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INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

U.S. equity markets were higher last week and posted solid gains for the quarter, led by the S&P 500 which was up 6.07%, the sixth quarter in a row of positive returns.

a) **Dow Jones +0.32% MTD -0.60% YTD +5.19%** b) **S&P 500 +0.82% MTD +0.12% YTD +6.07%**
c) **Russell 2000 +2.37% MTD +0.13% YTD +2.47%**

Drivers: I) **The U.S. grew slightly faster at a 2.10%** pace in the fourth quarter and corporate profits rose again, offering further evidence that the economy entered 2017 on stronger fundamentals than it did a year earlier. Gross domestic product was revised up from 1.90% annual rate of growth due to higher spending on gasoline and travel-related services, the government reported last Thursday.

II) Positive news was seen in another **increase in corporate profit,** the third in four quarters. Adjusted-pretax profits rose at a 0.50% annual pace in the fourth quarter after a nearly 6.00% gain in the third quarter, the Commerce Department reported. Profits improved rapidly in the second half of 2016 and over the past year as they have climbed at a 9.30% rate, the fastest gain since 2012.

III) Most Americans were optimistic about the U.S. economy in March, but not quite as much as initially reported, according to the final reading of a **consumer sentiment survey**. The index was revised to 96.9 in March from preliminary 97.6, the University of Michigan said last Friday. The index registered 96.3 in February. In January, the index jumped to its **highest level since 2004**, largely because of confidence among Republicans and independents. Democrats are in a malaise, however, and they expect the economy to worsen.

IV) **U.S. house prices** soared to their **highest in nearly three years** as demand remains high, especially in the west. The S&P/Case-Shiller 20-city index rose 5.70% in the three-month period ending in January compared to the same period a year ago, an acceleration from its 5.50% yearly increase in December. The 20-city index was up 0.20% for the month, or a 0.90% gain when seasonally adjusted.

V) **Equity prices in March were mixed with Small-Cap, Growth, Information Technology and Consumer Discretionary leading equity price performance. The laggards for the month are Mid-Cap, Value and Financials.**

Capitalization: Large Caps +0.06% (YTD +6.03%), **Mid-Caps -0.16%** (YTD +5.15%) and **Small Caps +0.13%** (YTD +2.47%). Style: **Value -0.72%** (YTD +1.70%) and **Growth +0.06%** (YTD +4.27%). Industry Groups (Leaders): **Consumer Discretionary +3.37%** (YTD +14.02), **Information Technology +2.42%** (YTD +12.04%), Technology +2.19% (YTD +10.79%), Healthcare -0.30% (YTD +8.45), Consumer Staples +2.09% (YTD +8.39%), Utilities -0.19% (YTD +6.38%), Materials +0.47% (YTD +5.80%), REITs -1.04% (YTD +3.50%) and **Financial Services -2.77%** (YTD +2.50%). (Laggards): Telecommunication -1.16% (YTD -4.05%) and Energy -1.43% (YTD -6.54%).

EUROPEAN EQUITIES

The MSCI Europe index rose by +0.32% last week and the index scored a 7.44% gain for the first quarter, its largest quarterly advance since March 2015.

Drivers: I) A year-long rise in the eurozone's annual rate of inflation came to an end in March, likely reinforcing the European Central Bank's determination to continue with its stimulus measures despite growing opposition from Germany, the currency area's largest member. The European Union's statistics agency Friday said **consumer prices were 1.50% higher** in March than a year earlier, a **fall in the rate of inflation from 2.00%** in February. The decline in inflation was sharper than expected, with economists had estimated that prices rose by 1.80%.

II) **Germany's jobs** engine was running to perfection in March, as the national **unemployment rate hit a record low** and jobless claims dropped sharply. Germany maintained its position as the eurozone's strongest labor market. Jobless claims declined by 30,000 from February, the BA labor agency reported Friday. That is the strongest monthly fall since September 2011. Economists polled by The Wall Street Journal had expected a smaller drop in jobless claims of 10,000.

III) **Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was higher by +0.32% for the week (MTD +4.02% YTD +7.44%).**

ASIAN EQUITIES

Asian markets were down last week, but have seen a broadly strong start to 2017 for equities in the region despite worries over the global effect of issues such as potential U.S. protectionism. The Dow Jones Asia Pacific Index was lower by -0.76% for the week, (MTD +1.24% YTD +9.05%).

Drivers: I) An official gauge of **Chinese factory activity** hit a **near five-year high** in March as government stimulus spending and rising prices for factory goods bolstered the world's second-largest economy. **China's** official **manufacturing purchasing managers' index** edged up to 51.8 in March from 51.6 in February, the National Bureau of Statistics reported Friday. The March reading, was slightly above a median forecast of 51.7 from a poll of 12 economists.

II) **Japanese industrial production rose 2.00%** on month in February, the Ministry of Economy, Trade and Industry reported Friday, as demand for Japanese goods overseas picked up. The rise was larger than the 1.20% increase forecast by economists surveyed by the Nikkei, and came after a 0.40% fall in January. Economists say that Japanese production is picking up as the world economy recovers and Japanese companies bring inventories down. Last year, inventories hit their highest level since 2009. In February, inventories rose 0.9% on month.

III) **Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was lower by -1.83% (MTD -0.40% YTD -1.07%), the Hang Seng Index fell by -1.01% (MTD +1.46% YTD +9.60%) and the Shanghai Composite declined by -1.44% (MTD -0.59% YTD +3.82%).**

FIXED INCOME

Treasury yields were lower last week as the market sentiment is moving quickly pass last week's failed healthcare reform in favor of optimism for comprehensive tax reform.

Performance: I) **The 10-year Treasury yield was lower last week ending at 2.386% down from 2.413%. The 30-year yield fell last week dropping from 3.014% to 3.009%.**

II) **Performance for the week, month-to-date and year-to-date. Barclays US Aggregate Bond was up +0.07% last week, MTD -0.05% and YTD +0.82%. The Barclays US MBS TR was higher by +0.14% last week, MTD +0.03% and YTD +0.47%. The Barclay's US Corporate HY Index rose by +0.94%, MTD -0.22% and YTD +2.71%.**

COMMODITIES

The DJ Commodity Index was up last week by +1.06% and is down month to date -2.76% (YTD -2.00%) 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 +**5.63%** to $50.85 and is lower month to date -5.85% (YTD -5.64%). Oil prices settled higher last week as the market expects OPEC will extend production cuts to reduce the world's stockpile of oil. The U.S. price of oil held its ground at a more than three-week high, but still suffered a loss of 5.64% for the first quarter.

II) The **ICE USD Index**, a gauge of the U.S dollar's movement against six other major currencies, **was positive gaining +0.80%** from 99.76 to 100.56 for the week (MTD -0.79% YTD -1.78%). The U.S. dollar index posted its first weekly advance since early March, as the market is looking beyond recent legislative difficulties and is focusing on the potential for tax reform and clarity on trade issues when President Trump meets President Xi of China next week.

III) **Gold ended the quarter up 8.64%** helped by a decline in the USD, and as volatility hits other assets and the negative returns to cash savings and bonds had worsened after inflation. For the week gold was higher by +0.42% climbing from $1246.4 to $1251.6 (MTD -0.18% YTD +8.64%).

HEDGE FUNDS

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

Performance:

I) The HFRX Global Hedge Fund Index is flat at +0.00% MTD and +1.63% YTD.
II) Equity Hedge has risen +0.64% MTD and is up +2.68% YTD.
III) Event Driven is up MTD +0.01% and is higher YTD +2.64%.
IV) Distressed Debt is lower at -1.36% MTD and is positive YTD +1.15%
V) Macro/CTA has fallen by -0.59% MTD and is down -0.37% YTD.
VI) Relative Value Arbitrage is lower at -0.29% and is up +0.97% YTD.

ECONOMIC DATA WATCH AND MARKET OUTLOOK

Looking ahead to next week, investors are still waiting for the much anticipated 5.0% to 10% equity market correction, despite the fact we are closing the first quarter with solid gains. The **S&P 500 gained 6.07% for the quarter, followed by the Dow Jones clocking in at 5.19% and the Russell 2000 Index gaining 2.47%**. These equity price gains were achieved in one of the **least volatile price environments** seen in decades. The S&P 500 averaged a daily change of 0.3% during the quarter, its lowest volatility level since the **third quarter of 1967**.

The lack of market volatility is reflected in the CBOE Volatility Index (VIX), which logged its second lowest quarterly closing level ever at 11.68, according to Dow Jones data, the only other quarter with a lower average was the fourth quarter of 2006.

Outside of an unexpected geo-political, left-tail risk event, **equity markets in the coming weeks will be driven by first quarter corporate earnings**. The earnings season which begins in mid-April, is expected to show a first quarter **earnings to rise by 10.0%** according to FactSet, driven primarily by a recovery in the energy sector. Until then investors will be concentrating on the important economic data coming out next week, notably the March jobs report and unemployment rate on Friday.

On the economic data front, the ISM manufacturing index has beaten the market consensus the last six reports and leads off the week on Monday, and another stronger-than-expected result could raise spirits going into Friday's employment report. But this strength, as well as similar strength in other advance reports, has yet to appear in force in government data out of Washington. Forecasters are calling for a move lower, to 57.1 vs February's 57.7.

Unit vehicle sales follow on Tuesday and the call here is for another month of **consumer disappointment**. Forecasters do not see any improvement, at a consensus 17.4 million annualized rate in March which would be under 17.6 million in both February and January. A move higher or lower than expected could have significant implications for first-quarter GDP.

ADP, which is on a hot streak, will open Wednesday with the most closely watched estimate for Friday's employment report. **ADP's private-payroll call is not likely to be as strong as February's** 298,000, but anything over 200,000 would raise talk of a third strong employment report in a row. Forecasters do not see much strength for ADP's March call, at a **consensus 170,000**.

Following in the afternoon will be minutes from what was a dovish March FOMC that, despite a rate hike, limited expectations for following hikes.

Friday sees the **March employment report** where cold winter-weather is in play and where the consensus is calling for significant **slowing but a still solid result**, at **178,000** for nonfarm payrolls versus February's 235,000. The outlook for **average hourly earnings** is mixed with the month-to-month consensus looking for a sizable 0.30% gain but not the year-on-year rate which is seen unchanged at **2.80%.** The unemployment rate, at a consensus 4.70%, is seen unchanged with the average workweek also seen unchanged 34.4 hours.