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INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

U.S. equity markets were higher last week as optimism is building for a meeting between Presidents Trump and Xi to discuss trade at the G-20 conference at the end of June in Osaka, Japan.

a) **Dow Jones +0.46%, MTD +5.25%, YTD +13.18** b) **S&P 500 +0.53%, MTD +5.01%, YTD +16.29%**
c) **Russell 2000 +0.58%, MTD +3.97%, YTD +13.60%**

Drivers: I) **US PPI** inched higher as-expected by **0.1% in May** with the **year-on-year rate**, however, missing expectations with a 0.4% slowing to **1.8%.** Trade services were weak, down 0.5% for a second straight month and the third decline in the last four months. Weakness here points to soft price and demand conditions for wholesalers and retailers. Consumer food prices fell 0.1% to a very modest plus 1.2% annual rate.

II) The **Consumer Price Index is weakening**, as the ex-food ex-energy core rate missed expectations with only a **0.1% gain** in May. The **year-on-year rate** dropped 0.1% to **2.0%** which also misses expectations. Energy fell a monthly 0.6% in May with gasoline down 0.5%. Housing, which accounts for half of the index, continues to be solid though strength is weakening, up only 0.1% on the month and 2.8% on the year versus 2.9% in April.

III) **Retail sales in May** were up **0.5%,** missing the Street's consensus by 0.2%. **Solid growth** was seen in **general merchandise**, a large component that includes department store, gained 0.7% in May and 0.8 and 1.2% in April and March. Non-store retailers, at 1.4% in May, have shown similar strength with restaurants, at May's 0.7%, also very solid in a **sign of discretionary strength**. Auto sales have been volatile, though they did rise 0.7% in May

IV) **Consumer sentiment** is falling back this month, **down 2.1 points** from May to a lower-than-expected 97.9. A highly crucial reading from the report, which will fire up the rate-cut debate at next week's FOMC is a **sharp fall** in **long-term inflation expectations**. Expectations came in at 2.2% for a sharp 0.4% decline from May in the 5-year outlook and the lowest reading in 40 years. The year-ahead inflation expectation is down 0.3% to 2.6%.

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

Capitalization: **Large Caps +4.95%** (YTD +16.54%), Mid-Caps +4.82% (YTD +19.02%) and **Small Caps +3.97%** (YTD +13.60). **Style: Value** +**4.82%** (YTD +12.38%) and **Growth +4.64%** (YTD +14.72%). **Industry Groups (Leaders):** Technology +5.78% (YTD +23.12%), Information Technology +5.78% (YTD 23.03%), REITs +3.43% (YTD +22.31%), **Consumer Discretionary +6.78%** (YTD +20.09%), Industrials +4.66% (YTD +17.71%), Consumer Staples +6.22% (YTD +16.98%), Utilities +4.30% (YTD +15.69%), **Communication Services +2.03%** (YTD +15.29%), **Materials +9.63%** (YTD +14.98%), Financials +4.72% (YTD +14.95%), Energy +3.63% (YTD +7.22%) and Healthcare +4.59% (YTD +5.96).

EUROPEAN EQUITIES

The MSCI Europe index fell last week by -0.65% due to uncertainty regarding U.S./China trade, "Brexit" and the sharp decline in oil prices which negatively impacted energy related shares.

Drivers: I) **Euro-zone industrial production** continued to **struggle** in April, as output was down a worse than expected 0.5% versus March when it **declined** a sharper **revised 0.4%.** Output dropped 1.0% in intermediates, 1.4% in capital goods and 1.7% in durable consumer goods. Non-durables were up 0.2% but only rebounded slightly from March's 1.2% drop. The decline was dominated by Germany where output fell 2.3%.

II) Euro-zone **consumer prices were unchanged** from their estimate in the final report for May. This left a 0.2% monthly rise and a 1.4% annual inflation rate, the latter down sharply from April's final 2.0% showing. Similarly, the final HICP also matched its flash mark, coming in at a 0.3% monthly increase and a 1.3% yearly rate, again down sharply from April's final 2.1%. Excluding food and energy, **core inflation dropped** from April's final 1.8% to **1.3%.**

III) **Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was lower by -0.65% for the week (MTD +3.40%, YTD +12.20%).**

ASIAN EQUITIES

Asian equity markets rose last week after the U.S. halted the implementation of tariffs on Mexican goods, and G-20 officials vowed to protect trade despite rising trade tensions. The Dow Jones Asia Index rose by +0.59% for the week, (MTD +1.47%, YTD +2.73%).

Drivers: I) **China's consumer price index** increased by **2.7% year over year** in May, up from 2.5% in April and meeting the consensus forecast. This is the third straight increase in inflation, bringing it to its highest level since February 2018. The index was flat during the month after rising 0.1% previously. The year-on-year change in non-food prices dropped slightly from 1.7% to 1.6%, with most categories unchanged.

II) **Chinese industrial production** in May **grew 5.0%** on the year, declining from 5.4% in April and below the consensus forecast of 5.4%. This is the **weakest growth since 2002** and highlights trade tensions with the United States are having a significant impact on the manufacturing sector. Industrial production rose 0.36% on the month after increasing 0.37% previously. The growth decline in May was driven primarily by a similar drop in year-on-year growth in manufacturing output from 5.3% to 5.0%.

III) **Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was higher at +1.11% (MTD +2.50%, YTD +6.45%), the Hang Seng Index rose by +0.76% (MTD +1.05%, YTD +5.01%) and the Shanghai Composite advanced by +1.92% (MTD -0.58%, YTD +15.56%).**

FIXED INCOME

Treasury yields were mixed last week, after rising on Friday after solid U.S. retail sales data showed consumer spending is still supporting economic growth and momentum.

Performance: I) **The 10-year Treasury yield was lower last week ending at 2.080% down from 2.085%. The 30-year yield climbed last week from 2.574 to 2.586.**

II) **Performance for the week, month-to-date and year-to-date. The Bloomberg Barclays US Aggregate Bond Index rose +0.02% last week, MTD +0.38% and YTD +5.20%. The Bloomberg Barclays US MBS TR dropped by -0.07% last week, MTD +0.19% and YTD +3.63%. The Bloomberg Barclay's US Corporate HY Index was higher by +0.36%, MTD +1.28% and YTD +8.86%.**

COMMODITIES

The DJ Commodity Index was higher by +1.07% last week and is positive month to date +0.51% (YTD +4.21%). Commodities rose last week as industrial metals rallied on hopes for lessening trade tensions, and agriculture rose as flooding in the U.S. Midwest will greatly lower crop yields.

Performance: I) The **price of oil** last week **was lower by -2.81%** down to $52.52 and has fallen month to date in June by -1.57% (YTD +15.65%). Oil prices dropped as the continued U.S./China trade tensions would lower demand for oil, and the International Energy Agency cut its global oil demand growth forecast

II) The **ICE USD Index**, a gauge of the U.S. dollar's movement against six other major currencies, **was higher by +0.92%** at 97.45 for the week (MTD -0.16%, YTD +1.33%). The USD rallied last week on weak economic data out of China and after two oil tankers were attack in the Gulf of Oman.

III) **Gold rose last week by +0.02%** as further gains were muted by a stronger USD, due to a lack of progress in the U.S./China trade dispute and the attack on oil tankers in the Middle East. **Gold was higher by +0.02%** last week, climbing from $1345.0 to $1345.3 (MTD +2.68%, YTD +4.99%).

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 +1.00% MTD and up +3.59% YTD.
II) Equity Hedge has advance by +1.10% MTD and is up +5.68% YTD.
III) Event Driven is higher MTD +1.00% and is higher YTD +1.83%.
IV) Macro/CTA has risen by +1.62% MTD and is up +1.62% YTD.
V) Relative Value Arbitrage is higher by +0.46% and is up +3.49% YTD.
VI) Multi-Strategy is positive MTD at +0.45% and is higher by 3.24% YTD.

ECONOMIC DATA WATCH AND MARKET OUTLOOK

Looking ahead to the **next week of trading**, we will get an indication of how **lower interest rates** have affected the housing market, as **Existing Home sales** and the **Housing Market Index** will be released. However, the direction of **financial markets** will mostly be **influenced** by the continuing **U.S./China tariff saga** and the all important **FOMC meeting**. Last week over 600 US major retail, manufacturing and energy companies sent a letter to President Trump asking him to resolve the trade dispute with China. The concern is current and potentially new tariffs would have a deleterious impact on consumers, businesses and their families due to an ever-increasing cost of goods. The markets are hoping the negative sentiment caused by the trade dispute, can be somewhat offset by guidance from the Federal Reserve that could portent a rate cut over the near term. Any comments of this nature would be positively received by the markets. However, if the Fed disappoints, financial markets could be subject to a downside move.

In turning to next week's **economic calendar**, on Monday the **Housing Market Index** will be released and continued **improvement** at a modest pace is expected. The June consensus reading is projected to come in at 67 versus May's surprisingly strong 3-point jump to 66. This index had been steady in the low 60 range before May.

Out on **Wednesday** will be comments from the **FOMC** regarding future U.S. interest rate policy. Though **no change** is expected for the **federal funds target rate of 2.375%** in the June policy announcement, but **expectations** are building that the FOMC will **signal a shift to rate cuts** in subsequent meeting.

May's index of **leading economic indicators** being released on Thursday, is expecting a **marginal increase of 0.1%** versus what was a lower-than-expected 0.2% rise in April. This index has been signaling **moderation** in **GDP growth** to the **2%** level by year end.

On Friday morning we will get a glimpse of the **PMI Composite Index** for June. **Slowing growth** for manufacturing and especially services was the main takeaway from May's PMI and essentially **unchanged** is the expectation for **June**. The consensus for June's flash PMI composite is 51.0 split between a services consensus at 51.0 and a manufacturing consensus at 50.9.

We finish out the week with a reading of **Existing Home sales**, which have been volatile this year though the 3-month average in April's report was still **solidly positive**. In addition, last month's report showed gains in the supply of homes and firmness in prices. Existing home sales in May are expected to **rise sharply to a 5.290 million** rate versus **April's 5.190 million**.

Data Source: Haver Economics