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INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

US equity markets fell last week as US/China trade rhetoric, mixed retail sales and consumer sentiment data as well as corporate earnings all took turns driving equity prices either up or down.

a) **Dow Jones -0.61%, MTD -2.87%, YTD +11.49** b) **S&P 500 -0.69%, MTD -2.76%, YTD +14.98%**
c) **Russell 2000 -2.32%, MTD -3.40%, YTD +14.45%**

Drivers: I) Equity markets reacted negatively last Monday, after **President Trump** authorized **tariffs** on **$200 billion of annual Chinese goods** to be **raised to 25% from 10%.** The president also stated that he was ready to impose higher tariffs on another $300 billion of goods from China, or just about all the remaining products Americans buy from the world's second-largest economy.

II) The second quarter got off to a slow start due to a **0.2% decline in an April retail sales** report where the core details show unexpected weakness. Excluding autos, in which sales were already expected to fall sharply, April sales managed only a 0.1% gain to fall below the Street's consensus range. **Auto sales fell by 11.0%** and electronics and appliances also suffered a drop of 1.3%.

III) Despite the U.S./China trade dispute, **Consumer Sentiment jumped** this month to a **much stronger-than-expected 102.4** preliminary May result. This is a **15-year high** and is only the fourth plus-100 reading of the expansion, all over the last several years. The expectations component jumped 8.6 points to 96.0 which is also a 15-year high while, in sharp contrast, current conditions edged only 0.1 higher to a still moderate 112.4.

IV) The index of **leading economic indicators** missed expectations with a **0.2% gain** in April. This year's rate of increases in the index has been muted pointing to what the **Conference Board** expects will be a **2.0% overall U.S. growth** rate by year end. Manufacturing components held down April's results while equity prices, financial conditions and consumer expectations were all positive contributors.

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

Capitalization: **Large Caps -2.78%** (YTD +15.30%), Mid-Caps -2.97% (YTD +17.38%) and **Small Caps -3.40%** (YTD +14.45). **Style: Value -4.68%** (YTD +13.23%) and **Growth -3.42%** (YTD +13.47%). **Industry Groups (Leaders):** Technology -4.24% (YTD +22.04%), **Information Technology -4.44%** (YTD 21.93%), **REITs +1.70%** (YTD +18.89%),Communication Services -1.57% (YTD +17.79%), Consumer Discretionary -3.40% (YTD +17.53%), Industrials -4.17% (YTD +16.83%), Consumer Staples +0.09% (YTD +14.37%), Financials -4.04% (YTD +13.47%), Energy -3.67% (YTD +12.09%), **Utilities +0.12%** (YTD +11.92%), **Materials -4.85%** (YTD +8.67%) and Healthcare -0.99% (YTD +2.73).

EUROPEAN EQUITIES

The MSCI Europe index was higher last week climbing by +0.59%, as U.S. President Trump delayed by up to six months, the imposition of a 25.0% tariff on European auto imports into the U.S.

Drivers: I) **European Industrial Production was weak** in March, after a smaller revised 0.1% monthly decline in February, output declined another **0.3% at quarter-end.** This was the fifth decrease in the last six months and returned annual growth to negative territory, falling from 0.0% to -0.6%. The monthly **drop** was attributable to **non-durable consumer goods** and energy where output contracted 1.0% and 0.3% respectively.

II) The **Eurozone economy** in **January-March** showed an **unrevised 0.4% quarterly increase** in **real GDP**, the strongest print since the second quarter of 2018 and double the fourth quarter's anemic pace. Annual growth was 1.2%, similarly matching its preliminary flash reading and was also unchanged from the final fourth quarter print. There was positive quarterly growth in all of the four largest economies (France 0.3%, Germany 0.4%, Italy 0.2% and Spain 0.7%).

III) **Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was higher by +0.59% for the week (MTD -2.41%, YTD +12.03%).**

Asian Equities

Asian equity markets were lower last week as the Chinese state media reported that the resumption of U.S./China trade negotiations may take longer, due to the increase in U.S. tariffs implemented by the Trump administration. The Dow Jones Asia Index dropped by -2.50% for the week, (MTD -5.76%, YTD +2.47%).

Drivers: I) **Chinese industrial production grew 5.4%** on the year in **April**, **down from 8.5% in March** and below the consensus forecast of 6.3%. Industrial production rose 0.37% on the month after increasing 0.97% previously. The growth **slowdown** in April was due partly to the **impact of a cut in value-added tax** rates at the **start of** the **month**. This prompted many companies to build inventories of input materials and boost output in March before returning production to more normal levels in April.

II) **Chinese retail sales grew 7.2%** year over year in April, slowing from 8.7 % in March and falling well **short** of the **consensus** forecast of **8.6% growth.** This is the **weakest** year-on-year growth since **May 2003**. Retail sales rose 0.47% on the month after increasing 0.91% previously. Officials said weak retail sales was partly attributable to two fewer holidays that month compared with the same month last year.

III) **Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was lower at -0.44% (MTD -4.53%, YTD +7.12%), the Hang Seng Index fell by -2.13% (MTD -5.95%, YTD +7.89%) and the Shanghai Composite dropped by -1.94% (MTD -6.37%, YTD +15.57%).**

Fixed Income

Treasury yields were lower last week as the state media in China reported that a resumption of the U.S./China trade talks may take longer than expected.

Performance: I) **The 10-year Treasury yield was lower last week ending at 2.393% down from 2.467%. The 30-year yield fell last week from 2.888 to 2.828.**

II) **Performance for the week, month-to-date and year-to-date. The Bloomberg Barclays US Aggregate Bond Index rose +0.33% last week, MTD +0.58% and YTD +3.57%. The Bloomberg Barclays US MBS TR advanced by +0.21% last week, MTD +0.54% and YTD +2.66%. The Bloomberg Barclay's US Corporate HY Index was lower by -0.07%, MTD -0.56% and YTD +8.17%.**

Commodities

The DJ Commodity Index was higher by +1.41% last week and is negative month to date -1.12% (YTD +6.36%). Commodities rally as oil rises due to increasing tensions in Yemen and Iran, and industrial metals jump higher as the Trump administration lifts tariffs on steel and aluminum.

Performance: I) The **price of oil** last week **was higher by +1.60%** up to $62.71 and has fallen month to date in May by -1.88% (YTD +38.09%). Oil prices rose last week as tensions in the Middle East were heightened due to Saudi Arabian airstrikes in Yemen and growing hostilities between the US and Iran.

II) The **ICE USD Index**, a gauge of the U.S. dollar's movement against six other major currencies, **rose by +0.71%** from 97.32 to 98.01 for the week (MTD +0.50%, YTD +1.91%). The USD advanced due to rising tensions in the Middle East, solid U.S. economic data, while economic reports out of China continue to show slowing growth.

III) **Gold rose fell last week by -0.08%,** falling to a two-week low and solid U.S. consumer sentiment data and a strong USD pushed gold prices lower. **Gold was lower by -0.08%** last week, dropping from $1286.8 to $1285.3 (MTD +0.01%, YTD +0.35%).

HEDGE FUNDS

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

Performance:

I) The HFRX Global Hedge Fund Index is lower at -0.52% MTD and up +2.74% YTD.
II) Equity Hedge has declined by -1.49% MTD and is up +5.08% YTD.
III) Event Driven is flat MTD +0.00% and is higher YTD +1.27%.
IV) Macro/CTA has fallen by -0.58% MTD and is lower -0.31% YTD.
V) Relative Value Arbitrage is higher by +0.04% and is up by +2.87% YTD.
VI) Multi-Strategy is positive MTD at +0.05% and is higher by 2.60% YTD.

ECONOMIC DATA WATCH AND MARKET OUTLOOK

Looking ahead to the **next week of trading**, equity markets have seen **heightened** levels of **volatility**, driven by a plethora of factors including **U.S., China, Japan and Europe trade uncertainty**, **rising tensions** in **the Middle East** and **slowing corporate earnings growth**. Global geo-political and economic concerns have prompted equity market volatility to rise, but also a relatively un-noticed decline in the **U.S. 10 Year Treasury yield** (2.393%) to an **18-month low**. Despite all of the market volatility, the S&P 500 still stands only 3% below its all time high. Helping support the equity market has been the shallower decline in Q 1 earnings for the **S&P 500**. Coming into earnings season, it was projected that **Q1 earnings** would fall by 4.2%, with 90% of companies reporting (459/500) earnings **have fallen by 0.5%.** Though this is the worst quarterly showing since Q2 2016, **76.0% and 59.0% of companies** have **beaten** their **earnings and revenue estimates** respectively. These earnings results bring the forward P/E for the S&P 500 to 16.5, which is on par with its five-year average.

In turning to **next week's economic calendar**, in a Pre-Memorial Day Holiday week, a light calendar will have market participants will be most interested the New Homes Sales and Durable Goods reports. We start off **Tuesday** with **April Existing Home Sales**, which after giving back in March half of February's surge, are expected to **rise very sharply** to a **5.360 million rate versus March's 5.210 million**. Existing home sales, boosted by low mortgage rates, have been trending higher after slumping badly last year.

Out on **Thursday** we get the **U.S. Composite PMI** report for May, where modest growth for services and for manufacturing is the call. The consensus for **May's flash PMI composite is 52.4** split between a services consensus at 52.5 and a manufacturing consensus at 52.2. Rounding out Thursday is the report for **New Home Sales**. Driven by low mortgage rates, new home sales easily beat expectations in March for the best showing in a year-and-a-half at a 697,000 rate. The consensus for **April sales** is an expected drop back to a **678,000** rate.

Closely out the week on **Friday** will the report for **U.S. Durable Goods Orders**. Forecasters see durable goods **orders falling 2.0%** in April following a very strong March report where total orders jumped 2.6% (revised from an initial 2.7%). A great strength of March's report was a 1.4% jump in core capital goods orders (revised from 1.3%) which, given the tough monthly comparison, are expected to rise only 0.1% in April. For ex-transportation orders, a 0.1% decrease is expected. Most of the monthly decline is due to the **sizable cancellation of Boeing 737 Max jet orders**.

Data Source: Haver Economics