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INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

U.S. equities were lower on the week as investors continued to have on-going concerns regarding the trade disputes between the US with China and the European Union.

a) **Dow Jones -2.03%, MTD +0.78%, YTD +0.54** b) **S&P 500 -0.87%, MTD +1.95%, YTD +4.01%**
c) **Russell 2000 +0.11%, MTD +3.26%, YTD +10.38%**

Drivers: I) **Equity markets** are concerned that **trade tensions** between the U.S. and major trading partners such as China and the European Union could eventually become a **drag on the global economy**. These concerns come as the U.S. economy, the world's largest, is increasingly viewed as in the late stages of its expansion. The EU has said it would begin implementing tariffs on $3.2 billion in U.S. imports on Friday.

II) The **HIS Markit's flash PMIs** tracks U.S. manufacturers and a gauge for **service**-oriented companies both **tapered off** slightly in June but still showed the **U.S. economy expanding at a strong pace**. The manufacturing index fell to a seven-month low of 54.6 from 56.5. The services barometer dropped to a two-month low of 56.5 from 56.8. New orders in both reports are down with exports in the Markit report.

III) **Producer prices for May rose 0.5%,** which is the highest monthly jump since January and is in fact, one of the very highest of the whole expansion. **Oil was a big factor** in the PPI's rise, but sharp gains for steel and aluminum at the intermediate level were also evident and no doubt played their part in a 1.0% spike for final goods. Import prices have posted 0.6% gains the past 2 months with the yearly rate over 4.0% which is another expansion high.

IV) **May's housing starts jumped 5.0,** to a 1.350 million annualized rate that should give a boost to residential investment in the second-quarter GDP report. May's building permits fell steeply for a second straight month, down 4.6% to a 1.301 million rate. Permit weakness includes single-family homes, down 2.2% to an 844,000 rate, and multi-family units fell once again, 8.8% to a 457,000 rate.

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

Capitalization: **Large Caps +2.40%** (YTD +4.28%), Mid-Caps +2.32% (YTD +4.00%) and **Small Caps +3.26%** (YTD +10.38). **Style: Value +2.52%** (YTD +5.73%) and **Growth +2.90%** (YTD +9.03%). **Industry Groups (Leaders): Consumer Discretionary +5.56%** (YTD +13.55%), Info. Tech +1.91% **(**YTD +13.04%), Technology +1.82% (YTD +11.60%), **Energy -0.34%** (YTD +5.72%), Healthcare +3.44% (YTD +3.56%), **Industrials -2.02%** (YTD -3.18%), (**Laggards):** REITs +3.15% (YTD -0.47%), Utilities -0.44% (YTD -1.99%), Financials -0.02% (YTD -2.27%), Materials +0.98% (YTD -2.46%), **Consumer Staples +4.74%** (YTD -7.99%) and Telecom +1.32% (YTD -9.00%).

EUROPEAN EQUITIES

The MSCI Europe index was lower last week at -0.83%. European markets fell as another tariff threat from U.S. President Trump was unleashed, this time aimed at the European auto industry.

Drivers: I) The **Euro-zone June flash composite PMI** picked up a little momentum to end the second quarter. At **54.8,** the flash composite output index was **0.7 points above its final May reading**. However, this was still the second weakest reading in the last seventeen months. The overall acceleration was wholly attributable to services where the flash PMI rose 1.2 points from its final May print to 55.0, its best level in four months.

II) **European manufacturing continued to slow** and at also 55.0, its flash PMI was 0.5 points short of its final mid-quarter mark and an **18-month low**. Manufacturing output saw its slowest growth since November 2016, as manufacturing recorded their weakest rate in twenty-two months. However, backlogs rose modestly in both sectors and a solid advance in employment was also broad-based. Even so, overall business expectations deteriorated to their weakest point in nineteen months.

III) **Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was lower by -0.83% for the week (MTD +0.26% YTD -2.33%).**

ASIAN EQUITIES

Asian equities were mostly lower last week as worries about tariffs and a potential trade war persisted, and investors waited for the OPEC meeting outcome where new production quotas were to be established. The Dow Jones Asia Index fell by -2.10% for the week, (MTD -1.95%, YTD -6.45%).

Drivers: I) **Chinese shares fell** to their **lowest level in nearly two years**, as investors nervous about the prospect of an escalating trade war between the U.S. and China sold everything from large insurers to small tech firms. The pessimism spread to most sectors of the country's financial markets, hitting China's recently resilient currency and commodities including iron ore and rubber. The Nikkei (down 1.5%) and the Topix (down 2.5%) retreated due to a stronger yen and tariff concerns that pulled down automakers.

II) In **Japan**, **May consumer price index increased 0.7%** on the year, up slightly from 0.6% in April, but still well **below the Bank of Japan's 2.0%** inflation **target**. Seasonally adjusted headline CPI advanced 0.1% on the month after falling 0.4% in April. Price increases were relatively steady for most categories of consumer spending. Core CPI, which excludes fresh food prices, also rose 0.7% on the year, unchanged from April.

III) **Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was lower by -1.46% (MTD +1.43%, YTD -0.26%), the Hang Seng Index declined by -3.16% (MTD -3.68%, YTD -2.32%) and the Shanghai Composite fell by -4.37% (MTD -6.65%, YTD -12.62%).**

FIXED INCOME

Treasury yields declined last week as the traditional haven boosted by anxieties centered on trade clashes between the U.S. and major trading partners such as China and the European Union.

Performance: I) **The 10-year Treasury yield was lower last week ending at 2.893 down from 2.920%. The 30-year yield was lower last week, dropping from 3.044 to 3.037.**

II) **Performance for the week, month-to-date and year-to-date. The Bloomberg Barclays US Aggregate Bond Index fell by -0.01% last week, MTD -0.47% and YTD -1.95%. The Bloomberg Barclays US MBS TR was higher by +0.09% last week, MTD -0.30% and YTD -1.30%. The Bloomberg Barclay's US Corporate HY Index was down by -0.04%, MTD +0.94% and YTD +0.69%.**

COMMODITIES

The DJ Commodity Index was lower by -0.14 last week and is down month to date -3.44% (YTD +1.32%), as the sharp rise in oil prompted by the lower than expected output increase from OPEC offset lower prices for agricultural commodities and industrial metals caused by trade and growth worries.

Performance: I) The price of **oil last week surged by +7.61%** up to $69.28 and is higher month to date in June +3.34% (YTD +15.27%). Oil prices rallied strongly as OPEC members agreed to raise output, but by an amount that appears to be less than traders had anticipated.

II) The **ICE USD Index**, a gauge of the U.S dollar's movement against six other major currencies, **declined -0.28%** from 94.79 to 94.52 for the week (MTD +0.57%, YTD +2.40%). The U.S. dollar fell slightly as the markets digested mixed economic data out of Europe and continued concerns over an expansion of a global trade war.

III) **Gold dropped to a new low for the year,** as investors focused on expectations for higher interest rates ahead, a headwind for metals, and the U.S. dollar, which has strengthened over the past month. **Gold dropped -0.85%** last week, declining from $1282.0 to $1271.1 (MTD -2.57%, YTD -2.60%).

HEDGE FUNDS

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

Performance:

I) The HFRX Global Hedge Fund Index is lower at -0.14% MTD and -0.81% YTD.
II) Equity Hedge has fallen by -0.23% MTD and is up +0.69% YTD.
III) Event Driven has declined MTD -0.44% and is lower YTD -4.48%.
IV) Distressed Debt is lower by -2.04 MTD and is negative YTD -6.50%
V) Macro/CTA has dropped by -0.61% MTD and is down -2.53% YTD.
VI) Relative Value Arbitrage has risen by +0.57% and is higher by +2.39% YTD.

ECONOMIC DATA WATCH AND MARKET OUTLOOK

As we look ahead to **next week's trading session**, investors for the past several months have been dealing with a **tug of war** regarding factors that should **drive equity prices**. **Fears over a global trade war** and its possible negative effect on global growth have driven stock prices down and market volatility up. On the **opposite side, solid global corporate earnings and stable economic growth** have supported equity prices and a positive uptrend. Some evidence of solid fundamentals is seen in the projections for US Q2 GDP growth, which ranges from 3.5% to as high as 4.5%. In the just completed first quarter earnings season for the S&P 500, all eleven industrial sectors saw positive revenue (24%) and earnings growth (8%).

Despite the market's travails thus far in 2018, in the US, the **NASDAQ has hit record levels (up 12.0%)** led by technology and information technology stocks. The **small cap Russell 2000** is up an impressive **10.0%** for the year. Even the trade war scared **S&P 500** is **higher** on the year by about **4.0%.** Should the **rhetoric** regarding a potential **global trade war die down**, the potential for a **positive second half** rise in equities would greatly improve.

In turning to the week's **upcoming economic calendar**, an upgrade for the consumer was the news of the FOMC at mid-month and **Friday's personal income and consumer spending report** will offer the final verdict for May. **Personal income** is seen **rising a solid 0.4%** in May while **consumer spending**, in what will be the second major input into second-quarter GDP, is expected to also **increase 0.4%.**

The **core PCE price index**, which excludes both food and energy and which is the most closely watched of all inflation readings, is seen posting a modest 0.2% monthly rise for a **year-on-year gain of 1.9%** and very close to the Fed's target for 2%. The consensus for the overall price index is also 0.2% for a year-on-year rate of 2.2%.

Housing is close to the consumer and the week offers key indications beginning on Monday with new home sales, which have been strong. Beneath uneven monthly results are a solid upward trend for **new home sales** which are **expected to accelerate** very slightly in May to a **665,000**-annualized rate **versus 662,000** in April. Housing completions have been coming into the market which should help sales as should relative price weakness for new homes.

Pending sales of existing homes on Wednesday which have been weak. Pending home sales are expected to **increase 0.7%** in May after dropping 1.3% rise in April. This index has been accurately forecasting what are flat results for the existing home sales report.

Another month of **underlying growth** is the call **for durable goods orders** which however, based on expectations for aircraft orders, is forecast to show a decline of 0.6%. Ex-transportation orders are expected to **rise 0.4%** in May. Strength in core capital goods orders was a major plus in the April report and a modest 0.2% add-on gain is the May consensus.