U.S. EQUITIES

U.S. equities posted their strongest weekly return in months, as investors held out hope that positive results would come out of the G-7 meeting of industrialized nations taking place in Canada.

a) **Dow Jones +2.79%, MTD +3.75%, YTD +3.50** b) **S&P 500 +1.66%, MTD +2.77%, YTD +4.85%**
c) **Russell 2000 +1.51%, MTD +2.40%, YTD +9.47%**

Drivers: I) **G7 leaders began** their two days of **meetings** last Thursday in Quebec's Charlevoix region, talks that would primarily **focus on trade**. The imposition of tariffs will likely place the U.S. on one side and the other six nations on the other. President Trump is expected to leave the summit early to go to Singapore and meet with North Korean Leader Kim Jong Un.

II) For the **first time in 20 years of JOLTS data** there are **more job openings**, at 6.7 million in data for April, **than the unemployed**, at 6.3 million in April which has since fallen to 6.1 million in May. Together with May's drop in the unemployment rate to 3.8%, the increasing mismatch between openings and available labor poses some of the most convincing evidence yet that the **economy is at full employment.**

III) The **Institute for Supply Management** said its **survey of businesses**, excluding manufacturing, **rose to 58.6 last month** from 58.8 in April. The index is close to a **13-year high**. Service-oriented companies in the U.S. that employ most of America, hospitals, retailers, banks, and high-tech developers grew faster in May in another sign the economy is speeding up again.

IV) The **nation's trade deficit improved** last month, amidst US trades discussions with its allies. The monthly deficit totaled only $46.2 billion in April which of course is enormous, but well under recent months including three straight, between December and February that were over $50 billion. A **sharp decline in cellphone imports** helped bring down April's gap as did a respectable rise in exports including for food.

V) **Equities in June are higher with Large-Cap, Growth, Materials and Con. Discretionary leading equity price performance. The laggards for the month are Small-Cap, Value, Utilities and Energy.**

Capitalization: **Large Caps +2.81%** (YTD +5.06%), Mid-Caps +2.70% (YTD +4.39%) and **Small Caps +2.40%** (YTD +9.47). **Style: Value +2.48%** (YTD +5.69%) and **Growth +3.34%** (YTD +9.50%). **Industry Groups (Leaders):** Info. Tech +2.68% **(**YTD +13.90%), Technology +2.74% (YTD +12.61%), **Consumer Discretionary +3.96%** (YTD +11.83%), **Energy +1.26%** (YTD +7.42%), Healthcare +3.25% (YTD +3.36%), Industrials +2.76% (YTD +1.55%), Financials +3.34% (YTD +1.01%) and **Materials +4.55%** (YTD +0.99%). (**Laggards):** REITs +1.58% (YTD -1.99%), Telecom +2.86% (YTD -5.92%), **Utilities -4.48%** (YTD -6.79%) and Consumer Staples +2.36% (YTD -10.08%).

EUROPEAN EQUITIES

The MSCI Europe index ended Friday's session down, but the week higher at +0.45%. Investors were in a nervous mood as tensions flared between the U.S. and its allies ahead of the G-7 meeting.

Drivers: I) **European markets have calmed** following the formation of a new Italian coalition government of two anti-establishment parties, while an increase in European bond yields also helped banking stocks following hints from rate-setters that the ECB could announce the end of bond buying as soon as Thursday's ECB meeting. Italy's FTSE MIB fell 3.4% as unease about the new government's spending plans pressured Italian government bonds.

II) The **Euro-zone's first quarter gross domestic product** was unrevised at a **quarterly increase of 0.4%,** little more than half of the previous quarter's rate and equaling the weakest performance since the second quarter of 2015. The **annual expansion rate was 2.5%,** also matching last month's estimate and 0.3% short of its fourth quarter mark. The quarterly deceleration was mainly due to a sharp turnaround in the contribution from net foreign demand which hide some more positive aspects among the domestic expenditure components.

III) **Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was higher by +0.45% for the week (MTD +1.34%, YTD -1.27%).**

ASIAN EQUITIES

Asian equities were higher last week as investors adopted a cautious stance ahead of G-7 summit starting in Canada later in the day along with upcoming U.S. Fed, ECB and Bank of Japan monetary policy meetings during the week. The Dow Jones Asia Index rose by +1.77% for the week, (MTD +2.14%, YTD -2.54%).

Drivers: I) In **Japan**, **first quarter gross domestic product declined** an unrevised 0.2% on the quarter and was down at an **annualized rate of 0.6%. On the year, GDP was up 1.1%.** Household consumption is estimated to have fallen 0.1% on the quarter. Private residential investment is now estimated to have fallen by less than the preliminary estimate and growth in private non-residential investments also been revised slightly higher, but the net effect on headline growth is small and offset by a larger fall in private inventories.

II) **China's trade surplus narrowed in May** on strong imports, through the gap with the U.S. widened in part, some economists said, because of concerns that trade tensions could worsen in the months ahead. China reported a trade surplus of $24.92 billion last month, according to customs data released Friday. **China's trade surplus** with the **U.S. in May was up 11%** from April, at $24.58 billion, according to Friday's data.

III) **Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was higher by +2.36% (MTD +2.22%, YTD +0.52%), the Hang Seng Index advanced by +1.52% (MTD +1.63%, YTD +3.07%) and the Shanghai Composite fell by -0.26% (MTD -0.92%, YTD -7.26%).**

FIXED INCOME

Treasury yields were higher for the week, alongside their eurozone peers after remarks from a senior European Central Bank official showed the central bank remained on track to debate next week the timetable for ending its asset purchases.

Performance: I) **The 10-year Treasury yield was higher last week ending at 2.949 up from 2.902%. The 30-year yield rose last week climbing from 3.050 to 3.090.**

II) **Performance for the week, month-to-date and year-to-date. The Bloomberg Barclays US Aggregate Bond Index fell by -0.22% last week, MTD -0.58% and YTD -2.07%. The Bloomberg Barclays US MBS TR was lower by -0.29% last week, MTD -0.58% and YTD -1.58%. The Bloomberg Barclay's US Corporate HY Index was up by +0.44%, MTD +0.53% and YTD +0.28%.**

COMMODITIES

The DJ Commodity Index was lower by -0.40 last week and is down month to date -0.75% (YTD +4.16%), as oil continued to fall on the potential for increased production coming out of OPEC.

Performance: I) The price of **oil last week fell by -0.22%** down to $65.56 and is lower month to date in June -2.20% (YTD +9.08%). Oil prices were lower as energy investors weighed potential outcomes for a meeting of major oil producers later this month against persistent concerns about crude supply from Iran and Venezuela.

II) The **ICE USD Index**, a gauge of the U.S dollar's movement against six other major currencies, **declined -0.67%** from 94.16 to 93.53 for the week (MTD -0.48%, YTD +1.33%). The U.S. dollar lost ground this week came amid **waning political worries** in the eurozone as Italian political parties managed to avoid a snap election.

III) **Gold rose last week** despite finishing lower on Friday, as the dollar showed a modicum of strength, but intensifying global trade disputes limited losses for bullion. **Gold rose +0.43%** last week, rising from $1297.9 to $1303.5 (MTD -0.09% YTD -0.12%).

HEDGE FUNDS

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

Performance:

I) **The HFRX Global Hedge Fund Index is higher at +0.45% MTD and -0.22% YTD.**
II) **Equity Hedge has risen by +0.88% MTD and is up +1.81% YTD.**
III) **Event Driven has advanced MTD +0.79% and is lower YTD -3.30%.**
IV) **Distressed Debt is higher by +0.23 MTD and is negative YTD -4.33%**
V) **Macro/CTA has declined by -0.41% MTD and is down -2.34% YTD.**
VI) **Relative Value Arbitrage has risen by +0.25% and is higher by +2.06% YTD.**

ECONOMIC DATA WATCH AND MARKET OUTLOOK

As we look ahead to **next week's trading session**, investors were heartened that the equity markets were able to deflect the tensions coming out of the G-7 meeting and rally higher last week. This week, investor attention will be focused on the scheduled **policy meetings for the U.S. Federal Reserve and the ECB**, as well as the **summit** meeting between the **U.S. and North Korea** in Singapore.

In the case of the Fed, members of the **Federal Open Market Committee** are a virtual certainty to **raise the fed-funds rate by 0.25%**, marking the second hike of 2018 when they conclude their two-day meeting on Wednesday. The ECB is expected on Thursday to at last outline its plan for eventually winding down its purchase of monthly bond buys, a process many economists expect to be completed by the end of the year.

In turning to the **week's upcoming economic calendar**, market watchers will have their attention captured by **inflation readings**, as consumer prices open the week on Tuesday followed by producer prices on Wednesday. The PPI is where pressures tied to metal tariffs may not lift prices overall, but will offer a reminder of the new threats they pose. Forecasters are calling for no more than modest pressure in the **consumer price report** for May, at **monthly gains of 0.2%** overall and with the core rate also seen up only 0.2%. **Year-on-year rates** are expected to be mixed with the overall up 3 tenths to 2.8%, but the **core up only one- tenth at 2.2%.**

A **modest rate rise** is expected for inflation at the wholesale level in May. **PPI** is expected to **grow at 0.3%** for headline PPI-FD, 0.2% excluding food and energy, and at 0.2% when excluding food, energy and trade services. Steel and aluminum prices have been climbing but not enough yet to feed into overall producer inflation.

On **Wednesday afternoon, the FOMC takes center stage**, likely raising rates in the latest installment of their gradualist policy. They will also be updating their quarterly projections where any incremental increases for GDP or employment or inflation or future rate hikes could make the biggest headlines of all. Jerome Powell will also be giving his quarterly press conference.

Consumer spending is where the outlook may be improving based on the strong consensus for **Thursday's retail sales report**. Despite a wide consensus range, strength for retail sales is expected, at a **consensus gain of 0.4% in May** with ex-auto, given slight weakness in the month's unit auto sales, showing even more strength at 0.5%. Ex-auto ex-gas sales are seen at a 0.4% gain with control group sales, which also exclude food services and building materials, also expected to rise 0.4%.

Friday will offer a concentrated look at **one area of the economy** that **has not been soft** at all and that **manufacturing**. The Empire State will offer the first small-sample look at June's activity while industrial production will offer the first definitive conclusion on May. Held down by manufacturing, **industrial production is expected to rise only 0.1% in May**. The report's manufacturing component, which dominates the weighting in this series, is also expected to inch only 0.1% higher in line with weakness in factory hours in the May employment report.