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INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

U.S. equity markets finished strongly, as concerns over inflation and higher interest rates receded as Fed minutes offered few signs that the central bank would adopt a more aggressive monetary-policy.

a) **Dow Jones +0.36%, MTD -2.96%, YTD +2.74%** b) **S&P 500 +0.58%, MTD -2.53% , YTD +3.05%**
c) **Russell 2000 +0.38%, MTD -1.56%, YTD +1.01%**

Drivers: I) In its semi-annual monetary policy report, **the Fed** saw broad improvement in the U.S. economy and pointed to a pickup in inflation toward the end of last year. The central bank also retained its prior view that **inflation is likely to remain at or below its 2% target in 2018**. The Federal Reserve gave few signs in its latest report to Congress that it is predisposed to raising U.S. interest rates more aggressively in 2018.

II) Last Thursday, **St. Louis Fed President James Bullard** tried to mute the growing expectations of economists that the U.S. central bank will initiate four quarter-point rate hikes this year. "**The idea that we have to go 100 basis points in 2018, that seems like a lot to me**," Bullard said, in an interview on CNBC. Everything would have to go just right, with upside surprises, to justify that pace of tightening, he said.

III) The index that tracks **U.S. manufacturers rose to a nearly 3 1/2-year high** in February and a gauge for service-oriented companies hit a six-month peak, according to IHS Markit's flash PMI. The manufacturing index rose to 55.9 from 55.5. The services barometer climbed to 55.9 from 53.3. Business activity growth accelerated markedly in February, suggesting the economy is growing at its fastest pace for over two years.

IV) The Conference Board's **leading economic index rose 1% in January**, the **fourth straight gain and the largest monthly rise in three months**. Building permits and the financial subcomponents were the main drivers of the strong gain, with 8 of the 10 indicators positive. The leading indicators reflect an economy with widespread strengths coming from financial conditions, manufacturing, residential construction, and labor markets.

V) **Equities in February are lower with Small-Cap, Growth, Technology and Information Technology leading equity price performance. The laggards for the month are Large-Cap, Value, Energy and Consumer Staples.**

Capitalization: **Large Caps -2.49%** (YTD +2.86%), Mid-Caps -2.48% (YTD +1.19%) and **Small Caps -1.56%** (YTD +1.01). **Style: Value -2.42%** (YTD -1.09%) and **Growth -1.78%** (YTD +2.27%). **Industry Groups (Leaders): Info. Tech +0.06% (**YTD +7.53%), Consumer Discretionary -1.78% **(**YTD +7.37%), **Technology -0.23%** (YTD +6.84%), Financials -2.09% (YTD +4.23%), Healthcare -3.14% (YTD +3.28%), Industrials -2.61% (YTD +2.76%) and Materials -2.65% (YTD +1.32%). **(Laggards):** Telecom -4.37% (YTD -3.13%), Utilities -1.35% (YTD -4.35%), **Consumer Staples -6.00%** (YTD -4.42%), **Energy -8.07%** (YTD -4.64%), and REITs -5.00% (YTD -6.78%).

EUROPEAN EQUITIES

The MSCI Europe index was lower last week falling -0.96%. Investors were cautious as they paid close attention to remarks from Fed officials at the end of the trading week. Traders were also assessing a series of mixed corporate earnings on Friday.

Drivers: I) The **Euro-zone February flash composite PMI** reading was **57.5** after its final January reading of 58.8 (12-year high). The overall deceleration reflected cooling in the manufacturing and service sectors. Aggregate output and new orders showed smaller increases than in January, but employment growth remained at their highest mark in the last decade. All components were **very solid** and well above their respective historic norms.

II) The **ECB published minutes** from its January 24 and 25 Governing Council meeting. The Council decided that it was **too early to change its policy** communication even though they were more confident that inflation would move near its 2.0% target. The bank broadly agreed that any further evolution in terms of communication on monetary policy would be gradual and would be in line with improvements in the inflation outlook.

III) **Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was lower by -0.96% for the week (MTD -4.75%, YTD +0.40%).**

ASIAN EQUITIES

Asian markets were mostly higher for the Asian holiday week after U.S. government debt yields declined from the multiyear highs that were reached Wednesday. The Dow Jones Asia Index rose by +0.06% for the week, (MTD -5.12%, YTD +1.02%).

Drivers: I) In **Japan**, the **January merchandise trade deficit was ¥943 billion** after a surplus of ¥359 billion in December. **Exports increased 12.2%** on the year, up from 9.3% in December. Export growth reflected stronger external demand from most of Japan's major trading partners except for the United States. Weaker import growth was largely driven by weaker growth in petroleum import volumes.

II) In **Japan, January consumer price index increased 1.3%** on the year, up from 1.1% in December. Consumer inflation is now at its highest level since March 2015. On the month, the CPI rose 0.4% after an increase of 0.2% in December. This measure of inflation trended higher in 2017 after annual declines for almost all of 2016. The index advanced 0.2% on the month after no change in December.

III) **Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was higher by +0.79% (MTD -5.22%, YTD -3.82%), the Hang Seng Index climbed by +0.49% (MTD -4.97%, YTD +4.41%) and the Shanghai Composite was up by +2.81% (MTD -5.51%, YTD -0.55%).**

FIXED INCOME

Bond market yields fell at week's end after the Federal Reserve, in a report to Congress, gave little indication it plans to raise interest rates more aggressively in 2018.

Performance: I) **The 10-year Treasury yield was lower last week ending at 2.867 down from 2.875%. The 30-year yield rose last week climbing from 3.133 to 3.157%.**

II) **Performance for the week, month-to-date and year-to-date. The Bloomberg Barclays US Aggregate Bond Index rose by +0.00% last week, MTD -0.99% and YTD -2.13%. The Bloomberg Barclays US MBS TR was higher by +0.06% last week, MTD -0.67% and YTD -1.83%. The Bloomberg Barclay's US Corporate HY Index was down by -0.07%, MTD -1.14% and YTD -0.55%.**

COMMODITIES

The DJ Commodity Index was higher by +0.55 last week and is down month to date -1.18% (YTD +1.43%). The index was pushed higher essentially by firming oil and gasoline prices.

Performance: I) The price of **oil rallied last week by +3.18%** up to $63.57 and is lower month to date in February -1.79% (YTD +5.77%). Oil prices rose last week, after data showed producers added one additional rig this week, leaving crude to notch its second consecutive weekly gain as it continues to claw back ground lost in a selloff earlier this month.

II) The **ICE USD Index**, a gauge of the U.S dollar's movement against six other major currencies, **rose +0.89%** from 89.08 to 89.88 for the week (MTD +0.84%, YTD -2.62%). The U.S. dollar rose but remains range bound, as markets are still bearish on the USD due to rising global growth and yields, and the growing U.S. deficits.

III) **Gold was down for the week**, as the dollar stabilized on a belief that investors will continue to bid up the dollar in anticipation of the Federal Reserve raising interest rates which tend to result in the currency strengthening. Gold was lower by -1.40% last week, dropping from $1349.4 to $1330.5 (MTD -0.93%, YTD +1.94%).

HEDGE FUNDS

Hedge fund returns for February are primarily down for the month, with core strategies Equity Hedge, Event Driven, Distressed and Macro lower, while Relative Value Arbitrage is up.

Performance:

I) The HFRX Global Hedge Fund Index is lower at -1.44% MTD and +0.97% YTD.
II) Equity Hedge is down -1.17% MTD and is up +2.20% YTD.
III) Event Driven has declined MTD -1.49% and is higher YTD +0.24%.
IV) Distressed Debt is lower by -0.31% MTD and is positive YTD +1.21%
V) Macro/CTA has declined by -3.83% MTD and is down -0.17% YTD.
VI) Relative Value Arbitrage has risen by +0.05% and is higher by +1.14% YTD.

ECONOMIC DATA WATCH AND MARKET OUTLOOK

As we look ahead to **next week's trading session**, investors will be dealing with the real probably of seeing US **equity markets post** their **first negative monthly return since October 2016**. But the accelerates behind the recent equity market correction, higher inflation and interest rates, may be overdone according to Wall Street strategists. In addition, the **Federal Reserve last week indicated** that it is **not too concerned with inflationary pressure** as of yet. Minutes from the Fed's January meeting showed that officials believe the economy is stronger than it was at the end of 2017 and although they expect inflation to pick up, only two members were worried about the possibility of the economy overheating. In fact, **two main inflation gauges**, the **core CPI** or the **personal-consumption expenditure** deflator, the Fed's preferred measure of inflation **remain below average**.

In turning to next week's economic calendar, among the events to watch for in the coming week that could shed further light on the economy and by extension inflation, are Fed Chairman Jerome Powell's testimonies at the House and the Senate on Tuesday and Thursday. The first day of Fed chair Powell's upcoming congressional testimony is now scheduled for February 27 (previously February 28). Markets will watch his testimony closely for information about Fed policy, although we think that the already released Monetary Policy Report likely provided a good indication about what he will include in his prepared remarks.

On Monday, we look for **new single-family home sales** to have **increased 1.6% to 635,000** in January. Many housing indicators have slowed following strength early in 4Q, and market economists believe this moderation will also be evident in the new home sales data.

Durable goods orders are out on Tuesday, with the Street estimating that new orders for factory goods **declined 1.0% in January**. The Street believes the headline figure will be depressed by **declines in orders for defense spending and civilian aircraft**, as these are two categories can be volatile and were strong in recent months. Economists are looking for stronger results, meanwhile, in the important data on core capital goods orders (excluding defense and aircraft), for which they forecast a 1.1% increase for January.

Gross domestic product data for the fourth quarter on Wednesday. This is the second estimate (Preliminary) for Q4 and the consensus seems to be that **GDP will be downgraded to about +2.5%.** You will recall that the first (Advance) report in Q1 showed +2.6%.

Consumer spending and core inflation for January are out on Thursday. Economists believe that **real consumer spending declined 0.2% in January** while nominal consumption rose 0.2%. Price increases during the month should push the nominal data higher, but signals from the January data on retail sales and unit auto sales suggest that the volume of consumer spending declined during the month.

The Street expects the **main PCE price indexes to be firm in January** based on related data already reported in the CPI and PPI for the month. The forecast is for the headline **PCE price index to increase 0.4%** in January **(1.7% yoy)** while the **core PCE price index rose 0.28% (1.5% yoy).** Even though economists expect firm data for the monthly changes, they believe base effects will keep the year-ago readings unchanged relative to December.