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INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

The main U.S. equity market indices closed higher last week, as the better than expected jobs data supported the premise that solid economic fundamentals are overcoming trade concerns.

a) **Dow Jones +0.82%, MTD +0.82%, YTD +0.09** b) **S&P 500 +1.56%, MTD +1.56%, YTD +4.25%**
c) **Russell 2000 +3.12%, MTD +3.12%, YTD +11.02%**

Drivers: I) **June's nonfarm payrolls rose 213,000 in June** following a 244,000 rise in May. June's gain was led by a 50,000 rise in professional and business services as businesses, contending with strengthening conditions, turned to 9,000 temporary employees as they try to keep up. More than 2.3 million jobs have been created June 2017 and 1.5 million have been created so far this year. The UE rate rose to 4.0% as more workers rejoined the work force.

II) **Average hourly earnings**, which is the measure of wage inflation in the employment report, has been muted, **holding at 2.7%** in June. This is a key part of the perfection of June's report. Wages feed into overall inflation and the flat wage report is **not a major threat to FOMC policy makers** who now have more freedom in monetary policy. This permits them to **extend out their rate-hike path** which is very good news equities.

III) The **factory orders report** showed a fourth straight strong build for unfilled orders, **up 0.5% in June**. The more backlogs pile up the more manufacturers will be in **need of new workers**. This is a very promising sign for future growth in manufacturing payrolls. Total unfilled orders came in at $1.161 trillion with unfilled orders for primary metals rising sharply to $30.5 billion.

IV) The **nation's trade gap narrowed** sharply in May, to $43.1 billion from $46.1 billion in April. This is the **lowest monthly deficit since October 2016**. Exports jumped 1.9% to $215.3 billion to well exceed a 0.4% rise in imports which totaled $258.4 billion. China's trade surplus with the United States was $33.2 billion in May and $152.2 billion year-to-date, up 13.0% from the same period last year. This report is very **positive for Q2 GDP** and shows the strength of cross-border trade, especially increasing demand for U.S. goods and services.

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

Capitalization: **Large Caps +1.50%** (YTD +4.50%), Mid-Caps +1.76% (YTD +4.15%) and **Small Caps +3.12%** (YTD +11.02). **Style: Value** +**2.32%** (YTD +6.12%) and **Growth +2.37%** (YTD +9.25%). **Industry Groups (Leaders): Info. Tech +2.44% (**YTD +13.23%), Consumer Discretionary +0.96% (YTD +12.50%), Technology +2.32% (YTD +11.97%), **Energy -0.33%** (YTD +6.40%), **Healthcare +3.13%** (YTD +4.91%) and Utilities +2.42% (YTD +2.70%). (**Laggards):** REITs +1.76% (YTD +2.52%), Materials +0.66% (YTD -2.54%), Financials +0.40% (YTD -3.75%), Industrials +0.72% (YTD -3.77%), Telecom +2.24% (YTD -5.89%) and Consumer Staples +1.44% (YTD -6.91%).

EUROPEAN EQUITIES

The MSCI Europe index was higher last week at +1.40%. European markets shrugged off worries over global trade after U.S. tariffs on Chinese goods took effect, as strategist believe these tariffs have been priced in.

Drivers: I) In **Europe**, **June manufacturing PMI expanded** at 54.9, **0.6 points below its final mark in May**. This was its weakest performance in 18 months and its sixth straight decline. Growth of output and new orders cooled further, touching their **lowest rates since November 2016**. Export orders fell, and the survey also found exporters were increasingly concerned about the potential impact of tariffs and other trade restrictions.

II) In **Germany**, **May industrial production rebounded** a monthly 2.6% following a slightly steeper revised 1.3% monthly drop in April. Annual growth climbed from 1.4% to 3.1%. The mid-quarter recovery was broad-based and led by consumer goods where output was up 6.5% on the month after a 2.0% drop last time. Among the more volatile categories, energy was up 0.8% while construction jumped 3.1%.

III) **Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was higher by +1.40% for the week (MTD +1.40%, YTD -1.88%).**

ASIAN EQUITIES

Asian equities were down last week with U.S. tariff implementation looming at week's end. But on Friday investors responded with relative calm to U.S. tariffs on US$34 billion worth of Chinese imports that took effect after midnight Thursday. The Dow Jones Asia Index fell by -1.43% for the week, (MTD -1.43%, YTD -8.53%).

Drivers: I) **U.S. tariffs** on more than **800 goods from China worth $34 billion** took effect last Friday. China's commerce ministry said it was forced to retaliate, meaning $34 billion worth of imported U.S. goods including autos and agricultural products also faced 25% tariffs. On Thursday, China's General Administration of Customs said that additional tariff measures on U.S.-made imports will take effect immediately after the U.S. tariffs on its goods become effective.

II) In **Japan, the Bank of Japan's Tankan survey** of business conditions for the second quarter showed **investment growth were considerably stronger than expected**, with large manufacturing firms anticipating a 17.9% increase in overall investment (including land) in fiscal year 2018 compared with 6.3% in fiscal 2017). Improvement in investment expectations for large firms were positive, with capex growth projections for all firms across industries at 7.9% in fiscal 2018 (up from 4.4% in FY 2017).

III) **Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was lower by -2.32% (MTD -2.32%, YTD -3.32%), the Hang Seng Index declined by -2.22% (MTD -2.22%, YTD -5.76%) and the Shanghai Composite fell by -3.52% (MTD -3.52%, YTD -16.93%).**

FIXED INCOME

Treasury yields were lower last week, as the U.S. jobs data came in better than expected, but wage growth remained subdued.

Performance: I) **The 10-year Treasury yield was lower last week ending at 2.820% down from 2.860%. The 30-year yield was lower last week dropping from 2.991 to 2.928.**

II) **Performance for the week, month-to-date and year-to-date. The Bloomberg Barclays US Aggregate Bond Index rose by +0.24% last week, MTD +0.24% and YTD -1.38%. The Bloomberg Barclays US MBS TR was higher by +0.10% last week, MTD +0.10% and YTD -0.86%. The Bloomberg Barclay's US Corporate HY Index was up by +0.01%, MTD +0.01% and YTD +0.17%.**

COMMODITIES

The DJ Commodity Index was lower by -1.42 last week and is down month- to-date -1.42% (YTD +0.34%), as oil fell on increased U.S. supplies, while soybeans, pork and cotton were affected by potential China tariffs.

Performance: I) The price of **oil last week declined by -0.44%** down to $73.92 and is lower month to date in July -0.44% (YTD +22.99%). Oil fell as data from the Energy Information Administration on Thursday showed that U.S. crude stockpiles rose by 1.2 million barrels for the week ended June 29.

II) The **ICE USD Index**, a gauge of the U.S dollar's movement against six other major currencies, **declined -0.54%** from 94.47 to 93.96 for the week (MTD -0.54%, YTD +1.80%). The U.S. dollar was lower after June data showed a stronger-than-expected rise in nonfarm payrolls as investors monitored the escalation of the U.S.-China trade skirmish.

III) **Gold posted a slight gain for the week,** after a mostly upbeat U.S. jobs report was seen keeping the Federal Reserve on a path toward gradually higher interest rates. **Gold climbed +0.13%** last week, rising from $1254.2 to $1255.9 (MTD +0.13%, YTD -3.77%).

HEDGE FUNDS

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

Performance:

I) The HFRX Global Hedge Fund Index is higher at +0.31% MTD and -0.54% YTD.
II) Equity Hedge has climbed higher by +0.36% MTD and is up +0.60% YTD.
III) Event Driven has advanced MTD +0.54% and is lower YTD -3.97%.
IV) Distressed Debt is lower by -0.06 MTD and is negative YTD -6.26%
V) Macro/CTA has risen by +0.60% MTD and is down -1.23% YTD.
VI) Relative Value Arbitrage has fallen by -0.18% and is higher by +2.01% YTD.

ECONOMIC DATA WATCH AND MARKET OUTLOOK

As we look ahead to **next week's trading session**, market participants may be a bit more assured that **equity prices can still move higher despite trade tensions** and a potential economic slowdown in the future. **Buoying investor sentiment** are the facts that **U.S. corporate earnings** are still in double digit territory, **stock buybacks** are strong and **domestic policies are pro-business**. The tax cuts and fiscal stimulus are also muting some of the negatives coming from geo-political and tariff worries. We will see if this premise holds, as next week kicks off the second quarter earnings season. Banks will lead the earnings parade, with earnings growth expected to come in around 20.0%. Should earnings come in at the double-digit level for the S&P 500, this would mark the third quarter in a row.

In turning to the week's **upcoming economic calendar**, **inflation is the theme** led off by an employment measure: the **JOLTS report** where job openings, in an unprecedented sign of labor market tightness, have been exceeding job applicants. Another rise for JOLTS, however flat wage growth may be, could still heat up inflation talk. Job openings have been providing one of the strongest signals of any indicator on the labor market's strength. Forecasters are calling for a **6.700 million total in June**, unchanged from May's record 6.698 million. For the **first time in 20 years** of available data, **job openings are exceeding the number of unemployed** actively looking for work.

Two important inflation reports will be released: **producer prices and consumer prices** on **Wednesday**. Cooling to a **0.2% monthly increase** is expected for the **June producer price** headline following a 0.5% surge in May that was caused by a jump for trade services (wholesalers and retailers) and included hikes for energy as well as steel and aluminum. When excluding food and energy prices are also expected to rise 0.2% which again is the consensus when excluding food, energy and trade services.

Inflation may be showing pressure in the producer prices, but pass through to the consumer has been limited. Forecasters are calling for no more than **modest pressure in the consumer price report** for June, at a headline **monthly gain of 0.2%** and a core rate increase of also 0.2%. Little change is expected for year-on-year rates which are expected to increase 1 tenth overall to 2.8% and remain unchanged for **core at 2.2%.**

Consumer sentiment will offer its own inflation gauge as well the latest on expectations and whether tariff concerns are growing at the consumer level. Easing expectations, perhaps tied to tariff concerns, have been holding back the consumer sentiment index which nevertheless ended June at a solid 98.2 as the assessment of current conditions proved very strong. Forecasters are calling for **no change, at 98.2** for the preliminary reading in July.