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INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

U.S. equity markets were weaker, falling for a fifth straight week on U.S./China trade tensions. Markets rebounded on Friday as President stated restrictions against Huawei could be eased as part of a trade deal.

a) **Dow Jones -0.63%, MTD -3.48%, YTD +10.79** b) **S&P 500 -1.14%, MTD -3.87%, YTD +13.67%**
c) **Russell 2000 -1.39%, MTD -4.75%, YTD +12.85%**

Drivers: I) **President Trump** last Thursday in speaking about a **potential US/China trade deal** said: "If we made a deal, I could imagine **Huawei being** possibly **included** in some form or some part of it," according to Reuters, though he said the company was "very dangerous" from a security standpoint. There had been speculation that the Huawei restrictions could be used as leverage in any negotiations with China.

II) The **FOMC minutes** highlighted the **general theme**, consistent since the Fed last changed its policy rate (back in December with a 1/4 point hike in the funds rate to 2-3/8 percent) is **"patience",** a word that has been repeated again and again to stress what policy makers see as a sustained period of no action. A **change in rates** whether higher or lower will be **data dependent**, particularly **labor market and inflation data**.

III) The initial effects of the U.S./China trade breakdown were seen in the **flash PMIs** for May, **all three** of which came in well **under the Street's consensus range**. **Manufacturing** has been impacted first by the trade issues and its **PMI fell to 50.6**, which is 2.0 points below final April and 1.8 points below April's flash. Demand fell for both domestic and foreign orders, while growth slowed for output, employment and pre-production inventories.

IV) The **decline in manufacturing** was confirmed by a **weak durable goods** report for April. Orders in the month **fell 2.1%** which was below a very soft Street consensus of 2.2% while ex-transportation orders were unchanged and was at expectations for a 0.1% decline. Core capital goods fell 0.9% in April, which saw a sharp downward revision for this category in March, to a 0.3%t increase from an initially reported 1.3% rise

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

Capitalization: **Large Caps -3.93%** (YTD +13.94%), Mid-Caps -4.08% (YTD +16.03%) and **Small Caps -4.75%** (YTD +12.85). **Style: Value -6.51%** (YTD +11.06%) and **Growth -4.51%** (YTD +12.20%). **Industry Groups (Leaders):** REITs +2.00% (YTD +19.24%), **Technology -6.90%** (YTD +18.66%), Information Technology -7.05% (YTD 18.59%), Communication Services -3.01% (YTD +16.06%), Industrials -5.51% (YTD +15.20%), Consumer Discretionary -5.50% (YTD +14.98%), Consumer Staples -0.32% (YTD +13.90%), **Utilities +1.80%** (YTD +13.80%), Financials -4.25% (YTD +13.23%), **Energy -6.98%** (YTD +8.24%), Materials -6.41% (YTD +6.90%) and **Healthcare +0.24%** (YTD +4.01).

EUROPEAN EQUITIES

The MSCI Europe index declined last week by -0.92% but rallied on Friday as President Donald Trump softened his stance against Huawei Technologies Inc., showing some lessening in U.S./China trade tensions.

Drivers: I) **Eurozone** economy in May showed a sub-par result as the **flash composite PMI** index came in at **51.6**, which was just 0.1 point stronger than April's final mark. Aggregate new business was mostly unchanged despite another **drop-in manufacturing**, but a small rise in backlogs in services failed to offset another sharp drop amongst goods producing industries (where output also fell for a fourth successive month).

II) The **minutes** from the **ECB's April meeting** showed officials remained **cautious** about the **state of the euro-zone's economy**. Chief Economist Peter Praet emphasized the importance of **preserving** the ECB's **accommodative stance** for as long as necessary for growth to regain a faster pace and thereby foster convergence of inflation to its aim. Council members noted the persistence of uncertainties related to geopolitical factors, the danger of protectionism and vulnerabilities in emerging markets.

III) **Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was lower by -0.92% for the week (MTD -3.31%, YTD +11.00%).**

ASIAN EQUITIES

Asian equity markets were lower last week, as investors remained concerned over the rise in tensions between the U.S. and China over trade. The Dow Jones Asia Index dropped by -0.32% for the week, (MTD -6.07%, YTD +2.13%).

Drivers: I) The flash estimate for the **Japan manufacturing PMI** headline index for **May is 49.6**, **down** from the final estimate of 50.2 for April. Respondents cited renewed **U.S./China trade tensions** and the **upcoming sales tax increase** as factors weighing on activity and sentiment. In addition, output and new orders were lower for a fifth consecutive month and fell at a faster rate than in April. New export orders fell, but at a slower pace.

II) **Japan's CPI rose** for a second consecutive month, climbing **0.9%** on the year in April after advancing 0.5% in March, still well below the Bank of Japan's 2.0% inflation target. Seasonally adjusted headline CPI rose 0.1% on the month in April after no change in March. The increase in inflation in April reflects stronger year-on-year price moves for **food and transportation and communication**.

III) **Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was lower at -0.63% (MTD -5.13%, YTD +6.45%), the Hang Seng Index fell by -2.11% (MTD -7.93%, YTD +5.61%) and the Shanghai Composite dropped by -1.02% (MTD -7.32% YTD +14.40%).**

FIXED INCOME

Treasury yields continued their inexorable march lower, as investors fled risk assets for safe haven Treasuries due to concerns over a protracted trade negotiation between the US and China.

Performance: I) **The 10-year Treasury yield was lower last week ending at 2.326% down from 2.393%. The 30-year yield fell last week from 2.828 to 2.751.**

II) **Performance for the week, month-to-date and year-to-date. The Bloomberg Barclays US Aggregate Bond Index rose +0.27% last week, MTD +0.85% and YTD +3.84%. The Bloomberg Barclays US MBS TR advanced by +0.19% last week, MTD +0.73% and YTD +2.85%. The Bloomberg Barclay's US Corporate HY Index was lower by -0.10%, MTD -0.66% and YTD +8.07%.**

COMMODITIES

The DJ Commodity Index was lowerr by -1.24% last week and is negative month to date -2.36% (YTD +5.02%). Commodities fell as oil prices saw a steep drop on rising inventory levels, and industrial metals were also weak due to concerns over global economic growth.

Performance: I) The **price of oil** last week **was sharply lower by -5.88%** up to $59.02 and has fallen month to date in May by -7.65% (YTD +29.97%). Oil prices dropped as inventories in the U.S. rose to unexpected high levels, and disappointing Durable Goods data.

II) The **ICE USD Index**, a gauge of the U.S. dollar's movement against six other major currencies, **fell by -0.41%** from 98.01 to 97.61 for the week (MTD +0.09%, YTD +1.50%). The USD was lower as disappointing U.S. housing data and Durable Goods orders portend lower U.S. growth for Q2.

III) **Gold rose fell last week by -0.12%,** a lackluster showing despite the sharp decline in global risk assets and a slight drop in the USD. **Gold was lower by -0.12%** last week, dropping from $1285.3 to $1284.2 (MTD -0.12%, YTD +0.22%).

HEDGE FUNDS

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

Performance:

I) The HFRX Global Hedge Fund Index is lower at -0.65% MTD and up +2.60% YTD.
II) Equity Hedge has declined by -1.43% MTD and is up +5.14% YTD.
III) Event Driven is lower MTD -0.64% and is higher YTD +0.62%.
IV) Macro/CTA has fallen by -0.48% MTD and is lower -0.21% YTD.
V) Relative Value Arbitrage is higher by +0.03% and is up by +2.86% 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**, as the end of the **U.S. corporate earnings season comes to an end,** global markets will be dominated by trade talk. But first to earnings, with **97% (493) of companies having reported**, earnings on a blended basis have come in at **-0.4%.** Though this is the **first earnings decline** since **Q2 2011**, the **original** earnings **estimates** called for a **drop of -4.0%.** Approximately 77.0% and 57% of companies have exceeded earnings and revenue estimates respectively. The blending earnings brings the **S&P 500 forward P/E to 16.1**, which is **below** the trailing **five-year average of 16.5**.

In turning to **next week's economic calendar**, during a Memorial Day shortened trading week, housing data and consumer sentiment will be the key reports to keep an eye on. Kicking off the week on **Tuesday** is the **Case-Shiller's 20-city adjusted index**, which is projected to show a **small monthly increase** of only **0.2%** in April. **Year-on-year growth** is expected to **drop sharply to 2.5%** in what would be the worst showing in seven years. The unadjusted monthly rate, which forecasters also track, is expected to come in at 0.3%. At 10:00am on Tuesday, we get the **consumer confidence index** which should have **improved in April** along with the consumer's assessment of the labor market. Despite the breakdown of U.S./China trade talks, steady conditions are expected for May where the **consensus is 129.8 versus April's 129.2**.

Opening the day on Thursday, is the consensus for the **second estimate** of **first-quarter GDP**, which is expected to come in at **3.0% compared to 3.2 percent in the first estimate**. Consumer spending rose at a 1.2% pace in the first estimate and 1.2% is also expected for the second estimate. The GDP price index is seen at 0.9% and unchanged from the first estimate.

U.S. Pending Home Sale Index on Thursday, is projected to be subdued in April, with an **increase** of only **0.3%** after, however, jumping a far higher-than-expected 3.8% in March.

On **Friday** we will get the data on **U.S. Personal Income** which has been slowing, but a **pick-up is the forecast** for April. The Street consensus is a **0.3 % monthly gain** versus only 0.1% in March. **Consumer spending** (personal consumption expenditures) jumped 0.9% higher in March and only a **moderate 0.2% April gain** is the call. Price readings in this report have been very soft but improvement is expected for April with the core PCE index is seen at plus 0.2% for the monthly rate, versus no change in March, but holding steady year-on-year at 1.6%. The overall **PCE index** is seen at a monthly 0.3% increase with this **year-on-year** also at **1.6%.**

We close out the week with the final **U.S. consumer sentiment index** for May, which is estimated to come in at **101.0** which would be **down,** from the much stronger-than-expected jump to **102.4** in the **month's preliminary reading** which, despite the collapse of U.S./China trade talks, benefited from a spike higher in expectations.

Data Source: Haver Economics