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INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

U.S. equity markets fell as President Trump said late Thursday that he had asked the U.S. Trade Representative to identify a further $100 billion in imports from China annually, to potentially be subject to tariffs. Intel, Boeing and Caterpillar fell more than -3.0% as they could be adversely affected by tariffs.

a) **Dow Jones -0.67%, MTD -0.67%, YTD -2.62%** b) **S&P 500 -1.35%, MTD -1.35%, YTD -2.10%**
c) **Russell 2000 -1.04%, MTD -1.04%, YTD -1.12%**

Drivers: I) The **President on Thursday** suggested he might **impose an additional $100 billion in tariffs on China** on top of $50 billion worth of tariffs announced last month. He reportedly was dismayed after China retaliated earlier this week with trade restrictions on up to $50 billion in U.S. products. China only imported about $131 billion in U.S. exports last year, the Chinese side will soon run out of U.S. exports to impose tariffs on.

II) The **U.S. gained just 103,000 new jobs in March** to mark the smallest increase since last fall, but the latest report on employment still shows the tightest labor market in nearly two decades. Economists had forecast a 170,000 increase in new nonfarm jobs. The **unemployment rate**, however, remained at a **17-year low of 4.1%** and it is expected to trend even lower in the months ahead.

III) **Average hourly earnings** on a year over year basis **rose 0.10% in March to 2.7%** which may hint, at least indirectly, at an improving slant for general prices including the Fed's core PCE index. The Fed's stated expectation for the core is for gradual but tangible improvement this year to the 2% line. But unlike average hourly earnings, the core rate has not been showing much change at all.

IV) **Federal Reserve Chairman Jerome Powell** on Friday backed a "patient" approach to raising interest rates. "The FOMC's patient approach has paid dividends and contributed to the strong economy we have today," Powell said, in a speech to the Economic Club of Chicago. The Fed chairman said **going slow on rate hikes** has also reduced the risk of "an unforeseen blow to the economy" that might have pushed the economy into recession.

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 Technology and Technology.**

Capitalization: Large Caps -1.36% (YTD -2.04%), **Mid-Caps -1.56%** (YTD -2.01%) and **Small Caps -1.04%** (YTD -1.12). **Style: Value -0.91%** (YTD -3.38%) and **Growth -1.16%** (YTD +0.49%). **Industry Groups (Leaders):** Consumer Discretionary -0.64% **(**YTD +2.41%), **Information Tech -2.26% (**YTD +1.17%) and **Technology -2.11%** (YTD +0.59%). **(Laggards):** Financials -1.38% (YTD -2.35%), Healthcare -1.65% (YTD -2.92%), Industrials -2.04% (YTD -3.30%), Utilities -0.13% (YTD -3.43%), REITs -0.60% (YTD -5.60%), **Energy -0.11%** (YTD -5.99%), Materials -0.71% (YTD -6.17%), **Telecom +0.41%** (YTD -6.76%) and Consumer Staples -0.34% (YTD -7.25%).

EUROPEAN EQUITIES

The MSCI Europe index was up last week rising +0.97%. European equities were higher on the week but ended on a down note thanks to a weaker than anticipated U.S. employment report and tariff worries.

Drivers: I) **Germany**'s key **manufacturing orders and industrial production data fell** at the **fastest rate** in two-and-a-half years in February, leading to worries about a possible slowdown in Europe's growth engine. Manufacturing orders edged up just 0.3% after falling a revised 3.5% in January. Industrial output dropped 1.6% on the month, in contrast to a revised 0.1% rise seen in January.

II) In **Germany**, the March flash harmonized index of **consumer prices was up 1.4%** on the year. The yearly rate, which excludes energy, food, alcohol and tobacco, was flat at 1.0%. Omitting just unprocessed food and energy, the rate edged up slightly higher to 1.3%. Easter distortions contributed to a bounce in services inflation (1.5% after 1.3%) but the non-industrial goods rate (0.2% after 0.6%) was sharply weaker.

III) **Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was higher by +0.97% for the week (MTD +0.97%, YTD -1.03%).**

ASIAN EQUITIES

In Asian many indexes closed for holidays during the week, equities were mostly lower thanks to the rhetoric from the U.S. and China surrounding tariffs. The Dow Jones Asia Index dropped by -0.20% for the week, (MTD -0.20%, YTD -3.47%).

Drivers: I) In **Japan,** the **first quarter Tankan survey** showed business sentiment in both the manufacturing and non-manufacturing sectors were **solid,** but little changed from the previous quarter. Companies in the manufacturing sector expect relatively steady growth in capital expenditure in the fiscal year ending March 2019, but this was outweighed by weaker capex plans by firms in the non-manufacturing sector.

II) **China has filed a complaint at the World Trade Organization** over the U.S. decision to place tariffs on $50 billion of goods from the world's second-largest economy. "China claims the tariffs would be in excess of the United States' bound rates and are inconsistent with Article I.1 and Article II.1 as well as the General Agreement on Tariffs and Trade and Article 23 of the Dispute Settlement Understanding.

III) **Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was higher by +0.53% (MTD +0.53%, YTD -4.48%), the Hang Seng Index declined by -0.83% (MTD -0.83%, YTD -0.67%) and the Shanghai Composite fell by -1.19% (MTD -1.19%, YTD -5.32%).**

FIXED INCOME

Treasury yields rose last week on profit taking, as rates climbed higher as investor unloaded some bonds that had been purchased as a safe haven the prior week.

Performance: I) **The 10-year Treasury yield was higher last week ending at 2.776 up from 2.739%. The 30-year yield rose last week climbing from 2.975 to 3.018%.**

II) **Performance for the week, month-to-date and year-to-date. The Bloomberg Barclays US Aggregate Bond Index fell by -0.05% last week, MTD -0.05% and YTD -1.51%. The Bloomberg Barclays US MBS TR was lower by -0.01% last week, MTD -0.01% and YTD -1.20%. The Bloomberg Barclay's US Corporate HY Index was positive by +0.29%, MTD +0.29% and YTD -0.57%.**

COMMODITIES

The DJ Commodity Index was lower by -0.82 last week and is down month to date -0.82% (YTD -0.10%). Commodities were led lower by energy and agriculture due to concerns over the potential implication of proposed tariffs from the US and China.

Performance: I) The price of **oil dropped last week by -4.56%,** down to $61.95 and is down month to date in April -4.56% (YTD +3.07%). Oil prices fell as a combination of rising China-U.S. trade tensions and the highest number of U.S. oil rigs in three years saw oil futures end sharply lower Friday, sealing the biggest weekly decline for the U.S. benchmark since early February.

II) The **ICE USD Index**, a gauge of the U.S dollar's movement against six other major currencies, **rose +0.06%** from 90.01 to 90.07 for the week (MTD +0.06%, YTD -2.41%). The **U.S. dollar rallied** as investors worried about the escalating dialogue between the U.S. and China along with a surprisingly weak employment gain in March.

III) **Gold rallied for the week,** as finished the session and the week higher as Wall Street's worries persisted about a potential trade war between China and the U.S. Gold rose by +0.58% last week, climbing from $1329.6 to $1337.3 (MTD +0.58%, YTD +2.47%).

HEDGE FUNDS

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

Performance:

I) The HFRX Global Hedge Fund Index is higher at +0.18% MTD and -0.84% YTD.
II) Equity Hedge had advanced by +0.25% MTD and is up +1.43% YTD.
III) Event Driven has risen MTD +0.50% and is lower YTD -4.32%.
IV) Distressed Debt is higher by +0.07% MTD and is negative YTD -5.37%
V) Macro/CTA has declined by -0.25% MTD and is down -2.27% YTD.
VI) Relative Value Arbitrage has climbed higher by +0.09% and is higher by +1.08% YTD.

ECONOMIC DATA WATCH AND MARKET OUTLOOK

As we look **ahead to next week's trading session**, investors are waiting anxiously to see if a **solid earnings season can turn** the market's recent **downside momentum**. The equity markets have been hit a series of negative events ranging from worries over interest rates and inflation, the roll over in technology, and the potential for a full-scale trade war between the US and China. President Trump instructed U.S. trade representatives to consider an additional $100 billion in new tariffs on top of the originally proposed $50 outlined at the beginning of the week. The previous move had prompted a retaliatory set of proposed tariffs by China, while the latter announcement prompted the threat of further action even as both sides prepare to negotiate.

Despite the political rhetoric, many **Street analysts** are still **upbeat on the economy and corporate earnings**. Expectations are the trade tiff will be resolved, without causing significant damage to the US or global economy. Expectations are running high on the earnings front, as the **EPS growth rate** of the **S&P 500** is estimated to come in at **17% for Q1.** For the first quarter, 52 S&P 500 companies have issued **negative earnings guidance**, while 53 have issued positive guidance. That leaves the number of companies issuing negative guidance **well below the five-year average** of 80 and the number issuing positive guidance well above the five-year average of 28.

In turning to **next week's economic calendar**, **inflation is the concentrated focus** for the coming week starting on **Tuesday** with the **producer price report** which may offer the first hard evidence on price effects tied to steel and aluminum tariffs. Amid reports of price volatility for steel and aluminum, the March producer price report could show the first definitive effects of U.S. tariffs. But forecasters are not calling for much impact in March, at a **consensus 0.1% gain** though the high estimate is at 0.4%. Less food and energy are seen up 0.2% with less food, energy and trade services expected to rise 0.3%.

On **Wednesday consumer prices** will offer the latest on whether tariff or wage pressures are beginning to be passed through while on Thursday import prices will update the inflationary effects of dollar depreciation. Pressures were up in January, but quiet in February with the March consensus for consumer prices especially subdued, at no change. A **modest 0.2% increase** is expected for core prices (less food and energy) with the year-on-year rate, however, expected to show some pressure at 2 tenths gain to 2.0%.

Also, on **Wednesday**, **FOMC minutes** are to be released and with them details on the **inflation debate** inside the Fed. Moderation was the theme of the March FOMC, headlined by **no increase in rate hike projections** and including modest descriptions of economic growth and consumer and business spending. There was no upgrade for inflation though the surrounding debate is likely to be the highlight of the meeting's minutes.

Inflation returns to the headlines with in the consumer sentiment report on Friday. The **consumer sentiment** index for preliminary **April** is expected to come in at **100.8 vs March's 14-year high of 101.4.** The current conditions component, driven by strong assessments from lower income respondents, posted a record 121.2 in March. In contrast, economists are looking for lower reading for the expectations component which fell to 88.8 and reflected softer income prospects among the high-income bracket. **Inflation expectations** in this report have been **moving higher but very slowly.**