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INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

U.S. equity markets were higher last week, led by the continued rally in technology and information technology stocks. Major market indexes closed lower on Friday as energy stocks declined on reports that OPEC and Russia were considering raising their oil output.

a) **Dow Jones +0.18%, MTD +2.75%, YTD +1.07** b) **S&P 500 +0.33%, MTD +2.97%, YTD +2.58%**
c) **Russell 2000 +0.03%, MTD +5.61%, YTD +6.43%**

Drivers: I) **Crude oil dropped** by more than **3%** on Friday following reports that OPEC and Russia were considering increasing daily output by more than one million barrels per day. Oil prices are up more than 12% this year and has been the driver behind the 9% increase in energy stocks since the beginning of April as well as commodities.

II) **Durable-goods orders fell 1.7%** in April, below economist estimates of a 1.0% decline, but the drop-off stemmed **almost entirely from a decline in contracts for Boeing planes**. Most businesses took in more orders and increased investment last month. But if you were to outstrip orders for planes and cars, orders minus transportation rose 0.9%, the government reported, to mark the third straight gain.

III) **Federal Reserve officials** in their meeting in early May confirmed they planned to **raise interest rates in June** and were **not concerned** that they were **behind the curve on inflation.** "Most participants judged that if incoming information broadly confirmed their economic outlook, it would likely soon be appropriate for the FOMC to take another step in removing policy accommodation," the minutes said.

IV) The **sentiment index slipped to 98 points** from 98.8 in April, the University of Michigan said. Economists had expected a reading of 98.9. Americans expect the jobs market to remain strong and incomes to rise, but they also feel inflation and interest rates are going up. The index had hit a **14-year high in March**.

V) **Equities in May are higher with Small-Cap, Growth, Tech and Information Technology leading equity price performance. The laggards for the month are Mid-Cap, Value, Telecommunication and Utilities.**

Capitalization: Large Caps +3.05% (YTD +2.69%), **Mid-Caps +2.77%** (YTD +2.15%) and **Small Caps +5.61%** (YTD +6.43). **Style: Value +4.41%** (YTD +2.79%) and **Growth +5.03%** (YTD +6.07%). **Industry Groups (Leaders): Info. Tech +7.14% (**YTD +10.80%), **Technology +6.64%** (YTD +9.58%), Consumer Discretionary +2.38% (YTD +7.99%), Energy +1.08% (YTD +4.10%), Healthcare +0.95% (YTD +0.85%), Industrials +4.85% (YTD +0.61%) and Financials +1.43% (YTD +0.06%). (**Laggards):** Materials +3.53% (YTD -2.03%), **Utilities -2.12%** (YTD -3.39%), REITs +0.96% (YTD -4.72%), **Telecom -2.79%** (YTD -8.54%) and Consumer Staples -1.16% (YTD -11.79%).

EUROPEAN EQUITIES

The MSCI Europe index was lower last week -1.91%, as mounting political uncertainties in Italy and Spain sent the euro lower and prompted vigorous buying of German debt,

Drivers: I) In **Italy**, investors are bracing for the **formation of a populist, euro-sceptic government**. The development led investors to sell Italian government bonds, sending yields on the 10-year bond to their highest level since 2014. An unknown academic and lawyer with no political experience was named Italy's prime minister, sending Italian bond yields to 14-month highs. President Sergio Mattarella grudgingly accepted the coalition government's nomination of Giuseppe Conte and gave him the mandate to assemble a cabinet.

II) In **Germany, first quarter GDP advanced** at an unrevised quarterly rate of **0.3%,** just half the rate achieved at the end of 2017 and equaling the **weakest print** since the **first quarter of 2015.** The first look at the GDP expenditure components showed a stronger period for household spending which, at a 0.4% quarterly rate, saw its largest gain since the second quarter of 2017. Still, with government consumption down 0.5% and inventories subtracting 0.1%, the contribution of domestic demand to quarterly GDP growth was restricted to 0.4%.

III) **Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was lower by -1.91% for the week (MTD -1.60% YTD -0.88%).**

ASIAN EQUITIES

Asian equities retreated last week, prompted by uncertainty over U.S.-China trade relations and the back-and-forth between U.S. and North Korean officials over the denuclearization of the Korean Peninsula. The Dow Jones Asia Index fell by -1.26% for the week, (MTD -1.77%, YTD -3.41%).

Drivers: I) The **Nikkei suffered its biggest decline in two months** Wednesday after comments from U.S. President Donald Trump rekindled worries about a **trade war**. Trump said he was not pleased with recent trade talks between the United States and China, checking hopes that the countries were on course to work out a deal. A stronger Japanese currency contributed to the Nikkei's weakness.

II) **In Japan**, the April merchandise **trade surplus declined** from ¥797 billion in March to ¥626 billion in April. Exports were up 7.8% on the year after increasing 2.1% the month before. Imports rebounded from a decline of 0.6% to an increase of 5.9%. The gain in exports was broad-based but largely driven by the United States and the European Union.

III) **Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was lower by -2.09% (MTD -0.08%, YTD -0.56%), the Hang Seng Index declined by -1.43% (MTD -0.68%, YTD +1.84%) and the Shanghai Composite fell by -1.63% (MTD +1.92%, YTD -5.02%).**

FIXED INCOME

Treasury yields were lower for the week, following a dovish set of minutes from the Federal Reserve that saw investors cut back their expectations for a more aggressive rate increase trajectory.

Performance: I) **The 10-year Treasury yield was lower last week ending at 2.928 up from 3.058%. The 30-year yield dropped last week falling from 3.199 to 3.090.**

II) **Performance for the week, month-to-date and year-to-date. The Bloomberg Barclays US Aggregate Bond Index rose by +0.74% last week, MTD +0.19% and YTD -2.01%. The Bloomberg Barclays US MBS TR was higher by +0.69% last week, MTD +0.22% and YTD -1.47%. The Bloomberg Barclay's US Corporate HY Index was down by -0.01%, MTD -0.01% and YTD -0.22%.**

COMMODITIES

The DJ Commodity Index was higher by +0.49 last week and is up month to date +1.54% (YTD +5.25%), as gold found a higher bid by safe-haven seekers and livestock prices rallied on lower supplies.

Performance: I) The price of **oil last week plunged by -5.40%** down to $67.50 and is lower month to date in May -1.56% (YTD +12.31%). Oil prices plunged on Friday to finish at their lowest levels in weeks, as reports said **OPEC and Russia are considering lifting production** by as much as 1 million barrels a day to meet the shortfall in supply from Iran and Venezuela.

II) The **ICE USD Index**, a gauge of the U.S dollar's movement against six other major currencies, **climbed +0.63%** from 93.66 to 94.25 for the week (MTD +2.62%, YTD +2.11%). The U.S. dollar strengthened as the currency hit a **fresh 2018 high**, and as traders digested a week in which the Federal Reserve signaled that it may adopt a more measured approach to hiking interest rates even if inflation runs ahead of its 2% annual target.

III) **Gold rose to its highest finish since May 14** on Thursday, after President Donald Trump announced the cancellation of a June 12 meeting with North Korea's leader. Gold climbed +1.14% last week, rising from $1291.7 to $1306.5 (MTD -0.96%, YTD +0.10%).

HEDGE FUNDS

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

Performance:

I) The HFRX Global Hedge Fund Index is higher at +0.48% MTD and -0.45% YTD.
II) Equity Hedge has risen by +0.42% MTD and is up +1.03% YTD.
III) Event Driven has advanced MTD +0.25% and is lower YTD -4.16%.
IV) Distressed Debt is higher by +0.50 MTD and is negative YTD -4.55%
V) Macro/CTA has advanced by +0.96% MTD and is up -0.63% YTD.
VI) Relative Value Arbitrage has risen by +0.44% and is higher by +1.66% YTD.

ECONOMIC DATA WATCH AND MARKET OUTLOOK

As we look ahead to **next week's trading session**, the **usual adage of sell in May and go away has not up held** in 2018, as the **S&P 500** has posted a **solid gain of 2.8%** thus far, it's best May showing since 2009. According to FactSet, the **NASDAQ** has been the leading index during the month, **gaining 5.2%** as the technology heavy index is posting its best return since 2005 when it achieved a 7.6% monthly gain. How the equity indexes finish the month, may well depend on a stream of economic data that will be reported next week. Among the important releases to keep an eye on include a second look at Q1 GDP, personal income and the Fed's favorite inflation gauge, the PCE.

In turning to the week's **upcoming economic calendar**, **Case-Shiller** opens the week on **Tuesday** and **slowing** in **year-on-year home appreciation** is the prediction. The Case-Shiller 20-city index had been pushing toward 7% annual growth, at **6.8% in the last report for February**. But after significant slowing in FHFA's March data, forecasters do not see extending strength for Case-Shiller's year-on-year rate with the **consensus at 6.4%.** Yet monthly estimates are solid, up 0.7% for the adjusted rate and up 0.5% for the unadjusted rate.

On **Tuesday's economic strength** are expected for **consumer confidence** and especially for the Dallas Fed manufacturing report where forecasters see acceleration at high levels. Most confidence readings, whether for consumers or businesses have hit a ceiling, but not the consumer confidence index which forecasters, at a **May consensus of 128.1**, see holding onto this year's gains. This index began to test the 130-level back in February on the strength of employment assessments and income prospects.

The **second estimate for first-quarter GDP** comes out **Wednesday** in a report that should **not offer any surprises,** but may well offer a reminder that consumer spending slowed at the start of the year. The second estimate for first-quarter GDP is expected to come in at a **2.2% annualized rate versus 2.3%** in the first estimate. The contribution from inventory growth may be pulled back offset by a possible upgrade to consumer spending where expectations are looking for a 1.2% rate versus the first estimate's 1.1% rate.

The first major **inputs into second-quarter GDP** arrives on **Thursday** with expectations calling for only a **moderate gain in April consumer spending** and a **slight gain if any for core PCE prices**. Personal income is seen rising a moderate 0.3 % in April, while consumer spending, in what will be the first major input into second-quarter GDP, is also expected to increase 0.3%. The core PCE price index, which excludes both food and energy and which is the most closely watched of all inflation readings, is seen rising very marginally, **only 0.1% higher** on the month for yearly **deceleration to 1.8% vs March's 1.9%.**

Friday will see the employment report where **solid job growth** is the consensus. Following a solid April, nonfarm payrolls are expected to extend their strength to May where **Street consensus** is estimated at **a 185,000 rise**. The unemployment rate, down 0.2% to 3.9%, was the highlight of the April report with May's rate seen holding at 3.9%. A surprise in the April report was a **lack of wage pressures** and only marginally higher readings are expected for May, at 0.2% for monthly growth in average hourly earnings and a 1 tenth climb in the year-on-year rate to **2.7%.**