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INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

U.S. equity markets were higher last week but ended on a sour note on Friday, as better than expected earnings could not offset worries over high expectations for reporting corporations and geo-political concerns such as Syria and Chinese trade tariffs.

a) **Dow Jones +1.80%, MTD +1.12%, YTD -0.87%** b) **S&P 500 +2.04%, MTD +0.66%, YTD -0.10%**
c) **Russell 2000 +2.41%, MTD +1.34%, YTD +1.26%**

Drivers: I) **Major banks** JPMorgan & Co., Citigroup Inc. and Wells Fargo & Co. all reported **earnings that beat analyst expectations**, but the Street was disappointed that earnings were not spectacular and fixated on their **mixed results in trading and loan growth**. The sector should benefit from lower taxes and less regulation.

II) The **White House plans to step up pressure on China** to make trade concessions, through a plan for fresh tariffs and a threat to block Chinese technology investments in the U.S. Details of which Chinese products are on the approved list of $100 billion in tariffs could be revealed as soon as next week. For its part, China is considering the recruitment of allies, including European countries, against the U.S.

III) The **consumer price index fell slightly in March** which was the first drop in 10 months, but the decline was entirely due to the lower cost of gasoline. The **CPI dipped 0.1%** last month matching the forecast of economists. Yet the rate of inflation over the past 12 months rose to 2.4% from 2.2% and hit a one-year high. The 12-month rate of core inflation without food and energy, jumped to 2.1% from 1.8%, the highest level in more than a year.

IV) The **University of Michigan's consumer sentiment index** in April **fell to a reading of 97.8**, down from 101.4 in March. Economists had expected a reading of 101. The moves made by President Trump on trade by imposing **tariffs** on steel and aluminum and identifying possible levies on Chinese goods, were mentioned spontaneously by nearly a third of respondents, nearly all **negative**.

V) **Equities in April are lower with Small-Cap, Value, Telecom and Energy leading equity price performance. The laggards for the month are Mid-Cap, Growth, Information REITs and Utilities.**

Capitalization: Large Caps +0.59% (YTD -0.10%), **Mid-Caps -0.16%** (YTD -0.62%) and **Small Caps +1.34%** (YTD +1.26). **Style: Value +1.00%** (YTD -1.52%) and **Growth +0.39%** (YTD +2.07%). **Industry Groups (Leaders):** Information Tech +1.38% **(**YTD +4.94%), Technology +1.33% (YTD +4.13%) and Consumer Discretionary -0.11% **(**YTD +2.95%). **(Laggards): Energy +5.92%** (YTD -0.32%), Healthcare +0.75% (YTD -0.55%), Financials -0.35% (YTD -1.33%), Industrials -0.42% (YTD -1.70%), Materials +2.06% (YTD -3.55%), **Utilities -1.47%** (YTD -4.73%), **Telecom +2.40%** (YTD -4.90%), **REITs -1.72%** (YTD -6.66%) and Consumer Staples -0.09% (YTD -7.02%).

EUROPEAN EQUITIES

The MSCI Europe index was up last week climbing +1.73%. European equities advanced across the board despite geopolitical worries as investors were looking forward to the start of earnings season.

Drivers: I) The **European Central Bank** published **minutes** of its March 8 Governing Council meeting. At that time, the Governing Council left its **policy unchanged**. The ECB left key interest rates and its asset purchase program (APP) unchanged. The benchmark refi rate remained at zero percent while the rates on the deposit and marginal lending facilities stayed at minus 0.40% and 0.30% respectively. Net QE **asset purchases** similarly **stay at €30 billion a month**. The discussions contained no real surprises and confirmed to keep policy on hold.

II) The **eurozone's trade surplus** with the **rest of the world widened** in February as a sharp drop in imports coincided with other recent signs of weakening domestic demand. The European Union's statistics agency reported the exports of goods from the currency area fell 2.3% from January, the second straight month of decline. Imports of goods fell more rapidly, by 3.1%, leaving the eurozone with a surplus of 21.0 billion euros.

III) **Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was up by +1.73% for the week (MTD +2.71%, YTD +0.67%).**

ASIAN EQUITIES

In Asian equities were mostly higher, but were volatile due to geopolitical tensions. President Trump surprised markets by saying the U.S. would rejoin the controversial Trans Pacific Partnership trade pact if the deal were substantially better than the one offered to former President Barack Obama. The Dow Jones Asia Index advanced by +1.73% for the week, (MTD +1.52% YTD -1.80%).

Drivers: I) In **Japan**, February **private sector machinery orders rose 2.1%** on the month after increasing 8.2% in January. This series, which excludes orders for ships and electric power companies, is considered a proxy for capital expenditures. On the year, orders were up 4.7%. Manufacturing orders rose 8.0% after rising 9.9% on the month in January. Non-manufacturing orders were flat after increasing 4.4%.

II) In **China,** the **March consumer price index increased 2.1%** from a year ago, **down from 2.9%** in February. The index fell 1.1% on the month after an increase of 1.2% previously. **Food prices** were the main factor driving the **decline**, increasing by 2.1% on the year after an increase of 4.4% in February. Non-food price inflation also moderated from 2.5% to 2.1%, reflecting weaker increases for transport and communication charges.

III) **Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was higher by +0.98% (MTD +1.52%, YTD -3.54%), the Hang Seng Index advanced by +3.22% (MTD +2.36%, YTD +2.52%) and the Shanghai Composite rose by +0.89% (MTD -0.31%, YTD -4.48%).**

FIXED INCOME

Treasury yields saw short-dated Treasury yields rise while long-dated yields were mostly flat on Friday, extending the flattening trend seen this week, as investors prepared for higher interest rates from the Federal Reserve after an inflation report and minutes from the central bank's last policy meeting.

Performance: I) **The 10-year Treasury yield was higher last week ending at 2.825 up from 2.776%. The 30-year yield rose last week climbing from 3.018 to 3.029%.**

II) **Performance for the week, month-to-date and year-to-date. The Bloomberg Barclays US Aggregate Bond Index fell by -0.18% last week, MTD -0.23% and YTD -1.69%. The Bloomberg Barclays US MBS TR was lower by -0.16% last week, MTD -0.17% and YTD -1.37%. The Bloomberg Barclay's US Corporate HY Index was positive by +0.79%, MTD +1.09% and YTD +0.22%.**

COMMODITIES

The DJ Commodity Index was higher by +3.20 last week and is up month to date +2.37% (YTD +3.11%), as energy and precious metals rallied over rising tensions in Syria.

Performance: I) The price of **oil rose last week by +8.78%** up to $67.39 and is higher month to date in April +3.82% (YTD +12.12%). Oil prices rose for a fifth straight session Friday, with U.S. benchmark crude posting a gain of nearly 9% for the week, driven by fears of a U.S.-led military conflict in Syria.

II) The **ICE USD Index**, a gauge of the U.S dollar's movement against six other major currencies, **dropped -0.33%** from 90.07 to 89.77 for the week (MTD -0.26%, YTD -2.74%). The **U.S. dollar fell slightly** as trade-war concerns lingered, especially after a report the White House plans to tighten pressure around China with a potential round of additional tariffs and a threat to block Chinese technology investments in the U.S

III) **Gold finished higher Friday,** giving up early declines, as U.S. tensions with Russia and China fed the precious metal's investment appeal, sending prices up for a second straight week. Gold rose by +0.84% last week, climbing from $1337.3 to $1348.6 (MTD +1.43%, YTD +3.33%).

HEDGE FUNDS

Hedge fund returns for April are higher for the month, with core strategies Equity Hedge, Event Driven, Distressed, Macro and Relative Value all in positive territory.

Performance:

I) The HFRX Global Hedge Fund Index is higher at +0.45% MTD and -0.57% YTD.
II) Equity Hedge had advanced by +0.52% MTD and is up +1.70% YTD.
III) Event Driven has risen MTD +0.45% and is lower YTD -4.38%.
IV) Distressed Debt is higher by +0.21% MTD and is negative YTD -5.24%
V) Macro/CTA has advanced by +0.50% MTD and is down -1.54% YTD.
VI) Relative Value Arbitrage has climbed higher by +0.33% and is higher by +1.32% YTD.

ECONOMIC DATA WATCH AND MARKET OUTLOOK

As we look ahead to **next week's trading session**, **earnings for S&P 500** companies are expected **to grow 17% over the next 12 months**, according to FactSet. But, valuations that investors are attaching to these earnings have dropped over the past few months, largely due to falling stock prices. The **12-month forward price-to-earnings ratio** has **dropped 13% from 18.5 to 16** since late January when the S&P 500 last hit a record, according to FactSet. The concern is first-quarter results are old news, investors have known it was going to be great. But the **worry among investors** is that we have **reached peak earnings** and 2019 growth **will start to slow**.

In turning to **next week's economic calendar**, **retail sales** will be out on **Monday** morning and the news, at least based on unit vehicle sales, looks to **begin the week with strength**. Gasoline is expected to be a laggard in what otherwise looks to be a solid retail sales report for March. A sharp **rebound in unit vehicle sales** is a very positive signal for the report with Street consensus calling for a **0.4% rise** with ex-auto sales tepid, at a consensus 0.2%. Excluding both autos and also gas where prices fell sharply in the month, forecasters see a strong 0.5% gain.

Housing starts and **permits on Tuesday** are expected to be **upbeat** for a housing sector that is struggling. Housing starts are expected to post a solid gain in March following what was a disappointing February. A positive in that report was **strength in single-family** starts where low supply has been a drag on sales. The consensus for housing starts is a **1.269 million annualized rate** versus February's 1.236 million with a small decline seen for permits, at 1.311 versus 1.321 million in February.

Industrial production out on Wednesday is expected to be muted for a factory sector that is booming. Industrial production has been consistently held back by weakness in the report's manufacturing component and that is the expectation for March, a consensus 0.4% gain overall but only a **0.2% increase for manufacturing**.

Indications of metals-related inflation will be watched for in Monday's Empire State report. The **Empire State index** has been strong and easily beat the Street's high estimate in March. Forecasters are calling for only limited give back with the **April consensus at 18.2**. Prices in this sample rose in March and further increases would add to inflation concerns.

General **inflation signs** will be a focus of the **Fed's Beige Book on Wednesday**. All 12 districts in the March Beige Book dropped into the "modest-to-moderate" camp where they have stayed for the last year. With a low base, any improvement in the latest Beige Book could raise rate-hike expectations. Inflation in the last report was moderate and any upgrade here, including pressure tied to metals tariffs, would raise those expectations.

The news of the week could come from **Thursday's** report on **jobless claims** and whether demand in the labor market is easing. Initial claims are **not expected to increase** in the April 18 week with the consensus at 226,000 in what would be 7,000 decline. The four-week average has been moving higher though the level remains low and consistent with strong demand for labor.