Dow Jones -1.54% MTD -1.54% YTD -6.85%*** b) ***S&P 500 -3.04% MTD -3.04% YTD -7.85%***
c) ***Russell 2000 -4.78% MTD -4.78% YTD -13.15%***

Drivers: I) ***The U.S. generated 151,000 nonfarm jobs during the first month of 2016***, the Labor Department reported last Friday. ***Economists had expected hiring to slow to 180,000*** after large gains at the end of last year. ***The smaller than expected increase added to increasing concerns about a weakening U.S. economy and even the possibility of recession.***

II) ***A positive sign from the labor market shows the average wage paid to workers jumped 0.5% in January to $25.39 an hour.*** Wage growth accelerated toward the end of 2015, and it's climbed 2.5% in the past 12 months, just slightly below the post-recession high set in December. ***Economists predict wages will rise even faster in 2016 as it becomes more competitive for skilled and qualified workers.***

III) ***Consumer spending was flat in December as Americans mostly retained their income gains, but outlays in 2015 were the strongest in a decade.*** The muted pace of spending last month was partially offset by stronger spending in November than the government initially reported. Outlays were revised to show a 0.5% advance. But spending in the final three months of 2015 was softer than in the prior two quarters.

IV) ***Inflation remains low in the U.S. as the PCE index, the Federal Reserve's preferred inflation gauge, fell 0.1% in December. But signs of inflationary pressure does appear to be emerging. In the 12 months through December, the PCE index climbed 0.6%.*** That was three times September's 0.2% figure and the highest 12-month pace in a year. ***The Fed wants to see inflation climb to a 2% annual rate.***

V) ***Equity prices in February are mostly down, with Mid-Cap, Value, and Materials leading equity price performance. The laggards for the month are Small-Cap and Growth Stocks along with Information Technology and Energy.***

Capitalization: Large Caps -3.10% (YTD -8.32%), ***Mid-Caps -2.93%*** (YTD -9.29%) and ***Small Caps -4.78%*** (YTD -13.15%). Style: ***Value -2.18%*** (YTD -7.70%) and ***Growth -4.15%*** (YTD -9.92%). Industry Groups (Leaders): Communication +2.00% (YTD +8.67%) and Utilities +2.55% (YTD +7.57%). (Laggards): Consumer Staples -2.28% (YTD -1.68%), Industrials +0.02% (YTD -5.64%), ***Basic Materials +4.77%*** (YTD -6.50%), ***Energy -4.01%*** (YTD -7.27%), ***Technology -4.40%*** (YTD -7.84%), Consumer Discretionary -1.89% (YTD -9.64%), Information Technology -5.16% (YTD -9.92%), Healthcare -3.24% (YTD -10.58%), and Financial Services -3.56% (YTD -12.09%).

EUROPEAN EQUITIES

The Stoxx Europe 600 Index fell last week from 342.27 to 325.90 losing -4.78%. European markets dropped after data showed fewer jobs were added to the U.S. economy in January than economists had expected, feeding into fears that growth in the world's largest economy is slowing and pushing down U.S. stocks. Year to date the Stoxx Europe 600 is down -10.91% (MTD -4.78%).

Drivers: I) ***Retail sales in the euro-zone rose for the first time since August during December***, according to European Union statistics agency data. Eurostat said retail sales rose by an expected 0.3% in December from November, and by 1.4% from the final month of 2014. ***The data suggests that economic growth has continued at the same moderate pace set since the start of the recovery in mid-2013.***

II) ***ECB President Mario Draghi Monday said inflation in the euro-zone is "tangibly weaker" than expected, underlining the bank's readiness to provide additional stimulus in March*** to bolster the bloc's economy. Growth and inflation have clearly failed to pick up over the past year despite the renewed stimulus efforts.

III) ***Performance of European Indexes for the week, month-to-date and year-to-date. The EuroStoxx 600 Index fell by -4.78% for the week (MTD -4.78% YTD -10.91%).***

ASIAN EQUITIES

Asian equity markets were mixed last week as traders took positions ahead of Friday's U.S. jobs report, with many markets in the region experiencing thin volumes ahead of the Lunar New Year holiday next week. The Dow Jones Asia Pacific Index was down -0.82% for the week, (MTD -0.82), (YTD -8.71%).

Drivers: I) ***China's statistics bureau reported that the official manufacturing purchasing managers index fell to 49.4 in January from 49.7 in December, the sixth consecutive month of contraction***, which was below the median 49.6 forecast of 11 economists. China's National Bureau of Statistics, attributed the manufacturing weakness to the pending holidays, weaker global demand and companies reducing excess manufacturing capacity.

II) ***Commerzbank's expects a 0.25 percentage point cut in interest rates in the first quarter and several more reductions in required bank reserves this year***. China's fiscal deficit will be increased "aggressively" to 3% of GDP this year from 2.3% in 2015. ***China's corporate debt has soared since the global financial crisis and is now equivalent to 160% of GDP***, up from 98% in 2007, according to the rating agency Standard & Poor's.

II) Performance of Asian Indexes for the week, month-to-date and year-to-date. ***The Nikkei was lower by -3.99% (MTD -3.99% YTD -11.63%), the Hang Seng Index declined by -2.01% (MTD -10.18% YTD -11.98%) and the Shanghai Composite rose by +0.95% (MTD +0.95% YTD -21.92%).***

FIXED INCOME

Treasury yields were lower last week as the selloff in stocks intensified in the wake of January's subpar jobs report, pushing investors into safer assets such as bonds.

Performance: I) ***The 10-year Treasury yield was lower last week ending at 1.834% down from 1.924%. The 30-year yield fell last week declining from 2.746% to 2.667%.***

II) ***Performance for the week, month-to-date and year-to-date. Barclays US Aggregate Bond was up +0.24% last week, MTD +0.24% and YTD +1.62%. The Barclays US MBS TR rose by +0.03% last week, MTD +0.03% and YTD +1.33%. The BofAML US HY Master II fell last week by -1.12%, MTD -1.12% and YTD -2.69%.***

COMMODITIES

The DJ Commodity Index was lower last week dropping from 237.73 to 232.62 and is down month to date -2.15% (YTD -3.76%) as oil fell on the continued supply glut and high production levels.

Performance: I) ***The price of oil fell last week pressured by ongoing worries about a global glut of supplies, a lack of significant production cuts*** and some strength in the U.S. dollar. For the week the price of oil declined from $33.74 to $31.00 per barrel.

II) ***The ICE USD Ind***ex, a gauge of the greenback's movement against six other major currencies, ***was negative falling from 99.53 to 96.96 for the week. The USD dollar has come under selling pressure recently***, on ***speculation that the Federal Reserve may not be able to raise rates*** in March or even for the rest of the year***, due to a slowdown in growth and volatile global markets.*** For the week the Yen strengthened rising from ¥121.13 to ¥116.87 and the Euro rose from 1.0832 to 1.1157 against the USD.

III) ***Gold posted its largest weekly gain*** since August as overall losses in the U.S. stock market and the dollar over the last five trading sessions ***drew investors to the perceived safety of the precious metal***. For the week gold was higher rising from $1118.4 to $1174.1.

Hedge Funds

Hedge funds returns in January are primarily lower, as core strategies Equity Hedge, Distressed, Event Driven, Macro/CTA and Relative Value are in negative territory.

Performance:

I) ***The HFRX Global Hedge Fund Index is lower at -0.52% MTD and -3.27% YTD.***
II) ***Equity Hedge is negative at -0.90% MTD and has fallen -5.36% YTD.***
III) ***Event Driven is down MTD -0.55**% **and is down YTD -4.34%.***
IV) ***Distressed Debt is lower at -0.77% MTD and is negative*** YTD -***4.07%***
V) ***Macro/CTA has fallen by -0.44% MTD and is down -0.44% YTD.***
VI) ***Relative Value Arbitrage is negative at -0.16% and is down -2.66% YTD.***

Economic Data Watch and Market Outlook

Heading into next week, investors will be focused on media and consumer-staples companies who will be reporting earnings, but even after an improvement in projected earnings for the S&P 500 Index the market sell-off last week continued. Over the past week, projected earnings for the S&P 500 improved while projected revenue saw little improvement. ***For the December-ending quarter, the S&P 500 is on track for an earnings decline of 3.8%, an improvement from last week's projected decline of 5.8%, but revenue is on track for a 3.4% decline, compared with last week projected decline of 3.5%, according to FactSet.***

On the economic data front, Fed Chairperson Yellen begins her semiannual testimony on Wednesday morning with the House Financial Services Committee, followed by the Senate Banking Committee on Thursday. ***Topics at the forefront of discussion will include the central bank having raised interest rates, oil prices have fallen even further and stock market volatility has put investors and businesses on edge.***

On Friday the Labor Department will report whether import prices declined for a seventh straight month in January. Low oil prices have held down the overall figure since the middle of 2014. ***But even outside of oil, import prices declined 0.4% in December and 3.7% from a year earlier, which continues to hold back inflation.***

How worried are consumers about recent stock-market volatility and reports of a global economic slowdown? We will have a better idea Friday when the University of Michigan releases its gauge of consumer sentiment (expected to remain steady at 92). U.S. buyers have largely ignored the global turmoil, due to months of cheaper gas and strong job growth. But that may be changing. Last month's sentiment index fell to 92 from 92.6 in December and 98.1 in January 2015.

The Commerce Department releases its report Friday on retail sales (estimated to improve from -0.1% to 0.1%), which have been up and down for much of the past year. The economy ended 2015 with little momentum from shoppers: U.S. retail sales fell 0.1% in December, and were up just 2.1% last year, compared with a 3.9% annual gain the previous year. That made 2015 the weakest year for sales growth since the end of the recession. Economists expect sales continued at the same slow pace.