WEEKLY MARKET COMMENTARY

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U.S. EQUITIES

U.S. stocks rallied last week with all three major U.S. equity indices reaching record highs for the first time since 1999, as comments out of Saudi Arabia gave hope for a collective production freeze for oil.

a) ***Dow Jones +1.58% MTD +1.06% YTD +8.64%*** b) ***S&P 500 +1.06% MTD +0.85% YTD +8.40%***
c) ***Russell 2000 +1.30% MTD +1.03% YTD +9.20%***

Drivers: I) ***U.S. retail sales were little changed in July, down from a gain of 0.8% in June, the Commerce Department reported. Economists expected growth of 0.4% on the month***, compared with an original estimate of 0.6% growth in June. Auto sales rose 1.1% in July, representing their best result since April. Outside of autos, retail sales growth dropped 0.3% last month the weakest reading since January, after a 0.9% gain in the prior month.

II) ***U.S. wholesale prices fell 0.4% in July, the largest drop since September 2015***, according to a government report released Friday. This was the first decline in wholesale prices in four months and follows a sharp 0.5% jump in June. Both food and energy prices declined in July. ***Economists had predicted the Producer Price Index would remain flat in July.***

III) ***Inventories at U.S. businesses rose 0.2% in June, meeting market's expectations.*** Business sales rose 1.2% in June, the largest gain since February 2013, the Commerce Department reported. ***Businesses have been trimming inventories over the last five quarter*** but have only brought the inventory to sales ratio down slightly from a high of 1.41 seen in January to March time period.

IV) Consumer sentiment was up in early August as better views of the economy offset concerns about personal finances. ***The University of Michigan's consumer-confidence gauge rose to 90.4 from 90.0. That is lower than the 91.9 notched in August 2015 and below the median forecast of 91.5 among economists.***

V) ***Equity prices in August are mixed with Small-Cap, Growth, Information Technology and Technology leading equity price performance. The laggards for the month are Large-Cap and Value Stocks along with Energy.***

Capitalization: ***Large Caps +3.81%*** (YTD +7.69%), Mid-Caps +4.57% (YTD +10.31%) and ***Small Caps +5.97%*** (YTD +8.32%). Style: ***Value +4.39%*** (YTD +14.66%) and ***Growth +4.68%*** (YTD +10.05%). Industry Groups (Leaders): Telecommunication +1.05% (YTD +25.96%), Utilities +0.71% (YTD +22.37%), ***Energy -1.25%*** (YTD +13.26%), Materials +5.12% (YTD 13.04%), Consumer Staples +1.33% (YTD +12.36%), Industrials +3.65% (YTD +10.66%), ***Technology +7.04%*** (YTD +9.42%), ***Information Technology +7.69%*** (YTD +7.76%), Consumer Discretionary +4.97% (YTD +5.97%), Healthcare +4.97% (YTD +5.58), and Financial Services +3.53% (YTD +0.30%). (Laggards):

EUROPEAN EQUITIES

The MSCI Europe index was higher last week rising +3.14%. European equities posted solid gains last week as German data released last Friday revealed that economy grew at a faster pace than expected in the second quarter.

Drivers: I) ***The European Union's official statistics agency said the 19-nation economy grew 0.3% in the quarter from April through June, a slower pace than the 0.6% pace it achieved in the first quarter***. The euro-zone expanded 1.6% compared with the second quarter a year earlier, Eurostat said. ***The data show that the euro-zone economy was losing steam even before the U.K. voted to leave the EU in late June and the region was rocked by a spate of terror attacks.***

II) ***Germany's economy grew at a faster pace than expected in the second quarter, official data showed Friday, but continued to struggle to build the momentum needed to lift the euro-zone's below par recovery***. In quarterly adjusted terms, Europe's largest economy and economic powerhouse grew 0.4%, beating expectations in a Wall Street Journal survey of 0.2% growth. ***The growth came primarily from foreign trade.***

III) ***Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index rose +3.14% for the week (MTD +3.17% YTD +0.38%).***

ASIAN EQUITIES

Asian equity markets were higher last week as the low-rate environment continues to prompt investors to pull money out of bonds and put it into equities. The Dow Jones Asia Pacific Index was up +2.74% for the week, (MTD +1.81), (YTD +5.91%).

Drivers: I) ***Industrial output in China rose 6.0% in July from a year earlier, slowing from 6.2% in June, data from the National Bureau of Statistics showed last week. The increase in value-added industrial output, a proxy for economic growth, was below a median forecast of 6.2% growth by 17 economists***. Fixed-asset investment in non-rural areas of China climbed 8.1% on year in the January to July period, compared with an increase of 9.0% for the first six months of the year. The rise in the closely watched indicator of construction activity undershot economists' median forecast for an 8.9% gain.

II) ***Japanese core machinery orders rebounded in June after falling for two straight months, government data showed last Wednesday***. Core orders, a leading indicator of business investment, rose 8.3% from the previous month, better than a 3.4% increase expected by economists surveyed by The Wall Street Journal and the Nikkei. On a year over year basis, core orders in June decreased 0.9%.

III) Performance of Asian Indexes for the week, month-to-date and year-to-date. ***The Nikkei was higher by +4.09% (MTD +2.12% YTD -11.11%), the Hang Seng Index rose by +2.80% (MTD +4.00% YTD +3.89%) and the Shanghai Composite advanced by +2.49% (MTD +2.39% YTD -13.80%).***

FIXED INCOME

Treasury prices rose sharply, briefly pushing yields to their second lowest level ever, after weaker-than-expected retail sales numbers as well as a drop in wholesale prices triggered concerns of slowing momentum in economic growth.

Performance: I) ***The 10-year Treasury was lower last week ending at 1.512% down from 1.590%. The 30-year yield fell last week declining from 2.316% to 2.234%.***

II) ***Performance for the week, month-to-date and year-to-date. Barclays US Aggregate Bond was down -0.19% last week, MTD -0.11% and YTD +5.58%. The Barclays US MBS TR fell by -0.04% last week, MTD +0.10% and YTD +3.27%. The Barclay's US Corporate HY Index was up by +1.05%, MTD +1.18% and YTD +13.48%.***

COMMODITIES

The DJ Commodity Index was higher last week by +066% rising from 257.90 to 259.49 and is flat month to date +0.00% (YTD +7.35%) as oil staged a strong rally on hopes of a production freeze.

Performance: I) ***The price of oil closed at a three-week high, and posted their largest weekly gain in about four months as traders held out hope for price-stabilization measures by major crude-oil producers***. For the week oil advanced by +6.46% from $41.98 to $44.69 per barrel (MTD +7.99% YTD +9.78%).

II) ***The ICE USD Index***, a gauge of the greenback's movement against six other major currencies, ***was negative falling -0.58%*** from 96.24 to 95.68 for the week (MTD +0.17% YTD -3.05%). ***The USD slumped last week as a number of disappointing U.S. economic reports led investors to lower their expectations for the timing and pace of Federal Reserve interest-rate hikes***. For the week the Yen strengthened rising from ¥101.82 to ¥101.29 and the Euro rose from 1.1087 to 1.1162 against the USD.

III) ***Gold was essentially flat last week due to disappointing U.S. economic data regarding retail sales and wholesale prices.*** For the week gold was higher by +0.02% rising from $1341.4 to $1341.7 (MTD -1.19% YTD 26.40%).

HEDGE FUNDS

Hedge funds returns in August are positive with all of the core strategies Equity Hedge, Event Driven, Distressed, Macro and Relative Value in positive territory.

<u>Performance</u>:

I) ***The HFRX Global Hedge Fund Index is higher at +0.39% MTD and +1.01% YTD.***
II) ***Equity Hedge has risen +0.37% MTD and has fallen -1.64% YTD.***
III) ***Event Driven is up MTD +0.44% and is up YTD +6.17%.***
IV) ***Distressed Debt is higher at +0.29% MTD and is positive YTD +11.70%***
V) ***Macro/CTA has climbed higher by +0.84% MTD and is up +0.81% YTD.***
VI) ***Relative Value Arbitrage is positive at +0.06% and is down -0.87% YTD.***

ECONOMIC DATA WATCH AND MARKET OUTLOOK

As we head into next week, we note that last Thursday the Dow Jones Industrial Average DJIA, S&P 500 index and the Nasdaq Composite Index all high record highs on the same day for the first time since Dec. 31 1999. Does this event draw ***parallels to the same market events seen in 1999***, when after new highs, equity indices declined dramatically as the "Tech Bubble" burst? Specifically, the tech laden Nasdaq declined over a third from March to April 2000, setting in a volatile downtrend for equities.

If we look at present market valuations on a price-to-earnings (P/E) basis, Nasdaq traded equities in the "Tech Bubble" carried a P/E, ratio of 72, compared with about 21 today. The S&P 500 stocks have a P/E of about 18 today. That is above average for large-cap stocks, but ***cheap compared with 28 back in 1999***. ***In addition, the markets are in a state of relative calm, as the CBOE Volatility Index (VIX) ended last week at a two year low of about 11. Markets tend of have a positive bias in such a volatility environment***. And lastly, ***41% of stocks on the S&P 500 offer a better yield than the long bond, or 30-year note (2.23%). And more than 60% pay a better yield than the benchmark 10-year note (1.51%).***

On the economic data front, the Fed releases minutes from its July 26-27 meeting on Wednesday. Central bank officials opened the door to an ***interest-rate increase as early as September*** at the gathering. ***The door appeared to close after a poor reading for gross domestic product and then opened slightly again after the better than expected July jobs report.*** The minutes should offer some details on officials' concerns and causes for optimism.

Low oil prices, a strong dollar and slow economic growth have helped keep inflation well below the Fed's 2% target. But the June consumer-price index suggested some increases in inflation, driven by rising costs for shelter, medical care, transportation services and clothing. Core CPI, which excludes food and energy, was up 2.3% from a year earlier. July's numbers are due out Tuesday.

The housing market has been an economic driver through most of the recovery, though it has shown some signs of slowing in recent months. The ***National Association of Home Builders's sentiment index for August, out Monday, and government data on housing starts in July may help show if the sector is holding firm.***

U.S. manufacturing activity has been expanding in recent months, though it has been weighed down by the same global forces, oil prices, the dollar and weak global growth, as the broader U.S. economy. ***The Fed's industrial-production report, out Tuesday***, should help show whether factories have stabilized. The mining industry and utilities also are covered in the monthly index.