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INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

U.S. equity markets rallied sharply higher last week, as end of the quarter window dressing saw investors rotate back into some of the better performing stocks in the technology and financial sectors. The S&P 500 broke its streak of nine straight quarterly gains due to worries over inflation, rates and tariffs.

a) **Dow Jones +2.42%, MTD -3.59%, YTD -1.96%** b) **S&P 500 +2.05%, MTD -2.54%, YTD -0.76%**
c) **Russell 2000 +1.35%, MTD +1.29%, YTD -0.08%**

Drivers: I) The **PCE index**, the Federal Reserve's preferred inflation gauge, **rose 0.2%.** In addition, the closely followed "core" rate that strips out food and energy was also higher by 0.2%. The **rate of inflation** over the past 12 months **rose slightly to 1.8%** to mark the biggest increase in a year. The **core rate also edged up to 1.6%.** The rate is below the magical 2.0% level which the Fed expects to reach in early 2019.

II) **February's** rise in income, however, did not provide a boost to **consumer spending**. Back-to-back monthly **reports of only 0.2%** are the weakest since last spring and if it were not for September's large 1.0% spike, the result of hurricane replacement for vehicles, the trend line could well be flat. March spending will have to prove very strong to offset the weakness of January and February and provide support for first-quarter GDP.

III) An early look at **trade patterns in February** showed a 0.1% **widening** in the **U.S. goods deficit to $75.4 billion** from $75.3 billion, the Commerce Department said Wednesday. Both imports and exports increased in February, with imports rising at a slightly faster pace. The widening of the deficit in goods points to a larger U.S. trade deficit in February.

IV) The **University of Michigan's consumer sentiment** index was **revised slightly lower to 101.4** from 102 in its final reading for March. This month the index hit the **highest level since 2004**. Other surveys also show that Americans are very confident in the U.S. economy and their own financial well-being.

V) **Equities in March are lower with Small-Cap, Growth, Utilities and REITs leading equity price performance. The laggards for the month are Large-Cap, Value, Materials and Financials.**

Capitalization: **Large Caps -2.27%** (YTD -0.69%), Mid-Caps +0.06% (YTD -0.46%) and **Small Caps +1.29%** (YTD -0.08). **Style: Value +1.04%** (YTD -2.49%) and **Growth +1.48%** (YTD +1.67%). **Industry Groups (Leaders):** Info. Tech -3.60% (YTD +3.51%), Consumer Discretionary -2.34% (YTD +3.06%) and Technology -3.68% (YTD +2.76%). **(Laggards): Financials -4.81%** (YTD -0.98%), Healthcare -3.10% (YTD -1.29%), Industrials -2.69% (YTD -1.29%), **Utilities +3.73%** (YTD -3.11%), **REITs +3.76%** (YTD -5.03%), **Materials -4.18%** (YTD -5.50%), Energy +1.71% (YTD -5.89%), Consumer Staples -0.93% (YTD -6.93%) and Telecom -2.76% (YTD -7.13%).

EUROPEAN EQUITIES

The MSCI Europe index was up last week rising +0.99%. European equities advanced on the week, but they all retreated for the month of March. Concerns about trade and declining U.S. technology shares were offset by opportunities to buy shares at reduced prices following the recent selloff.

Drivers: I) The **Euro Zone's February M3 money supply was up 4.2%** on the year and the weakest growth since February 2015. It was also the fifth consecutive decline since peaking at 5.2% in September last year. The headline deceleration reflected slower growth of private sector lending which was off 0.2 percentage points at 2.7%, although this was still among the fastest rates seen since the middle of 2009.

II) March **Eurozone economic sentiment (ESI)** deteriorated for a third straight month. At 112.6, the EU Commission's indicator was **down a surprisingly 1.6 points** from a marginally firmer revised February print to record its weakest reading since last September. The latest decline in part reflected reduced optimism in industry (6.4 after 8.0) and services (16.3 after 17.6), the former hitting a 7-month low and the latter a 5-month trough.

III) **Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was higher by +0.99% for the week (MTD -1.20%, YTD -1.98%).**

ASIAN EQUITIES

Asian markets were mixed as five indexes retreated and eight advanced. A combination of weak commodity prices and a continued sell-off in technology shares kept investors on edge ahead of Easter holidays. The Dow Jones Asia Index dropped by -0.15% for the week, (MTD -3.27%, YTD -3.27%).

Drivers: I) **Japanese industrial production jumped in February**, rebounding from a sharp fall in the previous month, government data showed Friday. **Industrial output rose 4.1% in** February from a month earlier, following January's 6.8% drop, according to the Ministry of Economy, Trade and Industry. The output gain was led by strong production gains in cars and electronics machinery.

II) **In Japan**, **core consumer prices** rose in March at a slower pace, indicating a lack of momentum in nationwide inflation after it climbed less than half of the BOJ's 2% target last month. The core CPI, which excludes fresh food prices**, rose 0.8% in March** from a year earlier, the Ministry of Internal Affairs and Communications reported. The result came in lower than a 0.9% forecast by economists polled by the Nikkei and February's 0.9% rise.

III) **Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was higher by +4.85% (MTD -2.04%, YTD -4.98%), the Hang Seng Index declined by -0.71% (MTD -2.67%, YTD +0.16%) and the Shanghai Composite rose by +0.51% (MTD -2.78%, YTD -4.18%).**

FIXED INCOME

Treasury yields moved lower Thursday to extend their weeklong decline, with the 10-year government bond ending at its lowest level in about seven weeks. But yields were higher across the board in the first quarter of the year, with short-dated rates seeing a majority of the rise.

Performance: I) **The 10-year Treasury yield was lower last week ending at 2.739 down from 2.817%. The 30-year yield fell last week declining from 3.062 to 2.975%.**

II) **Performance for the week, month-to-date and year-to-date. The Bloomberg Barclays US Aggregate Bond Index rose by +0.52% last week, MTD +0.64% and YTD -1.46%. The Bloomberg Barclays US MBS TR was higher by +0.38% last week, MTD +0.64% and YTD -1.19%. The Bloomberg Barclay's US Corporate HY Index was positive by +0.11%, MTD -0.60% and YTD -0.86%.**

COMMODITIES

The DJ Commodity Index was higher by +0.11 last week and is up month to date +0.03% (YTD +0.72%). For the quarter price rises were seen in steel and aluminum prompted by strong demand and tariffs, oil due to a rise in demand, while iron ore, sugar and natural gas declined due to over-supply and excess production.

Performance: I) **The price of oil dropped last week by -1.26%** down to $64.91 and is up month to date in March +5.30% (YTD +8.00%). Oil prices ended higher Thursday, notching its third straight quarterly rise in a row. Geopolitical concerns and indications from the Organization of the Petroleum Exporting Countries that members are considering action that could trigger higher prices limited moves for oil

II) The **ICE USD Index**, a gauge of the U.S dollar's movement against six other major currencies, **rose +0.59%** from 89.48 to 90.01 for the week (MTD -0.66%, YTD -2.48%). The **U.S. dollar rallied on portfolio rebalancing** as many of the structural reasons for the U.S. currency's decline, trade, budget deficits and monetary tightening in other parts of the world remained.

III) **Gold decline for the week,** as concerns over a potential global trade war continued to ease and U.S. stock indexes strengthened, dulling haven-related demand for the precious metal. Gold marked a third-straight quarterly gain. Gold fell by -1.72% last week, falling from $1352.9 to $1329.6 (MTD +0.89%, YTD +1.88%).

HEDGE FUNDS

Hedge fund returns for March are lower for the month, with all core strategies Equity Hedge, Event Driven, Distressed, Macro and Relative Value lower.

Performance:

I) The HFRX Global Hedge Fund Index is lower at -1.13% MTD and -1.16% YTD.
II) Equity Hedge is down by -1.25% MTD and is up +0.59% YTD.
III) Event Driven has dropped MTD -2.36% and is lower YTD -5.00%.
IV) Distressed Debt is lower by -5.32% MTD and is negative YTD -4.98%
V) Macro/CTA has declined by -0.30% MTD and is down -1.54% YTD.
VI) Relative Value Arbitrage has fallen by -0.40% and is higher by +0.92% YTD.

ECONOMIC DATA WATCH AND MARKET OUTLOOK

As we look ahead to next week's trading session, we need to harken back to the **first quarter's performance of the financial markets**, which can be described in the word **paradoxical**. Equity markets began the year with a powerful rally, followed by a severe price decline, which re-awoke volatility that was in long hibernation. The **first quarter drop of the S&P 500 and DJIA, broke a nine-quarter winning streak**, while other asset classes fared no better. All major categories of fixed income were down, industrial metals, agriculture and energy were mixed.

Financial markets were thrown into **turmoil during Q1**, which saw several global equity markets suffer a correction (decline of 10% or better) for the first time in over two years. The **market upheaval** was prompted by a report of **strong US wage growth,** that **ignited worries** over the **Fed's course and speed of interest rate increases**. This was soon followed by the enactment of **tariffs by President Trump** which engendered fears of a global trade war and protectionist policies. The quarter ended with the negative news regarding **Facebook's handling of user data**, which had a contagion affect across the entire technology sector.

As we enter the **second quarter of the year**, the hope is that **investors will refocus on solid global economic growth and strong corporate earnings**, to drive financial asset prices higher. What is wrong with an estimated 3.5% global GDP growth rate, while major developed and emerging market equity indexes are presently trading at forward P/E ratios ranging from 13 times to 17 times. The key to reigniting a market uptrend will be Q1 earnings, which for the S&P 500 for example, are expected to come in at a solid 15% growth rate.

In turning to next week's **economic calendar**, we start off with the **manufacturing PMI index** which is expected to come in at a final of 55.7 in March. This would be unchanged from the mid-month flash and down slightly from February. Though orders and employment have been strong, this report has been running cooler than the ISM manufacturing index.

Tuesday's brings the first hard indication on **consumer spending during March.** Vehicle sales have been very soft in recent months and the same is expected for March. Forecasters see unit sales slipping to a 17.0 million annualized rate from February's 17.2 million, which would be a fourth straight month of weaker retail sales.

Wednesday's focus will be on the March updates out of the service sector including the **ISM non-manufacturing index** which itself has been hovering near a 60 score. The ISM non-manufacturing index approached the 60 level in January and February but, at a consensus 59.0, is not expected to breakthrough in March. But readings for new orders, export orders or backlogs, have all been building and should support business activity and employment in the March report.

Friday's employment report comes after two months of standout strength, but a slowdown is Street consensus for **March nonfarm payrolls** which are still seen **rising a very respectable 167,000.** The unemployment rate is expected to fall 1 tenth further to 4.0% which would increasingly point to full employment and the risk of wage inflation. But **wages** are not expected to upend March's report with the monthly consensus for average hourly earnings at only 0.2% growth though the yearly rate is seen moving **up slightly to 2.7%.**