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INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

U.S. equity markets ended higher last week after a strong rally on Friday, led by Apple which rose 3.92%, after CNBC announced that Berkshire Hathaway purchased 75 million shares in the first quarter.

a) **Dow Jones -0.19%, MTD +0.42%, YTD -1.22%** b) **S&P 500 -0.21%, MTD +0.61%, YTD +0.23%**
c) **Russell 2000 +0.62%, MTD +1.55%, YTD +2.35%**

Drivers: I) CNBC reported that **Berkshire Hathaway increased its position in Apple by 75 million shares** in Q1. The new shares are in addition to the 165.3 million shares already owned as of the end of 2017, which equates to a stake of 3.3% of Apple's outstanding shares. The new purchase of Apple shares vaults it past Wells Fargo & Co., as the largest holding held by Berkshire Hathaway, valued at approximately $44 billion based on Friday's close.

II) The economy generated a solid **164,000 jobs in April** to push the unemployment rate below 4% for the first time since Bill Clinton was president, a sign the surging labor market shows no signs of abating. The increase in hiring fell **short of the 188,000 forecast** of Street economists. The unemployment rate, meanwhile, slipped to 3.9% after holding at 4.1% for six months in a row.

III) Despite the ultra-tight jobs market, **wages for American workers** still are **not rising rapidly**. Hourly pay rose 0.1% to $26.84, the government reported Friday. The 12-month increase in pay was **flat at 2.6%** for the third month in a row. Average hourly earnings were expected to approach the 3% line two years ago when the unemployment rate first started to move below 5%, let alone the sub 4% rate where it is now.

IV) The **Personal Consumption Expenditures Price Index**, the PCE index, the Fed's preferred inflation measure, **rose to 2%** year over year from a 1.7% pace in February. The 12-month increase in the **core rate** of inflation was close behind, **rising to 1.9%** in March from 1.6% in the prior month. That is the biggest yearly gain in the core rate since April 2012. Purchases of recreational goods and vehicles was the leading contributor to the increase.

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, Consumer Staples and Telecom.**

Capitalization: Large Caps +0.65% (YTD +0.29%), **Mid-Caps +0.54%** (YTD -0.07%) and **Small Caps +1.55%** (YTD +2.35). **Style: Value +0.99%** (YTD -0.57%) and **Growth +1.62%** (YTD +2.62%). **Industry Groups (Leaders): Info. Tech +3.67%** (YTD +7.21%), **Technology +3.36%** (YTD +6.21%), Consumer Discretionary +0.31% (YTD +5.81%) and Energy +0.07% (YTD +3.06%). (**Laggards):** Healthcare -1.50% (YTD -1.60%), Utilities -0.09% (YTD -1.39%), Financials -0.63% (YTD -1.98%), Industrials +0.02% (YTD -4.03%), Materials +1.38% (YTD -4.07%), REITs +1.38% (YTD -4.32%), **Telecom -1.85%** (YTD -9.89%) and **Consumer Staples -1.53%** (YTD -12.12%).

EUROPEAN EQUITIES

The MSCI Europe index was lower last week declining -0.67%, as investors closely monitored the highly anticipated trade talks between the U.S. and China.

Drivers: I) The first estimate of flash **first quarter gross domestic product** eased to a quarterly increase of 0.4% after rising 0.6% in the fourth quarter of 2017. The annual rate of expansion **eased from 2.8% to 2.5%.** National statistics suggest that domestic demand was relatively soft and net exports probably made a smaller contribution too. Another key data point, the April flash harmonized index of **consumer prices** also **disappointed**.

II) According to the **European Commission** in its spring forecast which was released Thursday, the **euro area** is set to **post strong growth this year**, but the momentum may moderate slightly as monetary stimulus is gradually withdrawn and global trade growth eases somewhat. The executive arm of the European Union predicted **gross domestic product to be 2.3% this year**, before slowing to 2% next year. Domestic upside risks have faded and downside risks to the global outlook have increased both the short and the medium term.

III) **Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was lower by -0.67% for the week (MTD -0.73%, YTD +0.00%).**

ASIAN EQUITIES

Asian equities were lower as investors monitored the trade talks between the U.S. and China and waited for the U.S. employment report for April. The Dow Jones Asia Index declined by -1.02% for the week, (MTD -1.44%, YTD -3.08%).

Drivers: I) In the **U.S. and China trade talks**, the U.S. document offered an **eight-point plan to Beijing** and called for China to change its policies within two years. It also said the U.S. was ready to negotiate on the proposals. The first U.S. request in the plan, was for China to **reduce** the bilateral **trade deficit by at least $200 billion** by the **end of 2020**. The U.S.-China bilateral deficit in goods was $375 billion last year. President Donald Trump has repeatedly said he wants China to reduce the figure by $100 billion a year.

II) Activity in **China's service sector expanded at a faster pace in April**, a private gauge showed Friday, a reading in line with official data last month. The Caixin China services purchasing managers' index rose to 52.9 in April from 52.3 in March, Caixin Media Co. reported. The new business and employment sub indexes both rose in April, indicating strengthening demand across the service sector after easing for two consecutive months.

III) **Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was higher by +0.02% (MTD +0.02%, YTD -0.46%), the Hang Seng Index declined by -1.19% (MTD -2.88%, YTD -0.41%) and the Shanghai Composite advanced by +0.29% (MTD +0.29%, YTD -6.54%).**

FIXED INCOME

Treasury yields fell slightly for the week, after a key report on U.S. employment showed the unemployment rate fell to its lowest since 2000 even as wage growth was muted.

Performance: I) **The 10-year Treasury yield was lower last week ending at 2.952 down from 2.959%. The 30-year yield declined last week, from 3.126 to 3.124%.**

II) **Performance for the week, month-to-date and year-to-date. The Bloomberg Barclays US Aggregate Bond Index rose by +0.02% last week, MTD -0.08% and YTD -2.27%. The Bloomberg Barclays US MBS TR was higher by +0.11% last week, MTD +0.04% and YTD -1.65%. The Bloomberg Barclay's US Corporate HY Index was down by -0.07%, MTD -0.08% and YTD -0.29%.**

COMMODITIES

The DJ Commodity Index was higher by +0.39 last week and is up month to date +0.39% (YTD +4.06%), as rising tensions regarding the US withdrawal from the Iran nuclear deal sent oil prices to their highest levels since November 2014.

Performance: I) The price of **oil rose last week by +2.67%** up to $69.79 and is higher month to date in May +1.78% (YTD +16.12%). Oil climbed higher as growing concerns over the economic crisis in Venezuela and possible new sanctions against Iran raised the potential for tighter global crude supplies and sent prices back to their highest closing since late 2014.

II) The **ICE USD Index**, a gauge of the U.S dollar's movement against six other major currencies, **rose +1.13%** from 91.53 to 92.57 for the week (MTD +0.79%, YTD +0.29%). The U.S. dollar has gained steam in recent weeks, as investors bet that the Federal Reserve will continue raising rates while other central banks including the European Central Bank will act more slowly.

III) **Gold fell** for a third week in a row as investors showed a lukewarm reaction to the monthly U.S. jobs report. Gold fell by -0.61% last week, falling from $1324.1 to $1316.0 (MTD -0.24%, YTD +0.83%).

HEDGE FUNDS

Hedge fund returns for May are mixed for the month, with core strategies Distressed and Macro in positive territory, while Equity Hedge, Event Drive and Relative Value is lower.

Performance:

I) The HFRX Global Hedge Fund Index is lower at -0.13% MTD and -1.05% YTD.
II) Equity Hedge had declined by -0.22% MTD and is up +0.39% YTD.
III) Event Driven has fallen MTD -0.16% and is lower YTD -4.55%.
IV) Distressed Debt is higher by +0.10% MTD and is negative YTD -4.93%
V) Macro/CTA has advanced by +0.06% MTD and is down -1.63% YTD.
VI) Relative Value Arbitrage has dropped by -0.04% and is higher by +1.18% YTD.

ECONOMIC DATA WATCH AND MARKET OUTLOOK

As we look ahead to **next week's trading session,** we are heading down the **home stretch for earnings reports** being issued by U.S. companies. To date, we are seeing very strong corporate revenue and earnings growth. With **81% of the S&P 500 having reported**, **78%** of the companies have **beaten** their **projected estimated earnings**, which would be the **highest beat rate recorded** by FactSet since they began tracking this metric in Q3 2008. In aggregate, companies are reporting earnings that are **on average, 7.9% above estimates,** which is above the five-year average. The year over year **earnings growth rate is 24.2%** thus far and is being led by double digit growth seen in Energy, Materials, Information Technology and Financials.

From a **revenue perspective**, more companies **(77%)** are reporting actual **sales above estimates**, which is well above the five-year average. Should the final beat percentage remain at 77%, it would be the **highest beat average since** the **inception** of FactSet's coverage of this metrics in Q3 2008. The year over year **revenue growth** thus far is **8.5%.**

This positive data along with the recent report showing U.S. GDP growth in Q1 rose by 2.3%, has us seeing **global equity markets far underperform the rise seen in both earnings and economic growth**. During the first quarter of 2018, the S&P 500 was down -0.76% and the Russell 2000 lost -0.08%. This is below the GDP growth of 2.3%, earnings growth of 24.2% and revenue growth of 8.5% for the S&P 500. Since the Great Recession, the rise in equity market values have led economic and earnings growth, now the leadership has reversed.

In turning to **the week's upcoming economic calendar**, average hourly earnings kicked off April's inflation data this week and will be followed by **producer prices** to be released on **Wednesday**. **Moderate inflation** has been the trend for producer prices and moderate increases are the forecasts for April: **at 0.3% for headline PPI-FD, at 0.2% excluding food and energy**. Steel prices did show tariff effects in this report in March and further pressure would be closely noted.

Employment will also be a focus of the week starting **Tuesday with the JOLTS report**, where **job openings** have been **on the rise**, and jobless claims data on Thursday where all the data are pointing to unusually strong demand for labor. Job openings are expected to rise slightly in March to 6.100 million versus February's 6.052 million. Openings in this report have been well ahead of hires suggesting that there are **more jobs than workers**.

Consumer prices will come out on **Thursday**, with only moderate pressures expected and **limited gains** seen for **year-on-year CPI rates**. Forecasters are calling for modest-to-moderate pressures in the April consumer price report, at a headline monthly gain of 0.3% but a core rate gain of only 0.2%. Year-on-year rates are both expected to rise but only one tenth each, to 2.5% overall and 2.2% for the core.

Adding a final note to the inflation news will be the **consumer sentiment report on Friday** where, inflation expectations have been decidedly subdued. The consumer sentiment is expected to **move higher** in the preliminary reading for **May, to 99.0 versus April's final reading of 98.8** and well above April's mid-month reading of 97.8. This index has been edging off unusually strong readings earlier in the year, gains triggered by this year's tax cut. **Inflation expectations** in this report, which are closely watched, **have been very soft**.