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INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

U.S. equity markets were mostly lower last week as investors were deciphering the weaker than expected March jobs data and the implications of President Trump's late Thursday airstrike against Syria.

a) **Dow Jones +0.02% MTD +0.02% YTD +5.21%** b) **S&P 500 -0.24 MTD -0.24% YTD +5.81%**
c) **Russell 2000 -1.52% MTD -1.52% YTD +0.91%**

Drivers: I) The U.S. **created only 98,000 new jobs in March**, the smallest gain in almost a year. This may be a sign the labor market is not quite as strong as large hiring gains earlier in 2017 suggested. The UE rate fell to 4.5% from 4.7%, nearly 10-year low. Economists are saying the decline was due in part to **severe weather**, and is a correction of the strong numbers seen in January and February which was helped by unusually high temperatures.

II) **Hourly earnings** for the average worker in the U.S. **rose 0.2%** to $26.14 an hour. But the increase in hourly pay over the past 12 months fell to 2.7% from 2.8% in the previous month. Although wages are rising faster now compared with a few years ago, they still are not climbing as much as they normally do in periods of economic prosperity. During growth periods in the past, wages tend to rise 3.0% to 4.0% a year.

III) The Federal Reserve published the minutes of its March 14 and 15 FOMC meeting. At that time, the Fed increased its fed fund rate by 25 basis points to a range of 0.75 percent to 1.00 percent. Part of the discussions at that meeting involved how the **Fed would wind down its $4.5 trillion balance sheet**, which would include the phasing out of both the Fed's holdings of Treasuries and mortgage-backed securities. And in a line that may have triggered some selling in the stock market, members noted that **stock valuations are "quite high."**

IV) **Vehicle sales** in March fell to the **lowest level in more than two years**, hit by factors including the widening price gap between new and used autos as well as rising interest rates and a slowing of the replacement cycle. According to Autodata, vehicle sales ran at a seasonally adjusted annual rate of 16.62 million, down from 17.58 million in February. The annual rate reached 18.54 million in December and has fallen since.

V) **Equity prices in April were mixed with Large-Cap, Growth, REITs and Consumer Staples leading equity price performance. The laggards for the month are Small-Cap, Value and Financials.**

Capitalization: Large Caps -0.27% (YTD +5.74%), Mid-Caps -0.57% (YTD +4.54%) and **Small Caps -1.52%** (YTD +0.91%). Style: **Value -1.20%** (YTD +0.49%) and **Growth -1.05%** (YTD +3.18%). Industry Groups (Leaders): Consumer Discretionary -0.12% (YTD +13.88), Information Technology -0.64% (YTD +11.32%), Technology -0.51% (YTD +10.23%), **Consumer Staples +0.66%** (YTD +9.10%), Healthcare -0.02% (YTD +8.43), Utilities +0.16% (YTD +6.56%), Materials +0.37% (YTD +6.19%), **REITs +0.66% (YTD +4.18%)** and **Financial Services -0.90%** (YTD +1.57%). (Laggards): Telecommunication +0.07% (YTD -3.98%) and Energy +0.59% (YTD -5.99%).

EUROPEAN EQUITIES

The MSCI Europe index fell by -0.64% last week as investors pondered a sub-par U.S. jobs report and the airstrike authorized by President Trump against Syria.

Drivers: I) **German industrial production surged** in February, beating forecasts, and its trade balance with the rest of the world was also higher than expected, indicating a pickup in economic growth in the first quarter. Industrial output in Europe's largest economy rose 2.2% from the month before, adjusted for seasonal swings and calendar effects, the economics ministry reported last Friday. Economists had forecast a 0.3% decline.

II) **ECB President Mario Draghi downplayed** expectations of any imminent type of **tightening.** He reminded people that he and his fellow policy makers look at four criteria before even considering an end to the central bank's ultra-accommodative policy stance. In short, the criteria revolve around the rate of inflation attaining and stabilizing around an annual rate of 2.0%, particularly without the support of monetary stimulus.

III) **Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was lower by -0.64% for the week (MTD -0.64% YTD +6.76%).**

ASIAN EQUITIES

Asian markets were mixed last week, as the yen and oil prices rose sharply after the U.S. launched cruise missiles at a Syrian airbase in response to a recent chemical attack. The Dow Jones Asia Pacific Index was lower by -0.53% for the week, (MTD -0.53% YTD +8.47%).

Drivers: I) In **Japan, the Tankan survey** for the three months to March indicated that business sentiment in both the manufacturing and non-manufacturing sectors **improved** from the previous quarter. For large manufacturers, the index climbed to 12 from 10 in the December quarter. For medium sized manufacturers, the index climbed from 6 to 11 and for small manufacturers from 1 to 5. For non-manufacturers, the business condition index rose from 18 to 20 for large firms, 16 to 17 for medium-sized firms, and from 2 to 4 for small firms.

II) According to the Asian Development Bank (ADB), **China** which accounts for roughly 60 percent of the regional **economy, will decelerate by 0.2% to 6.5% in 2017** and slow further to 6.2% in 2018 as Beijing takes further steps to shift the country to a consumption-driven economy. The push by China to achieve greater financial stability by lowering high corporate debt and addressing shadow banking among others, is coming at the cost of slower growth.

III) **Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was lower by -1.29% (MTD -1.29% YTD -2.35%), the Hang Seng Index rose by +0.63% (MTD +0.63% YTD +10.30%) and the Shanghai Composite advanced by +1.99% (MTD +1.99% YTD +5.90%).**

FIXED INCOME

Treasury yields were lower last week in the aftermath of the U.S. Navy's attack on Syrian targets, which sent investors rushing to the safety of government bonds, pushing prices higher and yields firmly lower.

Performance: I) **The 10-year Treasury yield was lower last week ending at 2.382%, down from 2.386%. The 30-year yield fell last week dropping from 3.009% to 3.007%.**

II) **Performance for the week, month-to-date and year-to-date. Barclays US Aggregate Bond was up +0.16% last week, MTD +0.16% and YTD +0.98%. The Barclays US MBS TR was higher by +0.16% last week, MTD +0.16% and YTD +0.63%. The Barclay's US Corporate HY Index rose by +0.33%, MTD +0.33% and YTD +3.00%.**

COMMODITIES

The DJ Commodity Index was up last week by +0.65% and is up month to date +0.65% (YTD -1.36%) led by a sharp rise in oil based on expectations that OPEC will extend production cuts at their next meeting in May.

Performance: I) The **price of oil** was higher last week **rising +2.83%** to $52.29 and is up month to date +2.83% (YTD -2.97%). Oil prices jumped higher last week after a U.S. airstrike on Syria, though gains were capped by expectations that risks to Middle East output would be limited and could be offset by the rise in U.S. production.

II) The **ICE USD Index**, a gauge of the U.S dollar's movement against six other major currencies, was **positive gaining +0.57%** from 100.56 to 101.13 for the week (MTD +0.57% YTD -1.22%). The U.S. dollar index was supported by a flight to safer assets following the U.S. missile strike on Syria. Investors are monitoring the U.S. economy closely to be sure that it can withstand higher Federal Reserve interest rates going forward.

III) **Gold ended the week higher**, as the disappointing U.S. March jobs report helped support gains that were prompted by the U.S. airstrikes in Syria. For the week gold was higher by +0.40% climbing from $1251.6 to $1256.1 (MTD +0.40% YTD +9.04%).

HEDGE FUNDS

Hedge fund returns in April are mixed with core strategies Event Driven and Macro in positive territory, while Equity Hedge, Distressed and Relative Value are down for the month.

Performance:

I) The HFRX Global Hedge Fund Index is higher at +0.03% MTD and +1.69% YTD.
II) Equity Hedge has dropped -0.19% MTD and is up +2.50% YTD.
III) Event Driven is up MTD +0.27% and is higher YTD +3.24%.
IV) Distressed Debt is lower at -0.05% MTD and is positive YTD +1.54%
V) Macro/CTA is higher by +0.08% MTD and is down -0.68% YTD.
VI) Relative Value Arbitrage is lower at -0.02% and is up +1.00% YTD.

ECONOMIC DATA WATCH AND MARKET OUTLOOK

Looking ahead to next week, after being stuck in a trading range the past few weeks, the **stock market will be guided by the corporate earnings reports** that begin the earnest. There is a great deal riding on this earnings cycle. It will be the first quarter since President Donald Trump took office, providing insight as to whether the enthusiasm that propelled major stock indexes to historic levels was justified. It could also be the news that reignites the market as investors have become increasingly cautious amid signs that many of the pro-growth policies promised by the new president may be delayed.

J.**P. Morgan Chase & Co., Citigroup, Inc. and Wells Fargo & Co.** will be among the first to report quarterly results. The financial sector has been in the spotlight since the Federal Reserve's shift to a tighter monetary policy regime, and first-quarter results will be a critical test for whether bank shares have more upside potential. Across the board, **earnings are expected to rise as much as 12%**, which will mark the highest growth in profitability since third quarter 2011, according to FactSet.

On the **economic data front**, the **small business optimism index** has, like many other secondary economic reports, been very strong but a pull-back in Tuesday's report is expected. The small business optimism index has held at expansion highs following the election led by economic optimism and strong employment readings. Sales expectations and capital improvement plans have also been strong. The consensus estimate for March is calling for **slight drop to 104.8**, down from February's 105.3.

Three important inflation reports will be posted and none are expected to show gains: import prices down 0.2%, producer prices unchanged, consumer prices unchanged. Higher energy was a main factor in February's 0.3% increase in producer prices with lower energy pointing to a flat March. Service prices were also a main factor in the February increase and a second month of pressure here could raise expectations for pass through to consumer prices.

A 0.2% jump in February's year-on-year consumer price index to 2.7% indicated a similar jump in the Federal Reserve's PCE price target, with both at 5-year highs. But, when excluding food and more importantly energy, the core rate for both the CPI and PCE have been steady and below target and ultimately reflect lack of wage pressure for labor. Forecasters expect the consumer price index to remain unchanged in March with the year-on-year rate slowing 0.1% to 2.6%.

Consumer sentiment will be released on Thursday and forecasters see no change for an index that is at firm levels, but has **retreated from its post-election highs.** The consumer sentiment index remains strong, but **peaked at 98.5 in January** and ended March at 96.9. The drop has been centered in the expectations component and includes an unusual decline in inflation expectations. In contrast, the current conditions component has continued to make new highs. Economist consensus for preliminary March calls for a steady reading, at 97.0.

The most important news this week is likely to be **Friday's retail sales** report where once again n**o change is expected**, a key indication on the consumer that would extend the economy's recent run of flat data.