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INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

US equities closed slightly higher last week, as market's weighted concerns over US trade and dollar policies against the backdrop of strong corporate earnings.

a) **Dow Jones +0.20%, MTD +3.36%, YTD +2.61** b) **S&P 500 +0.04%, MTD +3.17%, YTD +5.90%**
c) **Russell 2000 +0.58%, MTD +3.31%, YTD +11.23%**

Drivers: I) The **corporate earnings season** is in full swing and with 86 companies (17%) of the S&P 500 reporting, 94% have beaten their EPS estimates and 78% are above revenue projections. These results, according to FactSet, are impressive, but more than, 50% of reporting companies mentioned that a strong USD had a negative impact on earnings. In Q2, the US dollar was up 5.2% versus the Euro, 6.1% against the GBP and 4.3% versus the Yen.

II) In an unexpected downturn**, housing starts** as well as **permits both fell sharply** to their lowest rates since September last year. Housing starts dropped a monthly 12.3% to a 1.173 million annualized rate in June with permits down 2.2% to 1.273 million, both far below the Street's consensus range. **The major factor** holding down starts and permits is the physical **shortages of construction goods and available labor.**

III) **Inventories** are up, **rising a solid 0.4%** in lagging data for May with wholesalers and retailers showing the largest increases. Rising inventories are an immediate **positive for GDP** and, because these increases are well behind sales growth, the need to build inventories further is a future positive for both production and employment. Sales growth for this data set jumped 1.4% in May in a mismatch with inventories.

IV) Strength in the economy is nowhere more apparent than in the labor market. **Initial jobless claims fell 8,000** in the July 14 week to a 207,000 level that is the **lowest since December 1969.** Continuing claims, where data lags by a week, edged 8,000 higher to 1.751 million, which is just off a low last seen in 1972. And summing it up best, the unemployment rate for insured workers remains at only 1.2%.

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

Capitalization: **Large Caps +3.13%** (YTD +6.07%), **Mid-Caps +2.64%** (YTD +5.04%) and **Small Caps +3.11%** (YTD +11.23). **Style: Value** +**2.33%** (YTD +6.14%) and **Growth +3.43%** (YTD +10.38%). **Industry Groups (Leaders): Info. Tech +4.87% (**YTD +15.92%), Consumer Discretionary +2.64% (YTD +14.37%), **Technology +4.47%** (YTD +14.32%), Healthcare +3.97% (YTD +5.77%), **Energy -1.43%** (YTD +5.22%), Utilities +0.66% (YTD +0.93%) and **REITs -0.61%** (YTD +0.13%). (**Laggards):** Financials +3.80% (YTD -0.49%), Industrials +3.91% (YTD -0.72%), Materials +0.42% (YTD -2.78%), Consumer Staples +2.59% (YTD -5.85%) and Telecom -0.04% (YTD -7.99%).

EUROPEAN EQUITIES

The MSCI Europe index was higher last week gaining +0.46%. European markets were mixed for the week as renewed trade war worries weighed on the markets after President Donald Trump indicated a willingness to impose tariffs on all Chinese imports to the U.S

Drivers: I) In **Europe**, the June final harmonized index of **consumer prices was up 2.0%** on the year. The core measures were mixed. The yearly rate of the narrowest gauge, which excludes energy, food, alcohol and tobacco, was up 0.9%. This was 0.2% below its final May reading and compares with a 1.0% rate at the start of the year. Without energy and seasonal food, inflation was 1.2%, down from 1.3% in May.

II) **In the UK**, June claimant count of **joblessness** increased 7,800 after a smaller revised 3,000 decline in May. This left the unemployment rate unchanged at a still **historically very low 2.5%.** The ILO data revealed a 12,000 decline in the number of people out of work in the three months to May. The jobless rate remained at 4.2% on this measure. Employment was up a sizeable 137,000 lifting the **employment rate** to a **record high of 75.7%.**

III) **Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was higher by +0.46% for the week (MTD +1.80%, YTD -1.49%).**

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ASIAN EQUITIES

Asian equities were mixed in a week that began with a deluge of Chinese data. Investors were distracted by trade war threats between China and the U.S. along with a summit between presidents Trump and Putin. The Dow Jones Asia Index rose by +0.46% for the week, (MTD +0.59%, YTD -6.65%).

Drivers: I) **Chinese economic data** showed **economic growth slowed** in the second quarter, as the government's efforts to rein in debt dampened activity, while production slowed adding fuel to concerns over an escalating trade war with the United States. Gross domestic product expanded 6.7% on the year in the three months to June as expected after growing 6.8% in the first quarter.

II) In **Japan**, June **merchandise trade balance shifted** from a **deficit of ¥578 billion** in **May to a surplus of ¥721 billion in June**. Exports grew 6.7% on the year, slowing from 8.1% in May. Imports slowed from 14.0% to 2.5%. The pullback in annual headline growth in exports was mainly driven by weaker demand from China and the United States. Exports to China increased 11.1% on the year, down from 13.9% in May, while exports to the United States fell 0.9% on the year

III) **Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was higher by +0.44% (MTD +1.76%, YTD +0.72%), the Hang Seng Index declined by -1.05% (MTD -2.54%, YTD -6.06%) and the Shanghai Composite fell by -0.07% (MTD -0.64%, YTD -14.45%).**

FIXED INCOME

Treasury yields rose last week as Fed Chair Jerome Powell provided his semi-annual monetary policy report to Congress and largely stayed with the optimistic view of the economy and expectations for a continued gradual rise in interest rates.

Performance: I) **The 10-year Treasury yield was higher last week ending at 2.896% up from 2.831%. The 30-year yield rose last week climbing from 2.930 to 3.027.**

II) **Performance for the week, month-to-date and year-to-date. The Bloomberg Barclays US Aggregate Bond Index dropped by -0.27% last week, MTD +0.15% and YTD -1.47%. The Bloomberg Barclays US MBS TR was lower by -0.12% last week, MTD +0.11% and YTD -0.84%. The Bloomberg Barclay's US Corporate HY Index was up by +0.09%, MTD +0.59% and YTD +0.76%.**

COMMODITIES

The DJ Commodity Index was lower by -0.10 last week and is down month to date -4.38% (YTD -2.68%), driven by a sharp drop in oil. U.S. energy companies this week cut oil rigs by the most in a week since March as the rate of growth has slowed over the past month or so with recent declines in crude prices.

Performance: I) The price of **oil last week dropped by -3.45%** down to $68.14 and is lower month to date in July -8.22% (YTD +13.37%). Oil suffered steep losses for a second week in a row, due to US/China trade war concerns which could dampen economic growth and the demand for oil.

II) The **ICE USD Index**, a gauge of the U.S dollar's movement against six other major currencies, **fell -0.21%** from 94.68 to 94.48 for the week (MTD +0.01%, YTD +2.36%). The U.S. dollar dropped following U.S. President Donald Trump's criticism of Federal Reserve policy. Trump on Thursday expressed concern about the potential impact of rising rates and a stronger dollar on the U.S. economy and American corporate competitiveness.

III) **Gold dropped last week** and is down -10.0% from its January 15 high, due to rising interest rates and a strong USD. **Gold was lower by -0.79%** last week, falling from $1241.8 to $1231.9 (MTD -1.78%, YTD -5.60%).

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HEDGE FUNDS

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

Performance:

I) The HFRX Global Hedge Fund Index is higher at +0.69% MTD and down -0.17% YTD.
II) Equity Hedge has climbed higher by +1.01% MTD and is up +1.25% YTD.
III) Event Driven has advanced MTD +0.31% and is lower YTD -4.20%.
IV) Distressed Debt is higher by +0.14 MTD and is negative YTD -6.07%
V) Macro/CTA has risen by +1.62% MTD and is down -0.22% YTD.
VI) Relative Value Arbitrage is ahead by +0.04% and is higher by +2.25% YTD.

ECONOMIC DATA WATCH AND MARKET OUTLOOK

As we look ahead to next week's trading session, it seems that **markets are ignoring the US/China trade war** rhetoric as the **S&P 500** just breached the 2,800 level and is **only 2.50% below its January high** of 2872.87. The NASDAQ and Russell 2000 are also in rally mode, as they hit new intra-day highs last week. Investors have flocked to small cap and technology stocks as they are perceived to be better insulated against a trade war. Markets participants are **optimistic** due to **strong corporate earnings** (+20.0%), solid **economic growth** (Q2 +4.0% estimate), l**ow unemployment** and **moderate inflation**.

But in the coming months, will the string of **strong economic and earnings data** be enough to **hold off the potential negative effects of a US/China tariff war**. We are beginning to see an **increase in raw material costs** such as lumber and steel due to imposed tariffs. How long before these higher input costs **cause consumer prices to rise** at an accelerated rate. And finally, will tariff concerns cause corporate expenditures to be put on hold, potentially dampening the improvements we are seeing in GDP growth.

In turning to the week's **upcoming economic calendar**, the focus will be on **Friday's GDP report** where a **4.2% growth rate** is the Street estimate. The report should show **consumer spending picking** up sharply to a 2.9% rate. **Narrowing** in the **net export deficit** is seen as another major plus in the data.

On **Monday** morning, the **report on existing home sales** will be released which is not expected to show much momentum. Existing home sales have been weak this Spring selling season, coming in below Street consensus range in April and May. But the number of homes on the market has been on the rise which should help sales in June. But **forecasters are not calling for a rebound**, at a consensus 5.450 million annualized rate in June versus 5.430 million in May.

More **housing data** follow on **Tuesday** with the **FHFA house price index**, which has turned flat, followed by new home sales on Wednesday which have been the sector's key area of strength. Home prices have been cooling along with sales and are part of the headwinds appearing in the housing sector. The FHFA house price index has managed only very small gains the past two reports though a better gain, **at 0.4%,** is the consensus for May.

New home sales have been the **driver** for what is seen as a mixed housing sector. The Street **consensus for June** new home sales is **669,000 versus 689,000** in May, a month when sales got a boost from lower prices.

Durable goods orders are Thursday's highlight and a big rebound in aircraft orders is expected to lift the headline sharply for a factory sector that, despite price and supply dislocations, is approaching double-digit growth. A pent-up **surge in aircraft orders** is expected to make for a big bounce higher in durable goods orders where the consensus for **June is a 3.2% gain versus May's 0.6% decline.** But strength elsewhere is expected to be more limited with the ex-transportation consensus at a 0.5% gain. May's data included slowing in orders for steel and aluminum which spiked in March and April following the imposition of import tariffs.

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