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INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

U.S. equity markets posted their first weekly decline in three weeks as strong corporate earnings from market leaders such as Amazon failed to spark a rally.

a) **Dow Jones -0.62%, MTD +0.96%, YTD -1.03%** b) **S&P 500 +0.00%, MTD +1.21%, YTD +0.44%**
c) **Russell 2000 -0.49%, MTD +1.80%, YTD +1.72%**

Drivers: I) **Amazon.com Inc.**'s impressive growth continued in the first quarter, as the company reported Thursday that profit more than doubled and sales accelerated. Amazon's revenue growth has increased despite its size and maturity, with 2017 sales growing 30.8% after jumping 27.1% in 2016 and 20.3% in 2015. Amazon **profit increased 221% year-over-year and the 43% gain in revenue** puts the company on pace for another increase this year.

II) **US GDP grew at a 2.3% annual rate** during the first quarter of 2018, slightly slower than the average 3% gain in the prior three quarters. Growth was fostered by **business investments** in office building construction and oil rigs, along with a decline in the US trade deficit. Consumer spending rose by only 1.1%, the smallest increase in almost five years. Consumers took a break from their holiday spending and avoided the inclement weather.

III) The employment cost index **(ECI) rose 0.8%** in the first quarter, just above Street estimates. The cost of worker compensation which includes pay and benefits climbed to **yearly rate of 2.7%,** the largest gain since 2008. With UE at a 17-year low of 4.1% and layoffs at a 48-year bottom, companies have taken a number of steps to recruit new workers. Wage growth though is still below the 3% to 5% rate seen in past recoveries.

IV) **Consumer confidence rebounded** slightly in April with a small gain that put the index back near an 18-year high, reminding us that the U.S. economy is solid despite concerns over a potential trade war. The consumer confidence index climbed to 128.7 in April from 127 in March, the Conference Board reported Tuesday. Two months ago, the index hit the highest level since the end of 2000.

V) **Equities in April are higher with Small-Cap, Value, Telecom and Energy leading equity price performance. The laggards for the month are Mid-Cap, Growth, Consumer Staples and Industrials.**

Capitalization: Large Caps +1.14% (YTD +0.44%), **Mid-Caps +0.67%** (YTD +0.20%) and **Small Caps +1.80%** (YTD +1.72). **Style: Value +2.02%** (YTD -0.53%) and **Growth +0.30%** (YTD +1.98%). **Industry Groups (Leaders):** Consumer Discretionary +2.73% (YTD +5.88%), Info. Tech +0.45% (YTD +3.98%), Technology +0.67% (YTD +3.44%), **Energy +9.48%** (YTD +3.03%) and Healthcare +2.81% (YTD +1.48%). (**Laggards):** Financials +0.58% (YTD -0.41%), Utilities +2.34% (YTD -1.04%), **Industrials -1.46%** (YTD -2.73%), **Telecom +4.06%** (YTD -2.86%), Materials +1.44% (YTD -4.14%), REITs -0.26% (YTD -5.28%) and **Consumer Staples -3.52%** (YTD -10.21%).

EUROPEAN EQUITIES

The MSCI Europe index was lower last week declining -0.48%, but regional equity markets were mostly higher due to positive earnings reports, weaker Euro and dovish statements from the ECB.

Drivers: I) The recent **slowdown in the Eurozone economy**, had ECB President Mario Draghi acknowledge that there had been some moderation in most countries and most sectors, possibly in part due to **temporary factors** such as the bad weather, strikes and Easter effects. There were no changes to the Bank's view of inflation, as policy is expected to achieve its price stability goals though they are frustrated by the ongoing level of low rates.

II) **April EU** Commission's measure of **economic sentiment was unchanged** from March with a reading of 112.7. The latest reading was 2.6 points short of its recent high in January. The stability of April's headline masked minor improvements in sentiment in industry (7.1 after 7.0) and households (0.4 after 0.1). Gains here were offset by weaker confidence in services (14.9 after 15.9), retail (minus 0.6 after 0.7) and construction (4.5 after 5.2).

III) **Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was lower by -0.48% for the week (MTD +2.71% YTD +0.67%).**

ASIAN EQUITIES

Asian equities down for week ended up on Friday, stemming from a rebound in technology companies due to strong earnings reports and a decline in U.S. Treasury yields that helped improve investors' risk appetite in developing Asia. The Dow Jones Asia Index declined by -0.65% for the week, (MTD +1.24%, YTD -2.07%).

Drivers: I) Last Friday, the **BOJ's policy board left its main policies unchanged**, voting 8-1 to maintain its target for 10-year Japanese government bond yields at around zero and its short-term deposit rate at minus 0.1%. The BOJ released its projections for the year ending in March 2021 for the first time, saying the **economy** was **expected to grow 0.8%** in that year. That suggests the bank does not expect a big impact from a consumption-tax increase scheduled for October 2019, although a previous rise pushed the economy into recession.

II) In **Japan**, **March data were mixed**. Industrial output rose a monthly 1.2% to beat forecasts while the jobless rate held flat at 2.5% in line with expectations. The flash April manufacturing PMI improved. However, retail sales fell short of expectations.

III) **Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was higher by +1.38% (MTD +4.73%, YTD -0.49%), the Hang Seng Index declined by -0.48% (MTD +0.62%, YTD +0.78%) and the Shanghai Composite dropped by +0.35% (MTD -2.73%, YTD -6.80%).**

FIXED INCOME

Treasury yields were slightly lower for the week, but the yield curve steepened on concerns over a more hawkish Federal Reserve and higher inflation expectations which pushed the benchmark 10-year yield above 3% briefly for the first time in more than four years.

Performance: I) **The 10-year Treasury yield was lower last week ending at 2.959 down from 2.961%. The 30-year yield declined last week declining from 3.148 to 3.126%.**

II) **Performance for the week, month-to-date and year-to-date. The Bloomberg Barclays US Aggregate Bond Index rose by +0.01% last week, MTD -0.84% and YTD -2.29%. The Bloomberg Barclays US MBS TR was higher by +0.05% last week, MTD -0.57% and YTD -1.75%. The Bloomberg Barclay's US Corporate HY Index was down by -0.39%, MTD +0.63% and YTD -0.23%.**

COMMODITIES

The DJ Commodity Index was lower by -0.54 last week and is up month to date +2.66% (YTD +3.40%), as the rise in the USD and lessening tensions in North Korea sent commodity prices such as precious metals lower.

Performance: I) The price of **oil dropped last week by -0.13%** down to $67.97 and is higher month to date in April +4.71% (YTD +13.10%). Oil prices fell but downside was limited by market expectations the U.S. will abandon the Iran nuclear deal, leading the way for renewed sanctions on Tehran and the country's energy exports.

II) The **ICE USD Index**, a gauge of the U.S dollar's movement against six other major currencies, **rose +1.41%** from 90.26 to 91.53 for the week (MTD +1.69%, YTD -0.83%). The U.S. dollar rose last week as a spike in U.S. Treasury yields prompted some investors to unwind some short bets against the dollar, especially against some emerging market currencies.

III) **Gold declined last week** after a historic meeting between North Korean leader Kim Jong Un and South Korean President Moon Jae-in. The two leaders signed a declaration that they will work toward a "complete denuclearization" of the Korean Peninsula and agreed to formally end the Korean War with a peace treaty. Gold fell by -1.01% last week, falling from $1337.6 to $1324.1 (MTD -0.41%, YTD +1.45%).

HEDGE FUNDS

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

Performance:

- **I) The HFRX Global Hedge Fund Index is higher at +0.25% MTD and -0.77% YTD.**
- **II) Equity Hedge had declined by -0.16% MTD and is up +1.01% YTD.**
- **III) Event Driven has risen MTD +0.76% and is lower YTD -4.08%.**
- **IV) Distressed Debt is higher by +0.50% MTD and is negative YTD -4.97%**
- **V) Macro/CTA has advanced by +0.46% MTD and is down -1.58% YTD.**
- **VI) Relative Value Arbitrage has climbed higher by +0.07% and is higher by +1.06% YTD.**

ECONOMIC DATA WATCH AND MARKET OUTLOOK

As we look ahead to **next week's trading session**, investors must be wondering what is wrong with equity markets as **strong corporate earnings and solid economic data** have **failed to propel stock prices higher**. First quarter GDP growth came in at 2.3%, even though Q1 growth tends to be on the soft side. Winter weather and a slowing down of consumption from the previous holiday season are two cyclical explanations for this. Expectations are for the effects of the U.S. tax cuts to positively impact GDP growth for the rest of the year, though by how much is up for debate. Following this thought process, we would expect a jump in Q2 GDP growth as we saw in 2017, when the growth rate was a solid 3.1%.

In turning to **the week's upcoming economic calendar**, a busy week will include the **FOMC meeting** on Wednesday with the **attention** focused on the **economic outlook** and the committee's **inflation expectations.** No change in rates is the unanimous consensus of Street economists for the May FOMC, holding at a mid-point 1.625% within a 1.50 to 1.75% range. **First-quarter weakness** will likely be understated in the statement as an anomaly with key emphasis to center on the outlook for growth and whether inflation pressures are picking up.

Wall Street's year-on-year consensus for the **core PCE price index** is **expected to jump from 1.6% to 2.0%** which would hit the Federal Reserve's price target. But the expected **monthly increase** is a **less startling 0.2%** which would shift focus to the easy 2017 comparison for the yearly rate. The PCE price index is not expected to show much pressure at all, up only 0.1% on the month for a year-on-year rate of also 2.0%. Personal income is seen rising 0.4% while consumer spending is also expected to come in at 0.4%.

Vehicle sales will be the highlight for Tuesday offering the first take on second-quarter consumer demand. Vehicle sales in April, at a **consensus 17.2 million** annualized rate, are expected to fall short of March's rise to 17.5 million. Still, 17 million or better would point to a **solid rate for consumer spending** in general.

Coming out on **Wednesday is the ISM manufacturing report**, where **continued strength** is expected, and construction spending where new strength is predicted. April's consensus for the ISM manufacturing index is 58.7 vs 59.3 in March which was yet another month when order readings for this sample were unusually strong. Delivery times have been lengthening and input costs have been at an 8-year high, both pointing to capacity constraints.

Friday's employment report is expected to show a solid rebound and drop in the unemployment rate. April nonfarm payrolls are seen **rising a very respectable 190,000.** The unemployment rate is expected to fall 0.1% to 4.0% which would continue to point to full employment and the risk of wage inflation. Wage pressures are not expected to appear in April's report with the monthly consensus for **average hourly earnings at only 0.2% growth** with the yearly rate seen holding steady at 2.7%. Private payrolls are expected to rise 190,000, the same as the nonfarm number, with manufacturing payrolls expected to post another solid month, up 19,000. The work week is seen unchanged at 34.5 hours and the labor participation rate coming in unchanged at 62.9%.