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INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

U.S. equity markets declined last week as trade uncertainty between the US and China remained heightened, as the Trump administration raised import tariffs from 10% to 25% on $200 billion of Chinese goods

a) **Dow Jones -1.96%, MTD -2.28%, YTD +12.17** b) **S&P 500 -2.10%, MTD -2.09%, YTD +15.77%**
c) **Russell 2000 -2.52%, MTD -1.10%, YTD +17.17%**

Drivers: I) The **Trump administration** at 12:01 AM last Friday morning, **raised tariffs** on $200 billion worth of Chinese imports from 10% to 25%. The action was prompted as U.S. trade negotiators have alleged China has backed away from agreed upon terms concerning intellectual property thief and subsidies to SOE's (state owned enterprises). The U.S. is readying another $325 billion in tariffs if trade talks fail to achieve concrete progress.

II) **U.S. PPI rose 0.2% in April** versus the Street estimate of 0.3%, while the less food and energy rate, up only 0.1%, also missed expectations by 0.1%. The **Year-on-year** rates in the report are in the **low 2% range** and are also not showing much momentum. Food prices were down 0.2% in April for year-on-year growth of only 1.0%. The subdued report points to a muted PCE price index reading for the month.

III) April **consumer prices** showed an **increase of 0.3%** and a core increase of 0.1% both of which were below expectations by 0.1%. At least the year-on-year rates are moving in the right direction, though just barely, with both the **overall and core rates** up 0.1%, to **2.0 and 2.1%** respectively. Energy, specifically gasoline at a 5.7% added to the monthly gain, while as food and apparel dropped 0.1% and 0.8% respectively.

IV) **Imbalances** between **job openings and hires widened** sharply in March. **Job openings surged 4.8%** in the month to 7.488 million, while **hires fell 0.6%** to 5.660 million. The gap between the two stands at a new record of 1.828 million. The large differential between the two poses two potential problems, the shortages in qualified labor could hold back economic growth, and the competition for workers could bid up wages and inflation.

V) **Equities in May are lower with Small-Cap, Growth and REITs leading equity price performance. The laggards for the month are Large-Cap, Value, Materials and Technology.**

Capitalization: **Large Caps -2.05%** (YTD +16.18%), Mid-Caps -1.75% (YTD +18.85%) and **Small Caps -1.10%** (YTD +17.17). **Style: Value -1.87%** (YTD +16.56%) and **Growth -1.37%** (YTD +15.89%). **Industry Groups (Leaders):** Information Technology -3.29% (YTD 23.39%), **Technology -3.31%** (YTD +23.24%), Industrials -2.37% (YTD +19.02%), Consumer Discretionary -2.32% (YTD +18.85%), Communication Services -1.43% (YTD +17.95%), **REITs +0.18%** (YTD +17.12%), Financials -2.02% (YTD +15.87%), Consumer Staples -0.76% (YTD +13.41%), Energy -3.27% (YTD +12.56%), Utilities -1.30% (YTD +10.33%), **Materials -4.10%** (YTD +9.53%) and **Healthcare -0.55%** (YTD +3.19).

EUROPEAN EQUITIES

The MSCI Europe index was lower last week declining by -2.70%, as the trade talks between the U.S. and China took several steps back on concerns that the Chinese were re-negating on agreed upon terms.

Drivers: I) The beginning of Q2 seems to show that the **Euro-zone economy** is still **subdued**, as the **51.3 flash composite** output index was revised up just 0.2 points to **51.5**. Though the report is above the 50-growth threshold, it was still 0.1 point below March's final print. This was one of the **worst months** for business activity **since 2014.** The final services PMI came in at 52.8, a 0.3 point upward adjustment to its 52.5 flash estimate, but still short of March's final 53.3.

II) **Retail sales** were **unchanged** versus a slightly stronger revised 0.5% monthly rise in February. Sales volumes remained at the period's record high in February, but the flat growth rate **reduced annual growth from 3.0% to 1.9%**, the first decline since last December. In fact, underlying currents were rather softer than the headline data might suggest as monthly growth was boosted by a 0.6% gain in purchases of food, drink and tobacco.

III) **Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was lower by -2.70% for the week (MTD -2.98%, YTD +11.38%).**

ASIAN EQUITIES

Asian equity markets were sharply lower last week, as investors feared an escalation of the U.S./China trade war, could depress global economic growth. The Dow Jones Asia Index dropped by -3.71% for the week, (MTD -3.34%, YTD +5.10%).

Drivers: I) The **PMI Composite** Index for **Japan rose** from **50.4 in March to 50.8 in April**, with activity seemingly to have slowed in the services sector, but improved in the manufacturing sector. The business activity index for Japan's services sector fell from 52.0 in March to 51.8 in April, while the manufacturing PMI survey, showed a small increase from 49.2 to 50.2. The decline in the services index was due to a **drop in new export orders.**

II) **China's trade surplus** in U.S. dollar terms **fell from $32.67 billion** in March to U.S. **$13.84 billion** in April, which was well short of the consensus forecast of U.S. $39.1 billion. Exports fell 2.7% on the year in April after increasing 14.2% in March, while year-on-year growth in imports rebounded from a fall of 7.6% to an increase of 4.0%. **Weakness in exports** was seen with all major trading partners, with **exports to** the **United States falling 13.2%** on the year in April after increasing 3.7% in March.

III) **Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was lower at -4.11% (MTD -4.11%, YTD +7.60%), the Hang Seng Index fell by -5.13% (MTD -3.90%, YTD +10.23%) and the Shanghai Composite dropped by -7.39% (MTD -7.39%, YTD +14.32%).**

FIXED INCOME

Treasury yields fell last week as the resurgence of trade tensions between the U.S. and China sent investors to safe haven Treasuries.

Performance: I) **The 10-year Treasury yield was lower last week ending at 2.467% up from 2.522%. The 30-year yield fell last week from 2.920 to 2.888.**

II) **Performance for the week, month-to-date and year-to-date. The Bloomberg Barclays US Aggregate Bond Index rose +0.31% last week, MTD +0.25% and YTD +3.22%. The Bloomberg Barclays US MBS TR advanced by +0.23% last week, MTD +0.33% and YTD +2.44%. The Bloomberg Barclay's US Corporate HY Index was lower by -0.51%, MTD -0.49% and YTD +8.25%.**

COMMODITIES

The DJ Commodity Index was lower by -1.48% last week and is negative month to date -2.53% (YTD +4.84%). Commodities including energy, agriculture and industrial metals were lower, as the escalation of trade tensions between the U.S. and China engendered fears of a global economic slow-down.

Performance: I) The **price of oil** last week **was lower by -0.22%** down to $61.72 and has fallen month to date in May by -3.42% (YTD +35.91%). Oil prices declined as the escalating trade tensions between the U.S. and China could exact a toll on global economic growth.

II) The **ICE USD Index**, a gauge of the U.S. dollar's movement against six other major currencies, **fell by -0.16%** from 97.48 to 97.32 for the week (MTD -0.20%, YTD +1.19%). The USD declined as investors are concerned a protracted US/China trade despite could create a drag for US economic growth.

III) **Gold rose last week by +0.51%, as the Trump administration increased tariffs** on $200 billion in **Chinese imports**, a move that appeared to maintain selling pressure on risk assets and benefit safe haven precious metals**. Gold was higher by +0.51%** last week, climbing from $1280.2 to $1286.8 (MTD +0.08%, YTD +0.43%).

HEDGE FUNDS

Hedge fund returns in May are lower for the month with core strategies Equity Hedge, Event Driven, Macro, Relative Value and Multi-Strategy all in negative territory.

Performance:

I) The HFRX Global Hedge Fund Index is lower at -0.60% MTD and up +2.65% YTD.
II) Equity Hedge has declined by -1.05% MTD and is up +5.55% YTD.
III) Event Driven has dropped MTD -0.24% and is higher YTD +1.02%.
IV) Macro/CTA has fallen by -1.23% MTD and is lower -0.96% YTD.
V) Relative Value Arbitrage is lower by -0.04% and is up by +2.78% YTD.
VI) Multi-Strategy is negative MTD at -0.03% and is higher by 2.52% YTD.

ECONOMIC DATA WATCH AND MARKET OUTLOOK

Looking ahead to the **next week of trading**, the **fear** that has been in the recesses of everyone's mind, a **delay in a U.S./China trade agreement** came to life last week. President Trump tweeted that **China was backing away from agreements** made during trade negotiations regarding technology transfer and state subsidies for Chinese SOE's. Consequently, the **Trump Administration increased tariffs** on $200 billion of Chinese goods, from 10% to 25%, with addition threats of levying 25% tariffs on another $350 billion of goods. As expected, global financial markets dropped as a pro-longed trade war could adversely affect global economic growth. We will see if this tactic taken by the Trump Administration will **prompt China to accelerate the trade talks**, and make the concessions sought by the U.S.

Lost in the flurry of media coverage pertaining to the U.S./China trade dispute has been the relatively **positive earnings news** coming out from **U.S. corporations.** Coming into the Q1 earnings season, **initial estimates** were for **S&P 500** earnings to **fall by as much as -4.2%.** With **450 companies** (90% of the S&P 500) having **reported** through last Friday, **75% have beaten** their **earnings projections**, while 55% have exceeded their revenue estimates. The **earnings growth** thus far has come in at **+1.8%.**

In turning to **next week's economic calendar**, we will get a glimpse of how the **U.S. consumer** is faring as we will get reports on U.S. Retail Sales and Consumer Sentiment. We start with **April Retail Sales** on Tuesday, where a pickup is seen by forecasters. The Street consensus is estimating an **increase of 0.3%** versus what was a much stronger-than-expected 1.6% jump in March. Unit vehicle sales markedly slowed in April which looks to give a strong relative boost to **ex-auto sales** which are expected to **rise 0.7%.** Ex-autos and less gasoline are expected at 0.4% with the control group also at 0.4%.

Manufacturing production also out on Tuesday **has been weak**, showing no change in March after sharp declines of 0.3% and 0.5% in the previous two months. The consensus **forecast for April** is only a **0.1% gain**. Forecasters see headline industrial production in April showing no change with capacity utilization also showing no change at 78.8%.

On Thursday, the forecast is for a **sizable improvement** for **April housing starts** and permits which in March came in far below expectations, which was another unwelcome set-back for the U.S. housing sector. Starts in April are expected to come in at a **1.200 million annual rate versus March's 1.139 million**. The consensus for permits is 1.290 million versus 1.280 million in March (revised from an initial 1.269 million).

Closing out the data releases on Thursday is the **Philadelphia Fed's manufacturing** index for **May**, which may offer early indications on the potential effects of US tariffs against China. For May the Index is expected to **strengthen to 9.3 versus 8.5 in an April** report that showed substantial strength for new orders.

Data Source: Haver Economics