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INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

U.S. equity markets were higher last week as comments from Fed Chairwomen Yellen led markets to believe the U.S. central bank will remain dovish, and despite mixed corporate bank results as well as sub-par data on retail sales and inflation.

a) **Dow Jones +1.04% MTD +0.38% YTD +10.91%** b) **S&P 500 +1.42% MTD +1.56% YTD +11.05%**
c) **Russell 2000 +0.93% MTD +0.98% YTD +6.02%**

Drivers: I) In **Janet Yellen's testimony** said the reduction of the Fed's balance sheet will begin sometime this year and a limited number of gradual rate increases will extend over the next few years. Yellen said the long-run level for the balance sheet, now at $4.5 trillion, is unknown and that the Fed does not intend to use unwinding as a policy tool. She also said that the **neutral fed funds rate is "quite low"** by historical standards and that it doesn't have far to go to hit a neutral stance for policy.

II) The **consumer-price index was unchanged last month**, the government reported last week. Economists had forecast a 0.1% increase in CPI. More importantly, the rate of inflation over the **past 12 months slowed to 1.6%** in June from 1.9% in the prior month, and it is down from five-year high of 2.7% just five months ago. In June, energy prices dropped 1.6%. Americans paid less for gasoline, natural gas and electricity.

III) **Sales at retailers** nationwide **fell 0.2% last month** to mark the second straight drop and matched the biggest decline of the year, the government said Friday. Economists had forecast a 0.1% increase in June sales. Sales at gas stations posted the biggest drop, down 1.3%, reflecting lower prices at the pump.

IV) **Industrial production rose 0.4% in June**, slightly ahead of expectations, as mining output surged 1.6%, the Federal Reserve reported. Industrial production rose for a fifth month in June, helped by the **recovering oil and gas sector**. Oil and gas drilling has now recovered by 114% from the May 2016 low, by far the largest ever percentage gain over that timeframe.

V) **Equity prices in July are higher with Large-Cap, Growth, Info. Technology and Consumer Discretionary leading equity price performance. The laggards for the month are Small-Cap, Value, and Telecom.**

Capitalization: Large Caps +1.50% (YTD +10.91%), Mid-Caps +1.16% (YTD +9.24%) and **Small Caps +0.98%** (YTD +6.02%). **Style: Value +0.88%** (YTD +3.41%) and **Growth +1.15%** (YTD +8.57%). **Industry Groups (Leaders)**: **Consumer Discretionary +3.50% (**YTD +26.63%), **Information Tech +4.30% (**YTD +21.64%), Tech +3.85% (YTD +18.61%), Healthcare +1.02% (YTD +17.65%), Consumer Staples +1.86% (YTD +15.92%), Industrials +1.92% (YTD +12.67%) Materials +2.68% (YTD +12.06%), Utilities -0.07% (YTD +8.59%), Financials +0.89% (YTD +7.78%) and REITs +0.02% (YTD +6.33%). (Laggards): Energy +0.82% (YTD -12.02%) and **Telecom -2.04%** (YTD -12.59%).

EUROPEAN EQUITIES

The MSCI Europe index was up +2.26% last week, climbing after Federal Reserve Chairwoman Janet Yellen said U.S. interest rates do not have to rise all that much further.

Drivers: I) **European Central Bank** policy makers discussed how to signal their increasing confidence in the eurozone economy at their June policy meeting, and considered dropping a pledge to accelerate their massive bond-buying program. ECB officials took a small step toward **reducing their large monetary stimulus** at a policy meeting in early June, by indicating the central bank is unlikely to cut interest rates further below zero.

II) Economic data was positive with May as **Eurozone and Italy's industrial production advanced** and the merchandise trade surplus widened. Germany's merchandise trade surplus also widened. In the UK, the jobless rate for the three months to May was down 0.1% to 4.5% while employment climbed 175,000, the strongest gain since the fourth quarter of 2015.

III) **Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was higher by +2.26% for the week (MTD +2.36% YTD +18.08%).**

ASIAN EQUITIES

Asian markets rallied on Janet Yellen's first day of testimony, the reaction to the second day was mixed as investors digested the Fed Chair's measured comments and looked ahead to earnings beginning with Friday's major U.S. bank earnings reports. The Dow Jones Asia Pacific Index was higher by +2.79% for the week, (MTD +1.60% YTD +16.25%).

Drivers: I) In China, June merchandise trade data improved while consumer and producer prices were steady. Specifically, **Chinese economic data** for the week indicated that inflation, both **consumer and producer**, was **unchanged** at 1.5% and 5.5% respectively. But the merchandise trade surplus climbed in June with both imports and exports growing at robust rates and lifting investor sentiment.

II) **Japan's May private sector machine orders** excluding volatile items dropped 3.6% on the month after sinking 3.1% in April for a second consecutive decline. Orders from overseas dropped a monthly 5.2% but were up an impressive 25.3% on the year. Machine orders are looked upon as a proxy for capital spending. This data combined with April's portends a **weak picture for the second quarter**.

III) **Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was up by +0.95% (MTD +0.43% YTD +6.27%), the Hang Seng Index rose by +4.15% (MTD +2.38% YTD +19.12%) and the Shanghai Composite advanced by +0.14% (MTD +0.94% YTD +3.83%).**

FIXED INCOME

Treasury yields fell last week, with the 10- year falling to 2.333% after the CPI and retail news. Underlying demand for Treasuries hints at underlying doubts over economic strength.

Performance: I) **The 10-year Treasury yield was lower last week ending at 2.333%% down from 2.386%. The 30-year yield was lower last week falling from 2.931% to 2.922%.**

II) **Performance for the week, month-to-date and year-to-date. The Bloomberg Barclays US Aggregate Bond Index rose +0.45% last week, MTD +0.09% and YTD +2.36%. The Bloomberg Barclays US MBS TR was up by +0.41% last week, MTD +0.16% and YTD +1.51%. The Bloomberg Barclay's US Corporate HY Index advanced +0.53%, MTD +0.29% and YTD +5.23%.**

COMMODITIES

The DJ Commodity Index was up +1.40% last week and is higher month to date +0.71% (YTD -4.73%) as the drop in the U.S. dollar supported a rise in precious metals, and oil rose on possible caps on Nigerian and Libyan production levels.

Performance: I) **Oil prices rose** last week climbing +5.30% up to $46.68 and is up month to date +0.75% (YTD -13.38%). Oil rallied as reports of supply issues in Nigeria and a higher forecast for crude demand helped send prices up for a fifth session in a row, to their highest finish in nearly two weeks.

II) The **ICE USD Index**, a gauge of the U.S dollar's movement against six other major currencies, fell -0.93% from 96.00 to 95.11 for the week (MTD -0.55% YTD -7.10%). The U.S. dollar index fell to its lowest level since September 2016 after a pair of data releases pointed to waning inflation and weakness on the part of the consumer, two measures that market participants say may delay the Federal Reserve's next policy move.

III) **Gold** marked its highest finish of the month and their first weekly rise since early June, as data on retail sales and inflation engendered concerns that the pace of economic growth may not merit lifting U.S. interest rates again in 2017. Gold rose by +1.33% last week, climbing from $1211.9 to $1228.0 (MTD -1.08% YTD +6.59%).

HEDGE FUNDS

Hedge fund returns in July are higher, as all the core strategies Equity Hedge, Event Driven, Distressed, Macro and Relative Value are in positive territory.

Performance:

I) The HFRX Global Hedge Fund Index is higher at +0.52% MTD and +3.09% YTD.
II) Equity Hedge has risen +0.72% MTD and is up +4.48% YTD.
III) Event Driven has advanced MTD +0.39% and is higher YTD +5.02%.
IV) Distressed Debt is higher at +0.08% MTD and is positive YTD +2.62%
V) Macro/CTA is up by +0.51% MTD and is down -0.25% YTD.
VI) Relative Value Arbitrage is up +0.43% and is higher by +2.15% YTD.

ECONOMIC DATA WATCH AND MARKET OUTLOOK

Heading into the new week, investors will be amid **corporate earnings season**, and are hoping **solid earnings** will **propel equity markets to new record highs**. Wall Street analysts are forecasting earnings to grow near double digits as corporations beat expectations, putting second-quarter results on pace to be among the best since fourth-quarter 2011. FactSet, **projects earnings per share to rise 6.5%** in the April-June quarter but noted that actual increase **could top 9%** given that growth rates tend to adjust about 2.9 percentage points higher as more companies announce quarterly performance data.

Of the handful of **S&P 500 index companies** that **have reported** so far, 80% have beat mean EPS estimate while 83% have exceeded mean sales target. There is a belief, **analysts** are being **overly cautious** in their outlook **given the soft dollar**, which makes U.S. products price competitive overseas and a stronger global economy. We believe analysts continue to underestimate the effect of these conditions on earnings power. As such, we would not be surprised if earnings come close to matching the strength seen during first quarter 2017. If this ends up being the case, we are looking at **another quarter of double-digit earnings growth.**

In turning to **next week's economic calendar**, with consumer weakness a concern, strength in the housing sector is more important than ever for the economy. Home builders have been very optimistic and have been keeping the housing market index at elevated levels, levels however that have not been matched by housing starts and permits which have been sagging.

The **home builders report will come out on Tuesday followed by starts on Wednesday**. **Housing starts** and permits were unexpectedly weak in both April and May and forecasters are calling for **sizable rebounds** in June, to a 1.170 million annualized rate for starts vs May's 1.092 million with permits seen at 1.206 million vs 1.168 million. Condos have been especially weak, but less so for single-family homes which should be a plus for construction spending. This report will offer key updates on housing's contribution to second-quarter GDP.

Updates on the **factory sector coming out on Monday**, with Empire State, and Thursday with the Philly Fed. The Empire State report is not strong every month, but it was in June with a 19.8 reading that forecasters see slowing to what would be a still very strong 15.0 in July. Order readings were very solid in June which points to general strength in July's activity. Growth in the factory sector is uneven but strength in the Philadelphia Fed index has been exceptional. The index came in at 27.6 in June with economist's July consensus at 23.5.

Inflation, which was very weak in June, will be revisited at the cross-border level with import and export prices on Tuesday. **Consumer prices and producer prices were both weak in June** and similar results are expected for import and export prices. **Import prices** in June are expected to be **pulled 0.3%** lower largely by low energy prices. Export prices, where food prices are the focus, are expected to come in unchanged.