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INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

US equity markets rallied strongly on Friday as prominent banks J.P. Morgan and Wells Fargo posted strong revenue and earnings growth, boosting investor confidence regarding the stability of the U.S. economy.

a) **Dow Jones -0.03%, MTD +1.92%, YTD +13.96** b) **S&P 500 +0.56%, MTD +2.66%, YTD +16.67%**
c) **Russell 2000 +0.16%, MTD +2.96%, YTD +17.98%**

Drivers: I) **J.P. Morgan Chase& Co.** announced on Friday, that **Q1 profits** came in at $2.65 versus $2.37 last year, which was nicely **above the Street consensus estimate** of $2.35 per share. CEO Jamie Dimon said, "Even amid some global geopolitical uncertainty, the U.S. economy continues to grow, employment and wages are going up, inflation is moderate, financial markets are healthy and consumer and business confidence remains strong."

II) The **consumer price index** reported **higher-than-expected 0.4%** rise in March due to the **increase in energy prices**. When energy and food are excluded, core prices inched up a lower-than-expected 0.1%. Year-on-year rates are at 1.9% overall and 2.0% for the core. Housing and medical care, which together make up half the index, posted in-trend 0.3% increases on the month and were up 2.9% and 1.7% on the year.

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III) At the March 19 and 20 **FOMC meeting**, policy makers **erased** the **forecast** for any **rate hikes** this year. The majority of the 17 members also noted that rates could rise "modestly" later in the year if economic growth proved above trend. In addition, several members said rates could go up or could go down. Early reads on Q1 growth were soft and FOMC members said they needed more time to assess whether weakness would persist.

IV) The **Consumer Sentiment** index **fell to 96.9** for April. This is more than a point below Street consensus and compares with 98.4 in final March. The expectations index fell three full points to 85.8 for its lowest reading since early February when the temporary **shock of the government shutdown** was still fading. On the flip side, there is a **solid start to Q2** consumer spending which rose 0.9% in the assessment of current conditions to 114.2.

V) **Equities in April are higher with Mid-Cap, Value, Financials and Communication Services leading equity price performance. The laggards for the month are Large-Cap, Growth, Healthcare and Utilities.**

Capitalization: **Large Caps +2.73%** (YTD +17.12%), **Mid-Caps +3.40%** (YTD +20.50%) and Small Caps +2.96% (YTD +17.98). **Style: Value +4.28%** (YTD +18.39%) and **Growth +2.89%** (YTD +16.97%). **Industry Groups (Leaders):** Information Tech +3.93% (YTD 24.57%), Technology +3.79% (YTD +24.31%), Industrials +2.97% (YTD +20.60%), Consumer Discretionary +3.92% (YTD +19.91%), REITs +1.33% (YTD +19.04%), Energy +2.18% (YTD +18.76%), **Communication Services +4.90%** (YTD +18.34%), **Financials +5.58%** (YTD +14.56%), Consumer Staples +0.09% (YTD +11.20%), **Utilities +0.04%** (YTD +10.82%), Materials +4.76% (YTD +15.51%), and **Healthcare -2.09%** (YTD +4.32).

EUROPEAN EQUITIES

The MSCI Europe index was higher last week by +0.77%, as European equities rallied on positive export data out of China and solid earnings reports from the US banks.

Drivers: I) The **ECB last week** left the **refi rate unchanged** at 0.00%, the deposit rate -0.40 and the marginal lending rate at 0.25%. The central bank also reaffirmed the extended forward guidance which will **leave rates "at present levels** at least **through the end of 2019"** and at the same time keep the QE stance unchanged by reinvesting the principal payments from maturing securities purchased under the Asset Purchase Program (APP) for an extended period of time past the date when it starts raising the key ECB interest rate".

II) I**ndustrial production** was significantly **stronger than expected** in February. Output (ex-construction) fell only 0.2% on the month and this following a markedly steeper revised 1.9% bounce in January. Annual growth climbed from -0.7 % to -0.3% though muted, was its strongest print since last October. Goods production was stronger than expected in February as output fell only 0.2%, after a markedly steeper 1.9% bounce in January.

III) **Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was higher by +0.77% for the week (MTD +3.21%, YTD +14.40%).**

Asian Equities

Asian equity markets were mixed last week as better than expected export data from China offset the downgrade in projected growth in Japan. Dow Jones Asia Index fell by -0.40% for the week, (MTD +1.80%, YTD +9.00%).

Drivers: I) **Japan's private sector machinery orders** (excluding volatile items) **rose 1.8%** on the month (seasonally adjusted) in February after falling 5.4% in January, weaker than the consensus forecast for an increase of 2.5%. The rebound in headline growth in orders was largely driven by a **recovery in manufacturing orders**, up 3.5% on the month in February after falling 1.9% in January. Non-manufacturing orders fell to a lesser extent than previously, down 0.8% on the month after falling 8.0% in January.

II) **China's** headline **consumer price index increased by 2.3%** on the year in March, accelerating from 1.5% in February but **below** the **consensus forecast of 2.5%.** Low inflation in February reflected the impact of the timing of lunar new year holidays. The index fell 0.4% on the month after increasing 1.0% previously. The increase in headline inflation in March was largely driven by food prices, up 4.1% on the year after increasing just 0.7% in February.

III) **Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was higher by +0.29% (MTD +3.13%, YTD +10.25%), the Hang Seng Index fell by -0.01% (MTD +3.04%, YTD +15.56%) and the Shanghai Composite declined by -1.78% (MTD +3.17%, YTD +27.86%).**

Fixed Income

Treasury yields rose last week as a stronger than expected increase in Chinese exports, and a better than anticipated decrease in European industrial activity caused global growth concerns to abate.

Performance: I) **The 10-year Treasury yield was higher last week ending at 2.568% up from 2.495%. The 30-year yield advanced last week from 2.906 to 2.977.**

II) **Performance for the week, month-to-date and year-to-date. The Bloomberg Barclays US Aggregate Bond Index was lower by -0.12% last week, MTD -0.41% and YTD +2.52%. The Bloomberg Barclays US MBS TR was lower by -0.12% last week, MTD -0.27% and YTD +1.89%. The Bloomberg Barclay's US Corporate HY Index was higher by +0.57%, MTD +1.07% and YTD +8.40%.**

Commodities

The DJ Commodity Index was higher by +0.51% last week and is positive month to date +2.28% (YTD +9.98%). Commodity prices rose last week as positive economic data out of China and the US allayed fears of a global economic slowdown, and the demand for commodities.

Performance: I) The **price of oil** last week **was higher by +0.79%** up to $63.76 and has risen month to date in April by +5.94% (YTD +40.40%). Oil rose last week as violence in Libya brought concerns over the country's oil production and positive China trade data eased concerns over an economic slowdown.

II) The **ICE USD Index**, a gauge of the U.S. dollar's movement against six other major currencies, **dropped by -0.52%** from 97.36 to 96.85 for the week (MTD -0.37%, YTD +0.70%). The USD fell to its lowest level since late March, as subdued US inflation data is expected to keep the Fed on hold for the remainder of 2019.

III) **Gold fell last week by -0.18%** as positive economic data from the US and China led to a demand for risk assets, which limited buying of the precious metal. **Gold dropped by -0.18%** last week, falling from $1259.9 to $1293.5 (MTD -0.27%, YTD +0.95%).

HEDGE FUNDS

Hedge fund returns in April are primarily higher for the month with core strategies Equity Hedge, Event Driven, Distressed, Relative Value and Multi-Strategy all in positive territory.

Performance:

I) The HFRX Global Hedge Fund Index is higher at +0.16% MTD and up +3.17% YTD.
II) Equity Hedge has advanced by +0.06% MTD and is up +6.02% YTD.
III) Event Driven has risen MTD +0.08% and is higher YTD +0.88%.
IV) Macro/CTA has risen by +0.10% MTD and is down -0.77% YTD.
V) Relative Value Arbitrage is higher at +0.11% and is up by +2.73% YTD.
VI) Multi-Strategy is positive MTD at +0.15% and is higher by 2.47% YTD.

ECONOMIC DATA WATCH AND MARKET OUTLOOK

Looking ahead to the **next week of trading**, the FOMC and interest rates should fade into the background, as **corporate earnings** should be the **main driver of equity prices**. The Federal Reserve last week, with the release of the **FOMC minutes reinforced their dovish stance**, leading market participates to believe rate hikes will not take place in 2019. Conversely, Fed Fund futures has also seen the probability of a rate cut drop from 54% to 43% last week. With this as a backdrop, the **earnings calendar** will be **busy** across several industry groups and sectors. Primary names reporting during the week include Morgan Stanley, Goldman Sachs and Bank of America Merrill Lynch on the **financial** side, as well as **airline** companies United and American Airline.

In turning to **next week's economic calendar**, on Tuesday the consensus forecast for **manufacturing production** which has posted two straight declines, is a **rebound to a 0.3% gain** in March. Forecasters see headline industrial production also rising 0.3% with the capacity utilization rate up slightly to 79.2%.

Also, out on Tuesday we expect a **re-acceleration** after a flat March for **April's housing market index**, at a consensus 63 versus March's 62. This index has been holding in the low 60 range versus the upper 60 range last year.

Retail Sales published on Thursday is expected to show a strong recovery, boosted by autos and price effects for gasoline. The Street sees March retail sales coming in at a **consensus increase of 0.8% versus a 0.2% drop** in **February**. But ex-autos and ex-gasoline sales are expected at a more moderate 0.4% gain with the control group also at 0.4%.

Also, out on Thursday, solid growth for services, but slowing growth for manufacturing are the offsetting themes for the March PMI. The consensus for **March's flash PMI composite** is **54.3** split between a **services consensus** at **55.0 and a manufacturing consensus of only 52.2**. Mid-morning on Thursday, the consensus for March's index of leading economic indicators is a modest increase of 0.3% versus a subdued 0.2% rise in February that followed even weaker showings in January and December.

Closing the week on **Friday housing starts and permits** in March which are expected to improve. **Starts** are expected to come in at a **1.230 million annual pace** versus an **unexpectedly low 1.162 million** in **February**. The consensus for permits is 1.300 million versus February's 1.291 million which was also unexpectedly low (revised from an initial 1.296 million).

Data Source: Haver Economics