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INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

US equities were higher last week as the S&P 500 and Dow recorded a fifth weekly gain in a row. A strong corporate earnings week more than offset some weakness in July employment and trade-war concerns.

a) **Dow Jones +0.05%, MTD +0.20%, YTD +4.28** b) **S&P 500 +0.80%, MTD +0.88%, YTD +7.40%**
c) **Russell 2000 +0.63%, MTD +0.17%, YTD +9.73%**

Drivers: I) **US non-farm payrolls** added **157,000 new jobs** in July despite widespread complaints among businesses about a shortage of skilled labor, the Labor Department reported Friday. The increase in hiring fell **below the 195,000 Street consensus**, but job gains in May and June was stronger than previously reported. Unemployment dropped below 4% again to 3.9%, nearly a two-decade low.

II) **Wages** showed only **moderate pressure** in July at a 0.3% monthly gain that follows only a 0.1% gain in June. The year-on-year rate has been held around **2.7%** and is showing no acceleration. This is ideal for the Fed, as it works to keep inflation stable at its 2.0% goal. The **core PCE price index** which excludes the volatile components of food and energy, is holding just **below 2.0%** which is really perfection for the Fed.

III) The **ISM non-manufacturing index** in July came in at **55.7**, three points under Street consensus and more than 2 points under the low estimate. Both new orders, down more than five points to 57.0, and backlog orders, down 5 points to 51.5, showed softening. The July headline for **ISM's manufacturing index** was also **down** 2.1 points from June to 58.1. New orders, including for exports, slowed as did backlogs while production eased.

IV) **July's monthly unit vehicle sales slowed** to a 16.8 million annualized rate from June's 17.2 million which was near bottom end expectations. This is the lowest rate since August last year and is not consistent with the FOMC's upgrade to household spending. The drop-in auto sales are certain to **pull down forecasts for July's retail sales** report. Vehicle sales make up about one-fifth of total retail sales.

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

Capitalization: **Large Caps +0.92%** (YTD +7.38%), Mid-Caps +0.49% (YTD +5.41%) and **Small Caps +0.17%** (YTD +9.73). **Style: Value +0.30%** (YTD +6.43%) and **Growth +1.08%** (YTD +10.14%). **Industry Groups (Leaders): Info. Tech +2.63% (**YTD +15.82%), **Technology +2.58%** (YTD +14.59%), Consumer Discretionary +0.58% (YTD +14.04%), Healthcare +1.03% (YTD +9.55%), **Energy -2.30%** (YTD +5.81%), REITs +1.49% (YTD +3.33%), Utilities +0.74% (YTD +2.88%), Financials +0.63% (YTD +1.53%) and **Industrials -1.34%** (YTD +1.15%). (**Laggards):** Materials -0.73% (YTD -1.17%), Consumer Staples +1.37% (YTD -3.25%) and Telecom +1.08% (YTD -4.88%).

EUROPEAN EQUITIES

The MSCI Europe index was lower last week dropping -1.20%. European markets dropped on concerns over global trade as U.S. President Donald Trump proposed a 25% tariff on $200 billion worth of Chinese imports instead of the original 10%.

Drivers: I) The Euro-zone **second quarter** provisional **gross domestic product** was up at a 0.3% quarterly rate after increasing 0.4% in the first quarter and equaled the weakest performance since the second quarter of 2014. As a result, annual growth slipped **from 2.5% to 2.1%.** France (0.2% after 0.2%) had a neutral impact on the change in the quarterly rate while Spain (0.6% after 0.7%) had a slightly negative impact.

II) The July flash harmonized index of **consumer prices was up 2.1%** from the same month a year ago. It was also the first post above the 2% mark since the end of 2012. Core inflation also picked up. The narrowest measure, which excludes energy, food, alcohol and tobacco, saw its yearly rate gain a surprisingly large 0.2 percentage points to 1.1%, its strongest reading since last August.

III) **Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was lower by -1.20% for the week (MTD -1.55%, YTD -1.56%).**

ASIAN EQUITIES

Asian equities were lower last week due to the renewed focus on a possible escalation in U.S. tariffs on China from 10% to 25%. The Dow Jones Asia Index advanced by +0.48% for the week, (MTD +1.85%, YTD -4.47%).

Drivers: I) The **Bank of Japan** ended its two-day policy meeting with a declaration that it was strengthening the framework for **"continuous powerful monetary easing".** The bank held its benchmark interest rate steady at minus 0.1% but introduced forward guidance on policy rates and said it would permit greater movement of the yield on 10-year Japanese government bonds, JGBs, as well as allocate more of its **ETF purchases** to those that track the **capitalization weighted Topix** rather than the price-based Nikkei 225 index.

II) **China's yuan fell 0.3%** on the week. The currency, which has not breached 7 to the U.S. dollar in more than a decade, has been under pressure due to the trade standoff with the U.S. and declined for the eighth week. On Thursday, Chinese equities tumbled the most in a month after **U.S.** president Donald Trump instructed his heads of trade to consider increasing the **proposed tariffs on some $200 billion** in annual imports from **China.**

III) **Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was lower by -0.83% (MTD -0.13%, YTD -0.04%), the Hang Seng Index dropped by -3.93% (MTD -3.18%, YTD -7.89%) and the Shanghai Composite was negative falling -4.63% (MTD -4.73%, YTD -17.14%).**

FIXED INCOME

Treasury yields were mixed to lower last week as the monthly employment for July, came in weaker than expected and China announced retaliatory tariffs against the U.S.

Performance: I) **The 10-year Treasury yield was lower last week ending at 2.947% down from 2.955%. The 30-year yield rose last week climbing from 3.082 to 3.089.**

II) **Performance for the week, month-to-date and year-to-date. The Bloomberg Barclays US Aggregate Bond Index rose by +.14% last week, MTD +0.09% and YTD -1.50%. The Bloomberg Barclays US MBS TR was higher by +0.15% last week, MTD +0.11% and YTD -0.95%. The Bloomberg Barclay's US Corporate HY Index was up by +0.33%, MTD +0.16% and YTD +1.42%.**

COMMODITIES

The DJ Commodity Index was down at -0.02 last week and is lower month to date -0.64% (YTD -1.24%), as oil fell on expectations of higher production levels and metals dropped on trade concerns.

Performance: I) The price of **oil last week fell by -0.40%** down to $68.76 and is higher month to date in August by +0.11% (YTD +14.41%). Oil was lower last week on the back of higher production expectations out of Saudi Arabia, Russia and the US.

II) The **ICE USD Index**, a gauge of the U.S dollar's movement against six other major currencies, **declined -0.19%** from 94.67 to 94.49 for the week (MTD -0.70%, YTD +2.37%). The U.S. dollar was down slightly as the US jobs report came in below expectations, as did the ISM Manufacturing and Non-Manufacturing indexes.

III) **Gold was slightly higher last week** as the rise in interest rates and the continued strength of the USD muted the potential for a stronger rally. **Gold rose +0.08%** last week, rising from $1232.6 to $1233.6 (MTD +0.96%, YTD -5.48%).

HEDGE FUNDS

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

Performance:

I) The HFRX Global Hedge Fund Index is lower at -0.02% MTD and down -1.01% YTD.
II) Equity Hedge has declined by -0.36% MTD and is up +0.61% YTD.
III) Event Driven has risen MTD +0.05% and is lower YTD -4.96%.
IV) Distressed Debt is higher by +0.02 MTD and is negative YTD -5.95%
V) Macro/CTA has risen by +0.60% MTD and is down -2.31% YTD.
VI) Relative Value Arbitrage is lower by -0.13% and is higher by +2.02% YTD.

ECONOMIC DATA WATCH AND MARKET OUTLOOK

Moving to next week's **market outlook**, we are coming to the **end of the earnings** reporting **season** which has been strong, with the **S&P 500** earnings running at an estimated **24% growth** clip. With 403 companies (85%) of the S&P having reported, **85% and 73%** have **beaten** their **earnings and revenue estimates** respectively. These strong fundamental drivers of the equity markets will now give way to a historically volatile market period (August to October), which may now be influenced by **trade and interest rate concerns**. Last week the White House threatened to impose 25% tariffs on $200 billion worth of Chinese goods. But keep in mind, there is public comment till September 5 before they are imposed and there are rumored behind the scenes talks transpiring between US and China officials to strike a deal before the September deadline.

The global markets are also **keeping an eye** on any **unexpected increase in inflation**. The Fed met last week and changed their view on the U.S. economy from "solid" to "strong". This language change, along with rising material prices prompted by the aluminum and steel tariffs has engendered some inflationary fears. Could inflation **prompt the Fed to raise rates faster or higher**, as the Fed Fund futures are pricing in a 92% probability of a hike in September. Could another and higher rate increase happen in December?

In turning to the week's upcoming **economic calendar**, a light schedule begins with the **JOLTS report on Tuesday**. The report will highlight the quits rate, which shows confident the labor force is to look for higher paying jobs. The number of **job openings** has **moved ahead of the number of unemployed** for the first time on record. At a consensus 6.650 million, forecasters see job openings in June edging higher from May's total of 6.638 million. The quits rate of this report has also been moving higher, suggesting that workers are growing more confident and are on the search for higher pay.

Inflation data is out on **Thursday with producer prices**, where forecasters see steady moderate pressure. In June and May, the PPI have showed sharp increases at trade services (wholesalers and retailers) as well as tariff-related hikes for steel and aluminum. A **0.3% monthly increase** is expected for the July producer price headline which would match June's rise. When excluding food and energy, prices are also expected to rise 0.3% while excluding food, energy and trade services, a 0.2% gain is expected.

On Friday, consumer prices will be reported, which have remained remarkably stable. Businesses may be increasingly passing rising costs on to their customers, yet consumer prices have so far remained stable. Forecasters see the consumer price index **rising a modest 0.2%** in July following only a 0.1% increase in June. The consensus for the core rate (ex-food ex-energy) is also a 0.2% gain. **Year-on-year rates** for July are seen **unchanged at 2.9%** for the overall index and **unchanged at 2.3% for the core.**

In addition, on **Friday the Treasury's budget statement** for July will be released offering the latest on what has been a **sharply widening deficit**. Individual tax receipts are on the rise but so is spending. The last Treasury statement in June showed a $607.1 billion deficit nine months into the government's fiscal year, up significantly from a $523.1 billion a year ago. Street consensus for the July statement is a monthly deficit of $73.5 billion with the high-end estimate at a surplus of $31.4 billion.