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INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

U.S. equity markets were higher last week as investors bought downtrodden energy shares and technology stocks rebounded. Financials were also in the news as 34 banks assessed during round one of the Fed's stress test passed. Round two is next week, and positive results could lead to banks returning capital to investors.

a) **Dow Jones +0.05% MTD +1.96% YTD +9.58%** b) **S&P 500 +0.22% MTD +1.21% YTD +9.98%**
c) **Russell 2000 +0.58% MTD +3.35% YTD +4.88%**

Drivers: I) The **central bank released** the results of the first part of **its annual "stress tests"** mandated by Dodd-Frank legislation. The second set of results, outline which banks may return capital to investors, are due next week. The 34 banks tested would have losses of $383 billion under a "severely adverse" scenario: a 10% unemployment rate, stressed loan markets, and a drop of 35% in the commercial real estate market.

II) The **banks have built up deeper reserves** against a downturn since the 2008 financial crisis, and would maintain a **9.2% ratio of capital** as a share of assets under such a scenario, the Fed said. Both that measurement and their starting point of capital, before the hypothetical scenario kicks in - 12.5% are higher than in 2016.

III) **Existing-home sales** ran at a seasonally adjusted annual 5.62 million rate, the National Association of Realtors reported. That was **up 1.1%** from a downwardly revised April sales pace, and **beat economists' expectations** for a 5.51 million pace. Driving sales is the dearth of supply, as there were 1.96 million homes for sale at the end of the month, 8.4% lower than in the same period a year ago.

IV) The week's best news was a **big bounce for new home sales**, up nearly **3% in May** to a 610,000 annualized rate to hit the top end of economist's consensus range. The always volatile report, included a sizable upward revision to April which however, at 593,000, is still the year's low. Low unemployment and low mortgage rates are major pluses for housing.

V) **Equity prices in June are higher with Small-Cap, Growth, Financials and Healthcare leading equity price performance. The laggards for the month are Large-Cap, Value and Telecommunication.**

Capitalization: Large Caps +1.25% (YTD +9.87%), Mid-Caps +1.16% (YTD +8.16%) and **Small Caps +3.35%** (YTD +4.88%). Style: **Value +1.64%** (YTD +1.73%) and **Growth +1.88%** (YTD +7.54%). Industry Groups (Leaders): Consumer Discretionary +0.39% (YTD +24.21%), Information Technology +0.26% **(**YTD +20.02%), Technology +0.02% (YTD +17.43%), Consumer Staples -0.88% (YTD +13.45%), **Healthcare +6.27%** (YTD +18.21%), Utilities -0.44% (YTD +11.20%), Materials +1.91% (YTD +9.24%), REITs +2.82% (YTD +7.25%), and **Financials +3.01%** (YTD +3.44%). (Laggards): **Telecommunication -1.80%** (YTD -9.83%) and Energy -0.96% (YTD -13.39%).

EUROPEAN EQUITIES

The MSCI Europe index was down -0.26% last week, as equities were buffeted by sliding crude prices. Anxiety regarding the beginning of Brexit negotiations made investors somewhat risk averse.

Drivers: I) According to **ECB President Mario Draghi**, the euro area economy is growing and unemployment is falling, but underlying **inflation is not rising,** because wage growth has not yet picked up. In a presentation on the economy at a summit of EU leaders last Friday, Draghi said the slow price growth meant that the bank's **accommodative policy would stay** as it is for now.

II) The flash **manufacturing PMI** in the Euro-zone gained 0.3 points and, at 57.3 and hitting a **74-month high**. The sector recorded further solid gains in new orders, notably manufacturing which recorded the fastest growth since February 2011. Backlogs similarly headed higher, again led by manufacturing where the rate of accumulation touched an 86-month peak.

III) **Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was lower by -0.26% for the week (MTD -0.80% YTD +15.70%).**

ASIAN EQUITIES

Asian markets were mostly up for the week after the U.S. dollar steadied against the yen and crude oil prices lifted from 10 month lows. Sentiment was also lifted by MSCI's decision to include China's mainland shares in its emerging index. The Dow Jones Asia Pacific Index was higher by +0.42% for the week, (MTD +1.53% YTD +14.82%).

Drivers: I) According to **Bank of Japan Deputy Governor** Kikuo Iwata, there is still a **long way to go** before achieving the **inflation target of 2.0%.** Further, risks have continued to be skewed to the downside, particularly those regarding developments in overseas economies and Japan's inflation expectations.

II) The **Japanese government** on Thursday **upgraded its assessment of the economy** in its monthly report for the first time since December. It was the first upgrade since December 2016, when a reference to "weakness" in the economy was removed. Japan recorded annualized growth of 1.0% in the January-March quarter. It was the **fifth straight quarter of growth**, the longest stretch in 11 years.

III) **Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was higher by +0.96% (MTD +2.47% YTD +6.15%), the Hang Seng Index rose by +0.19% (MTD -0.11% YTD +16.02%) and the Shanghai Composite advanced by +1.11% (MTD +1.31% YTD +1.75%).**

FIXED INCOME

Treasury yields were lower last week, as Federal Reserve officials displayed diverging, but largely anticipated opinions on the need for further monetary tightening.

Performance: I) **The 10-year Treasury yield was lower last week ending at 2.142% down from 2.152%. The 30-year yield declined last week falling from 2.776% to 2.714%.**

II) **Performance for the week, month-to-date and year-to-date. The Barclays US Aggregate Bond rose +0.17% last week, MTD +0.48% and YTD +2.86%. The Barclays US MBS TR was higher by +0.05% last week, MTD +0.04% and YTD +1.80%. The Barclay's US Corporate HY Index fell -0.37%, MTD -0.15% and YTD +4.63%.**

COMMODITIES

The DJ Commodity Index was down -2.01% last week and is lower month to date -3.89% (YTD -8.99%) as oil entered a bear market, on concerns that the rise in production from the U.S. and Libya has more than offset the lowered output from OPEC.

Performance: I) **Oil prices were lower** last week falling -3.38% down to $43.17 and is down month to date -10.66% (YTD -19.89%). Oil dropped for a fifth straight week after slipping into a bear market on concern that rising production from the U.S. to Libya will offset cuts from OPEC and its allies

II) The **ICE USD Index**, a gauge of the U.S dollar's movement against six other major currencies, **rose +0.16%** from 97.14 to 97.30 for the week (MTD +0.33% YTD -4.96%). The U.S. dollar index had its best week in two months, helped by the hawkish tone from the Federal Reserve, and we expect this tactical rally to continue.

III) **Gold was higher last week** by +0.20%. Gold climbed for a third session in a row Friday, but its rise was on the back of declines in the U.S. dollar and recent weakness in assets perceived as risky. This was not enough to give the metal a substantial price boost for the week. Gold rose by +0.20% climbing from $1255.2 to $1257.8 (MTD -1.38% YTD +9.18%).

HEDGE FUNDS

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

Performance:

I) The HFRX Global Hedge Fund Index is higher at +0.33% MTD and +2.67% YTD
II) Equity Hedge has risen +0.55% MTD and is up +3.42% YTD
III) Event Driven has declined MTD -0.10% and is higher YTD +4.54%
IV) Distressed Debt is lower at -0.15% MTD and is positive YTD +1.82%
V) Macro/CTA is higher by +1.19% MTD and is up +0.84% YTD
VI) Relative Value Arbitrage is down -0.11% and is up +1.39% YTD

ECONOMIC DATA WATCH AND MARKET OUTLOOK

In looking forward to the coming week, the **battle between the bulls and the bears** positive sentiment continues to rule as the **multi-month rally remains intact**. Looking forward, after the first half ends next week, **investor focus** will begin to turn **towards earnings**. Analysts expect more solid profit growth on the corporate front, with company guidance still getting a boost from expected tax reform that is ostensibly still projected to be enacted by the end of the year.

The **first quarter of 2017** brought the strongest earnings season we had seen in years. According to FactSet, the **S&P 500 earnings** per share grew at a **rate of 13.6%,** and more importantly, top line revenue growth came in at a **6.0% clip.** As we project into the **second quarter**, FactSet is estimating that earnings growth will come in at a **6.6% rate**, with **revenues** remaining at a **steady pace of 6.0% growth**. Expected to lead earnings for Q2 are the Energy, Financial and Information Technology sectors. Sectors expected to lag in growth include Utilities and Consumer Discretionary, with the later adversely affected by the decline in auto sales.

Based on projected Q2 earnings, the **forward P/E for the S&P 500** will be an estimated **17.6X.** Though the forward P/E is still **above the 15.3X average** we have seen over the past **five years**, it is still at a **lower** to mid-level when compared to historical standards **since 1980**. Since 1980 to the end of May 2017, the S&P 500 annual P/E has ranged from a low of 7.73X (1981) to a high of 70.91 (2008). The **average has been 21.10** over the period per data provided by Ycharts. **By comparison**, the **10 year U.S. Treasury** closed on Friday at 2.15%. From 1980 to the end of May, the average annual yield has ranged from 1.78% (2012) to 13.98% (1981). For the entire period, the 10 Year Treasury's **average annual yield was 5.98%**.

In turning to **next week's economic calendar**, three sets of data on the month of May will offer key updates on second-quarter GDP. They start on **Monday** with indications on business investment from the capital-goods components of the **durable goods report**. Orders fell 0.1% in April and consensus for May is for another decline, at **minus 0.4%** and reflecting an expected downturn for aircraft.

Advance trade follow on Wednesday with indications on both net exports and business inventories followed **on Friday** with the week's most important report: **personal income** and outlays. **Consumer spending** is expected **to slow** in May, to a consensus gain of only **0.1% versus a moderate 0.4% rise in April**. **Personal income** also came in at 0.4% in April and no better performance is expected with the **May consensus at 0.3%.**

Other data to watch are **consumer confidence on Tuesday**, a report that has been sky high, and pending home sales on Wednesday, a report where a rebound after two months of declines is the call. Unlike other readings on consumer sentiment, the **consumer confidence index has not been falling** back **from post-election highs**. For the first-time since the dotcom bubble nearly 20 years ago, the index has posted six straight readings over 110 including May's 117.9. **June's consensus** estimated is for a 7th plus 110 showing, at **116.7.**

The consensus for **May's pending homes sales** index calls for a **rebound to plus 0.5%** in a result that would lift confidence in the housing sector.