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INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

U.S. equity markets saw the S&P 500 and NASDAQ post gains for a third straight week, though the markets pulled back on Friday due to drop in second quarter earnings and revenues from GE.

a) **Dow Jones -0.22% MTD +1.21% YTD +10.67%** b) **S&P 500 +0.56% MTD +2.13% YTD +11.67%**
c) **Russell 2000 +0.50% MTD +1.49% YTD +6.55%**

Drivers: I) **General Electric Co.** fell 2.9% after the company reported a **drop in its second-quarter earnings** and revenue. The stock was the largest percentage decliner on the Dow and is down 18% for the year. GE reported a profit of $1.19 billion, or 15 cents per share, down from $2.76 billion, or 36 cents per share, a year earlier. On an adjusted per-share basis earnings fell to 28 cents from 51 cents a year earlier. Revenue fell 12% to $29.56 billion.

II) The **CBOE Volatility Index**, the VIX, **fell 2.3% to 9.36**, marking the **second lowest close** since ending at 9.31 in December 1993. The gauge came close to the lowest reading before ending up a bit. The metric's historical average is 20 and it has continued to remain muted for most of 2017. The Index has spent **most of 2017 below 10** as stocks have reached repeated records after President Trump's election last November.

III) Builders started work on more homes in June, and figures from a prior month were revised up, allaying fears that the housing recovery had hit a wall in the spring. **Housing starts were at a 1.22 million** seasonally adjusted annual rate, the Commerce Department reported, **8.3% higher** than in May and 2.1% higher for the year. The Street consensus of economists called for a 1.16 million annual rate.

IV) The **U.S. Leading Economic Index rose 0.6%** in June, pointing to continued growth in the U.S. economy and perhaps even a moderate improvement in GDP growth in the second half of the year. The improvement in the index was **led by strong housing permits** after several months of weakness. Home builders plan to step up construction to meet rising demand as the economy enters is ninth year of expansion.

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

Capitalization: Large Caps +2.08% (YTD +11.54%), Mid-Caps +1.69% (YTD +9.82%) and **Small Caps +1.49%** (YTD +6.55%). Style: **Value +1.61%** (YTD +4.15%) and **Growth +1.55%** (YTD +8.99%). Industry Groups (Leaders): Consumer Discretionary +4.75% **(**YTD +28.16%), **Information Tech +5.44% (**YTD +22.97%), **Tech +5.00%** (YTD +19.92%), Healthcare +2.07% (YTD +18.88%), Consumer Staples +1.98% (YTD +16.06%), Materials +2.66% (YTD +12.04%), Industrials +0.97% (YTD +11.62%), Utilities +2.51% (YTD +11.40%), Financials +0.61% (YTD +7.48%) and REITs +0.77% (YTD +7.12%). (Laggards): **Telecom -0.98%** (YTD -11.64%) and Energy +0.43% (YTD -12.36%).

EUROPEAN EQUITIES

The MSCI Europe index was up +0.01% last week, but several major indexes in Europe were mostly lower as a stronger euro combined with a disappointing start to second quarter earnings put downward pressure on equities.

Drivers: I) The **ECB** last Thursday left its **key interest rates unchanged** and retained a passage in its opening statement that reiterates its readiness to bolster its bond-buying program should economic conditions worsen. The move suggested continued caution among policy makers as they ponder unwinding quantitative easing.

II) The **euro strengthened** on Friday to a two-year high against the dollar, extending its gains, a day after European Central Bank President **Mario Draghi** attempted to **back track from comments** in late-June that traders **interpreted as hawkish**. The euro rose 0.29% to trade at $1.1680 on Friday, compared with $1.1632 late Thursday in New York, the highest settlement since Jan. 15, 2015. Over the week, the euro rose 1.8% against the dollar and has rallied 11% year to date.

III) **Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was higher by +0.01% for the week (MTD +2.38% YTD +18.10%).**

ASIAN EQUITIES

Asian markets advanced last week although they ended the week on a negative note after the European Central Bank did not provide any clues that it would begin tapering in September. The Dow Jones Asia Pacific Index was higher by +1.37% for the week, (MTD +3.00% YTD +17.85%).

Drivers: I) The **Bank of Japan kept monetary policy steady** and once again pushed back the timing for achieving its 2.0% inflation target, reinforcing views that it will lag well behind other major central banks in scaling back its massive stimulus program. The BoJ said that **underlying weakness** in both medium and long-term **inflation** expectations lack momentum. The monetary policy board (MPB) does not expect this to continue endlessly.

II) In **China**, for the second quarter, **gross domestic product was up 6.9%,** unchanged from the previous quarter. GDP grew 1.7% on the quarter, up from the 1.3% increase recorded during the first three months of the year. Officials report that **domestic consumption** has been the **main driver** of GDP growth in the first half of 2017 and predict that recent economic reforms will support growth in the second half of the year.

III) **Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was down by -0.09% (MTD +0.33% YTD +6.17%), the Hang Seng Index rose by +1.21% (MTD +3.61% YTD +20.55%) and the Shanghai Composite advanced by +0.48% (MTD +1.43% YTD +4.33%).**

FIXED INCOME

Treasury yields fell last week, after a spate of weak economic data, concerns over inflation expectations, and dovish central bank speeches drew investors into U.S. government bonds.

Performance: I) **The 10-year Treasury yield was lower last week ending at 2.237% down from 2.333%. The 30-year yield was lower last week falling from 2.922% to 2.809%.**

II) **Performance for the week, month-to-date and year-to-date. The Bloomberg Barclays US Aggregate Bond Index rose +0.56% last week, MTD +0.64% and YTD +2.93%. The Bloomberg Barclays US MBS TR was up by +0.34% last week, MTD +0.50% and YTD +1.86%. The Bloomberg Barclay's US Corporate HY Index advanced +0.59%, MTD +0.88% and YTD +5.86%.**

COMMODITIES

The DJ Commodity Index was up +0.26% last week and is higher month to date +0.97% (YTD -4.49%) led by the rise in precious and industrial metals boosted by increased demand and a falling USD.

Performance: I) **Oil prices declined last week** falling -2.31% down to $45.60 and is lower month to date -1.57% (YTD -15.38%). Oil ended at its lowest level in about a week on Friday, with expectations for a **rise in OPEC output** of 145,000 barrels per day, pressuring prices ahead of coming meeting of major producers.

II) The **ICE USD Index**, a gauge of the U.S dollar's movement against six other major currencies, **fell -1.19%** from 95.11 to 93.97 for the week (MTD -1.75% YTD -8.21%). The U.S. dollar index fell to its lowest level in a year, as the dollar has been under pressure as the latest political headlines suggest the turmoil within the administration is not abating.

III) **Gold** ended at its **highest level in four weeks**, with investment demand for the precious metal getting a boost from turmoil in the White House and weakness in the U.S. dollar again. Gold rose by +2.69 last week, climbing from $1228.0 to $1261.1 (MTD +1.59% YTD +9.47%).

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 +0.92% MTD and +3.50% YTD.
II) Equity Hedge has risen +1.22% MTD and is up +5.00% YTD.
III) Event Driven has advanced MTD +0.98% and is higher YTD +5.64%.
IV) Distressed Debt is higher at +0.28% MTD and is positive YTD +2.84%
V) Macro/CTA is up by +0.57% MTD and is down -0.18% YTD.
VI) Relative Value Arbitrage is up +0.78% and is higher by +2.50% YTD.

ECONOMIC DATA WATCH AND MARKET OUTLOOK

Heading into the new week, with approximately 20% of **corporate earnings** reported, markets will try to discern whether they are positive or negative for the U.S. economic outlook, and whether they warrant equity prices being near record highs. Earnings thus far are pointing to a "goldilocks" level of economic growth, with **bank earnings exceeding expectations** while corporate stalwarts such as **IBM and GE** provided **less than positive outlooks.**

Hard economic data in the U.S. has recently pointed to a **slowdown in growth**, as inflation remains below the targeted 2.0% level, auto sales have been declining month over month and industrial production has been softening. This economic weakness may find its way into commentary from the Federal Reserve's two-day **Federal Open Market Committee meeting**, which concludes on Wednesday. Markets will be concentrating on comments concerning **unraveling the Fed's $4.5 trillion balance sheet** and how the Fed may start to favor this as a tightening measure **over rate increases**.

Ea**rnings for the S&P 500** are tracking at an estimated **7.2% growth** for the second quarter with about 20% of companies having already reported, according to FactSet. That figure, however, can be a little misleading given that energy earnings are expected to rise more than 300% from the year-ago quarter. **Only the tech sector and the financial sector are expected to post double-digit profit growth** with gains of 10.4% and 10.1%, respectively. Seven out of 11 sectors are expected to turn in growth in the low single digits or worse.

In turning to **next week's economic calendar**, **Existing Home Sales** start the week off on Monday, but are not expected to show continuing strength. Existing home sales did rebound in May but pending sales, which track initial contract signings, fell 0.8% in the month. Forecasters see final sales in **June slipping to a 5.580 million** annualized rate versus May's 5.620 million in what would conclude a muted Spring selling season.

Wednesday's report on **new home sales** are expected to **maintain a solid rate**. New home sales entered the Spring on a down note before jumping higher to a 610,000-annualized rate in a May report that also included a major upward revision for April. Forecasters see new home sales in June adding very slightly to May's strength with the **consensus at 612,000**.

The primary focus of the week is **Wednesday's FOMC meeting** where expectations are looking for no change in rates though **language on inflation and balance-sheet unwinding will be closely watched**. The Federal Open Market Committee is expected to hold their federal funds target at a 1.00 to 1.25% range with a 1.125% midpoint. Language on inflation, which the June statement conceded was slowing, will be closely watched as will any commentary on unwinding the Fed's balance sheet which some expect to **begin as early as September**.

Durable goods orders are Thursday's highlight and, after back-to-back declines, are expected to rise sharply on aircraft orders with, however, only moderate strength expected for the balance of the report. The **week's second main focus** arrives on Friday with the first **estimate for second-quarter GDP and a solid 2.6% rate**, driven by the consumer.