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INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

U.S. equity markets saw their best weekly performance for the year as dovish comments from Fed Chairman Jerome Powell and hopes U.S. tariffs on Mexico could be avoided, propelled equity prices higher.

a) **Dow Jones +4.77%, MTD +4.77%, YTD +12.67** b) **S&P 500 +4.46%, MTD +4.46%, YTD +15.68%**
c) **Russell 2000 +3.36%, MTD +3.36%, YTD +12.94%**

Drivers: I) **Fed Chairman Jerome Powell** and Vice Chairman Richard Clarida both suggested last week the central bank could cut interest rates if trade battles slow economic activity. St. Louis Fed President James Bullard stated on Monday **uncertainty** caused by tariffs and subdued inflation could **prompt** the central bank to **lower rates**. The fed fund futures market is showing a **72% chance** of a 0.25% rate cut at the Fed's **July 31 meeting**.

II) **President Trump** on Friday evening stated the U.S. is **suspending plans** to **impose tariffs on Mexico**, as the country has agreed to take strong measures to stem the tide of illegal immigrants streaming into the U.S. "I am pleased to inform you that The United States of America has reached a signed agreement with Mexico," Trump tweeted Friday night, saying the "Tariffs scheduled to be implemented by the U.S. on Monday, against Mexico, are hereby indefinitely suspended."

III) The **May employment report** showed **declining growth in the labor market** and flattening pressure for wages. Nonfarm payrolls, at **75,000**, came in below the Street consensus range and include a total of 75,000 in downward revisions to April and March. Subdued gains were evident in the payroll breakdown headlined by a muted 3,000 job rise for manufacturing. Professional business services continue to post increases, up a solid 33,000.

IV) **Wage data** came in at the bottom of the range, seeing only a **0.2 % monthly increase** for average hourly earnings. This was the **lowest** reading since last **September**, a sliding **3.1% gain** for the **year-on-year rate**. The unemployment rate remains very low, unchanged at a lower-than-expected 3.6% with the pool of available workers low and holding steady at 10.9 million. The participation rate was unchanged at 62.8%.

V) **Equities in June are solidly higher with Large-Cap, Growth, Materials and Technology leading equity price performance. The laggards for the month are Small-Cap, Value and Communication Services.**

Capitalization: **Large Caps +4.43%** (YTD +15.97%), Mid-Caps +4.43% (YTD +18.57%) and **Small Caps +3.36%** (YTD +12.94). **Style: Value** +**4.11%** (YTD +11.61%) and **Growth +4.35%** (YTD +14.40%). **Industry Groups (Leaders):** REITs +2.65% (YTD +21.38%), **Technology +5.96%** (YTD +23.33%), Information Technology +5.97% (YTD 23.26%), Industrials +5.11% (YTD +18.22%), Consumer Discretionary +4.33% (YTD +17.34%), Consumer Staples +5.40% (YTD +16.08%), Financials +4.24% (YTD +14.43%), **Materials +9.05%** (YTD +14.37%), Utilities +3.03% (YTD +14.28%), **Communication Services +1.03%** (YTD +14.16%), Energy +4.14% (YTD +7.74%) and Healthcare +4.32% (YTD +5.68).

EUROPEAN EQUITIES

The MSCI Europe index rose last week by +4.08% as the ECB kept rates on hold and intended to extend its low rate policy until 2H 2020, and on hopes a resolution to the US/Mexico tariff threat would be found.

Drivers: I) The **European Central Bank** last week left **interest rates unchanged** and extended the period it expects rates to remain unchanged until 2H 2020. The ECB also announced the terms of its **third round** of targeted **longer-term refinancing operations**, with the rate in each operation to be set 10 basis points above the average rate applied to the Euro-system's main refinancing operations over the life of the respective operation.

II) European **retailers struggled** in April, as sales **volumes fell** by a smaller than expected **0.4%** on the month to reduce annual workday adjusted growth from 2.0% to 1.5%, a four-month low. The monthly headline change was evenly split between food and (ex-auto fuel) non-food purchases, both of which matched the overall decline.

III) **Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was higher by +4.08% for the week (MTD +4.08%, YTD +12.94%).**

ASIAN EQUITIES

Asian equity markets rose last week on hopes that deal concerning illegal immigration between the U.S. and Mexico could be reached before tariffs were imposed on Mexican imports. The Dow Jones Asia Index rose by +0.88% for the week, (MTD +0.88%, YTD +2.12%).

Drivers: I) The **Nikkei Composite Index** for **Japan fell from 50.8 in April to 50.7 in May**, with activity indicated to have slowed modestly in both the services and manufacturing sectors. Respondents stated the forthcoming **increase in sales tax rate** as a factor **weighing on activity** and sentiment in the services sector. The manufacturing survey showed a further contraction in output, new orders, and new export orders in May, as well as weaker confidence and employment growth.

II) The **Caixin China PMI** survey's business activity index **fell** from 54.5 in April to 52.7 in May, with the manufacturing PMI survey, showing its headline index unchanged at 50.2. Combined these resulted in the composite index fell from 52.7 in April to a three-month low of 51.5 in May. Service sector respondents reported **weaker increases** in both **new orders and new export orders** in May. Measures of employment growth and business sentiment also weakened

III) **Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was higher at +1.38% (MTD +1.38%, YTD +5.28%), the Hang Seng Index fell by -0.60% (MTD -0.60%, YTD +4.18%) and the Shanghai Composite dropped by -2.45% (MTD -2.45%, YTD +13.39%).**

FIXED INCOME

Treasury yields was lower last week, with the 10-year Treasury falling to its lowest level since February 2018, as investors sought out safe havens in the event President Trump levied tariffs on Mexican imports.

Performance: I) **The 10-year Treasury yield was lower last week ending at 2.085% down from 2.130%. The 30-year yield climbed last week from 2.569 to 2.574.**

II) **Performance for the week, month-to-date and year-to-date. The Bloomberg Barclays US Aggregate Bond Index rose +0.36% last week, MTD +0.36% and YTD +5.17%. The Bloomberg Barclays US MBS TR advanced by +0.26% last week, MTD +0.26% and YTD +3.70%. The Bloomberg Barclay's US Corporate HY Index was higher by +0.91%, MTD +0.91% and YTD +8.47%.**

COMMODITIES

The DJ Commodity Index was lower by -0.56% last week and is negative month to date -0.56% (YTD +3.10%). Commodities were lower on the week as industrial metals such as metal remained in correction phase, due to concerns over slowing global growth and disappointing US jobs data.

Performance: I) The **price of oil** last week **was slightly higher by +1.27%** up to $54.04 and has risen month to date in May by +1.27% (YTD +19.00%). Oil prices moved higher on hopes of a U.S. and Mexico resolution regarding immigration, and a continuation of production cuts by OPEC being extended beyond June.

II) The **ICE USD Index**, a gauge of the U.S. dollar's movement against six other major currencies, **was lower by -1.07%** at 96.56 for the week (MTD -1.07%, YTD +0.40%). The USD dropped last week as sub-par economic data has increased the probability of a Fed rate cut in 2019.

III) **Gold rose last week by +2.65%,** as slowing job growth in the U.S., dovish rate talk from U.S. Fed officials and a decline in the USD sent the precious metal higher. **Gold was higher by +2.65%** last week, climbing from $1310.2 to $1345.0 (MTD +2.65%, YTD +4.97%).

HEDGE FUNDS

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

Performance:

I) The HFRX Global Hedge Fund Index is higher at +0.38% MTD and up +2.96% YTD.
II) Equity Hedge has advance by +0.40% MTD and is up +4.94% YTD.
III) Event Driven is higher MTD +0.52% and is higher YTD +1.35%.
IV) Macro/CTA has risen by +0.52% MTD and is up +0.52% YTD.
V) Relative Value Arbitrage is higher by +0.12% and is up +3.14% YTD.
VI) Multi-Strategy is positive MTD at +0.12% and is higher by 2.91% YTD.

ECONOMIC DATA WATCH AND MARKET OUTLOOK

Looking ahead to the **next week of trading**, the markets will be trying to determine the **future implications** of the **Fed "put"** as espoused last week by several Fed officials. Due to the recent **slowdown** seen in **global and U.S. economic data**, Chairman Powell announced he was open to rate cuts stating the **Fed "will act as appropriate to sustain expansion**". The Fed's seemingly "dovish" stance was supported by the weaker than expected non-farm payroll report, which showed 75,000 were created versus the consensus estimate of 185,000. The **call for lower rates** has prompted the **2-year/10-year** Treasury **spread** to **steepened** from 15 to 30 bps, quelling fears of a recession for now.

In turning to **next week's economic calendar**, the **main themes** to the upcoming data releases will be the health of the **U.S. consumer and inflation**. We kick of the **Monday** with the **JOLTs report**, where job openings are far ahead of hires as well as those actively looking for a job. Job openings in the April JOLTS report are forecast at 7.400 million versus 7.488 million in March.

Opening on **Tuesday** is the **Producer Prices Index** which came in below expectations in April, after seeing unexpected pressure in March. Muted pressure is expected for headline PPI in May, at a consensus **increase of only 0.1%.** Less food and energy in May are seen rising 0.2% with the consensus for less food, energy and trade services at 0.1%.

Following on **Wednesday**, **Consumer prices** which were subdued in April will be released, and forecasters see only limited pressure in May. The Street consensus calls for a 0.1% increase overall and a gain of 0.2% for the ex-food and ex- energy core. **Year-on-year rates** are expected at **1.9% overall** (down 1 tenth from April) and 2.1% for the core (unchanged from April).

On **Friday** expectations are for a **solid jump in May retail sales**, with a headline consensus **increase of 0.7%** versus a much weaker-than-expected April reading of a 0.2% decline. Unit vehicle sales rose sharply in May which looks to hold down ex-auto sales where a 0.4% rise is the call. Ex-autos and ex-gasoline sales are also expected at 0.4%. Also, out on Friday is **Industrial Production** which has been very weak, falling a sharp 0.5% in April in what was a fourth straight subpar showing. Forecasters see **manufacturing improving** in May with headline industrial production seen **rising 0.2%.** Capacity utilization is expected to tighten to 0.1% to 78.0%.

Finishing out the week is **Consumer Sentiment**, where forecasters do not see an improvement and instead see a **correction**, calling for a preliminary **June reading of 98.6** that would compare with **May's** 2.8-point rise to **100.0.**

Data Source: Haver Economics