INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

US equities rose last week as the strongest GDP growth seen in four years and earnings outperformance by the major of reporting companies, more than offset disappointing results from Twitter and Facebook.

a) **Dow Jones +1.57%, MTD +4.98%, YTD +4.22** b) **S&P 500 +0.61%, MTD +3.80%, YTD +6.55%**
c) **Russell 2000 -1.96%, MTD +1.28%, YTD +9.04%**

Drivers: I) **GDP jumped to a real 4.1% annualized rate** in the second quarter for the strongest showing in nearly four years and the second strongest since the easy comparisons coming out of the recession. The average over the past five quarters is 2.9%. **Price pressures surged perhaps prompting more Fed action.** The strength of demand and the need to restock inventories, hint at perhaps stronger GDP growth in the quarters ahead.

II) The **main driver of the economy is consumer spending**, which rose at a **very strong 4.0% rate**, contributing 2.69% to the quarter's overall 4.1% result. The strength in services showed gains in household consumption spending, health care, as well as food services and accommodations which are both discretionary. Spending is also on the rise for durable goods including vehicles and furniture, and nondurable goods such as apparel.

III) **Existing-home sales** came in at a **5.38 million** seasonally-adjusted annual rate in June, the National Association of Realtors reported, **matching the Street consensus** estimate. With fewer homes available for purchase, there's little path up for sales. June marked the third consecutive month in which sales declined. It was the lowest selling rate since January and was 2.2% lower than a year ago.

IV) The **University of Michigan** reported the **Consumer Sentiment index fell to 97.9** from 98.2 in June, as both the assessment of current economic conditions and expectations fell. Economists expected a 97.3 reading. "Despite the expectation of higher inflation and higher interest rates during the year ahead, consumers have kept their **confidence at high levels** due to favorable job and income prospects," the University of Michigan said.

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

Capitalization: **Large Caps +3.55%** (YTD +6.50%), Mid-Caps +2.44% (YTD +4.84%) and **Small Caps +1.28%** (YTD +9.04). **Style: Value +1.44%** (YTD +5.21%) and **Growth +1.81%** (YTD +8.65%). **Industry Groups (Leaders):** Info. Tech +3.59% **(**YTD +14.50%), Consumer Discretionary +2.17% (YTD +13.85%), Technology +3.43% (YTD +13.18%), **Energy +0.87%** (YTD +7.68%), Healthcare +5.42% (YTD +7.24%), Utilities +1.35% (YTD +1.62%), **Financials +5.92%** (YTD +1.54%) and **Industrials +6.07%** (YTD +1.34%). (**Laggards): REITs -0.77%** (YTD -0.03%), Materials +2.13% (YTD -1.12%), Consumer Staples +3.63% (YTD -4.90%) and Telecom +1.08% (YTD -6.96%).

EUROPEAN EQUITIES

The MSCI Europe index was higher last week climbing +1.15%. European markets advanced for the week buoyed in part by easing trade tensions between Europe and the U.S. and solid corporate earnings reports

Drivers: I) **US President Donald Trump and the EU's Jean-Claude Juncker** said **the U.S. and EU are launching new negotiations** aimed at **defusing** rising **transatlantic trade tensions**. In a joint announcement after meetings in Washington Wednesday, the two leaders said they had agreed to work together towards eliminating all tariffs, trade barriers and subsidies related to non-auto industrial goods. They also said they would work together to reform the WTO and reduce trading costs and regulatory barriers across the Atlantic.

II) The **ECB kept interest rates on hold last week** and confirmed plans to **halt bond purchases in December.** The bank's governing council left main interest rates unchanged. Monthly net asset purchases are scheduled to continue at €30 billion through September before being halved to €15 billion and ending by December. The banker also expected to keep **rates on hold** at record low levels "at least **through the summer of 2019**".

III) **Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was higher by +1.15% for the week (MTD +2.97%, YTD -0.36%).**

ASIAN EQUITIES

Asian equities advanced for the week although growth concerns kept Chinese markets under pressure. While easing of trade tensions between the U.S. and European Union supported an upside sentiment. The Dow Jones Asia Index advanced by +1.84% for the week, (MTD +2.45%, YTD -4.93%).

Drivers: I) **Japan's talks** with **U.S. Trade Representative** Robert Lighthizer will **take place in August**, rather than July, as had originally been expected, Japanese Prime Minister Shinzo Abe and U.S. President Donald Trump agreed this year to set up the dialogue as the Trump administration renegotiates trade relationships it considers unfair to U.S. companies and workers. Trump has made clear he prefers a bilateral trade deal with Japan to lower its trade surplus with the United States.

II) The **Chinese economy** is at a "historic juncture" having to **move from "high speed" growth to "high quality" growth**, and how this shift is carried through will determine the country's development path for decades to come, the staff of the International Monetary Fund said in a report released Thursday. There are **tensions** in the **government's strategy** between, on the one hand, allowing market forces a decisive role and the pervasive role of the state, the report said.

III) **Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was higher by +0.07% (MTD +1.84%, YTD +0.79%), the Hang Seng Index rose by +2.06% (MTD -0.53%, YTD -4.13%) and the Shanghai Composite was positive climbing +1.57% (MTD +0.92%, YTD -13.11%).**

FIXED INCOME

Treasury yields climbed higher last week after the BOJ stated they would debate policy shifts, including changes to its stimulus program and a reduction of its inflation forecast.

Performance: I) **The 10-year Treasury yield was higher last week ending at 2.955% up from 2.896%. The 30-year yield rose last week climbing from 3.027 to 3.082.**

II) **Performance for the week, month-to-date and year-to-date. The Bloomberg Barclays US Aggregate Bond Index dropped by -0.17% last week, MTD -0.03% and YTD -1.64%. The Bloomberg Barclays US MBS TR was lower by -0.26% last week, MTD -0.15% and YTD -1.10%. The Bloomberg Barclay's US Corporate HY Index was up by +0.32%, MTD +0.92% and YTD +1.08%.**

COMMODITIES

The DJ Commodity Index was higher by +1.39 last week and is down month to date -2.99% (YTD -1.26%), as agriculture and some industrial metals rebounded on progress made in the US/European trade dispute.

Performance: I) The price of **oil last week rose by +1.32%** up to $69.04 and is lower month to date in July -7.01% (YTD +14.87%). Oil rose for the week, but pared some gains as **Russia's energy minister** indicated that a coalition of producers **could pump more crude** than agreed by the end of the year.

II) The **ICE USD Index**, a gauge of the U.S dollar's movement against six other major currencies, **advanced +0.20%** from 94.48 to 94.67 for the week (MTD +0.21%, YTD +2.57%). The U.S. dollar gave up some of its weekly gain on Friday, due to the second-quarter gross domestic product report which underperformed lofty expectations but highlighted a strong economy.

III) **Gold was essentially flat last week** as the rise in interest rates and the USD put a cap on any price appreciation. **Gold rose +0.05%** last week, rising from $1231.9 to $1232.6 (MTD -1.72%, YTD -5.55%).

HEDGE FUNDS

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

Performance:

I) The HFRX Global Hedge Fund Index is higher at +0.20% MTD and down -0.65% YTD.
II) Equity Hedge has climbed higher by +1.19% MTD and is up +1.44% YTD.
III) Event Driven has fallen MTD -0.72% and is lower YTD -5.18%.
IV) Distressed Debt is higher by +0.23 MTD and is negative YTD -5.98%
V) Macro/CTA has risen by +0.16% MTD and is down -1.66% YTD.
VI) Relative Value Arbitrage is ahead by +0.03% and is higher by +2.23% YTD.

ECONOMIC DATA WATCH AND MARKET OUTLOOK

Moving to next week's **market outlook**, investors are in a **quandary** to determine which data points will have the greater influence on market direction. On one side, you have **strong earnings and economic data**, which on the flip side **engenders worries** over the potential for an **accelerated rise of inflation and interest rates**. After the strong GDP report of 4.1% Q2 growth last Friday, the **corporate earnings season has been solid.** Thus, far 261 S&P 500 companies (53%) have reported with **88% and 73% having exceeded earnings and revenue projections** respectively. Earnings are experiencing a solid 24.0% growth rate, which is about 4% above expectations. From the negative perspective, we are seeing some semblance of inflation due to the rise in energy prices, plus wages are beginning to percolate due to tightness in the building and transportation job sectors. These factors should bring some **higher levels of market volatility**, though we believe the market upswing should remain intact.

In turning to the week's upcoming economic calendar, **pending home sales** are expected to **increase 0.8%** in June after a 0.5% rise in May. This index has on trend been accurately forecasting flat to declining results for the existing home sales report.

On **Tuesday,** the focus will be the quarterly release of the **employment cost index**, a key reading on wage pressures. Both personal income and consumer spending are seen rising a moderate-to-solid 0.4% in June. Note that the data will unbundle June's contribution from last week's second-quarter GDP report. The **core PCE** price index, is seen **rising a 0.2% monthly** rise for a **year-on-year gain of 2.0%.** This index, which is the most closely watched of all inflation readings, first hit the Fed's 2.0% goal in the May report. The consensus for the overall price index is for a 0.1% monthly gain and a year-on-year rate of 2.3%.

Wednesday's big news will be the **mid-afternoon FOMC statement**, where there are no expectations that the FOMC will respond to the very strong second-quarter GDP report. The Street consensus is they see the **federal funds target holding at a 1.875%** midpoint within a 1.75 to 2.00% range. There is no press conference or economic forecasts to go along with this meeting's statement where updates on consumer spending, the labor market and inflation, should they prove hawkish, could raise the number of future rate hikes that are expected.

Employment data out on Friday is pointing to **another month of significant strength.** Following a very strong May and June, nonfarm payrolls are expected to extend their strength to July where the Street consensus is calling for a **188,000 rise.** The **unemployment rate**, at a **July consensus of 3.9%,** rose 2 tenths in June to 4.0% in what was a good sign as more people began to look for work. Despite all the strength, **wages** were flat in June and mixed results are expected for July with the monthly gain for average hourly earnings at a moderate at 0.3% consensus, not enough however to lift the year-on-year rate which is expected to **hold at 2.7%.** The workweek is seen unchanged at 34.5 hours with the labor participation rate down 1 tenth to 62.8%.