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INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

U.S. equity markets were lower last week and suffered their worst May since 2010, as President Trump threatened to impose tariffs on Mexican imports to stem the flow of illegal immigrants from the country.

a) **Dow Jones -2.93%, MTD -6.32%, YTD +7.54** b) **S&P 500 -2.58%, MTD -6.35%, YTD +10.74%**
c) **Russell 2000 -3.18%, MTD -7.78%, YTD +9.26%**

Drivers: I) **President Donald Trump** announced **new tariffs** against all products imported from **Mexico**, stating that they would remain in effect until the illegal immigration issue is resolved. "On June 10th, the United States will impose a 5% tariff on all goods coming into our Country from Mexico, until such time as illegal migrants coming through Mexico, and into our Country, STOP," Trump tweeted.

II) The **Case-Shiller's 20-city adjusted index** showed **home prices** were unexpectedly **flat**, at only a 0.1% increase for which was below the Street's consensus range. Year-on-year growth fell 0.3% to 2.7% which is a seven-year low. With the exceptions of some rebounds in the West, most of the 20 cities reported flat monthly results including no change for New York, a 0.1% decline for Dallas and a 0.2% drop for Chicago.

III) **Consumer confidence** for **May** rose to a **higher-than-expected 134.1** in May for the best result since November last year. The report was in line with the mid-month increase posted in the consumer sentiment report. Market pundits should take note in the report of a **sharp decline** in those who describe **jobs as "hard to get"**, to 10.9% from April's 13.0% which **points to strength** for next week's **May employment report**.

IV) The **PCE price index** excluding food and energy **hit expectations at a 0.2%** monthly gain in April with the **year-on-year** also hitting expectations at **1.6%.** The overall PCE price index rose 0.3% with this yearly rate also rising 1 tenth, to 1.5%. This shows that inflation is moving higher though at a slow pace. Consumer spending was higher at 0.3%, though the increase was seen in nondurable goods which reflects the price effects for oil.

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

Capitalization: **Large Caps -6.37%** (YTD +11.05%), Mid-Caps -6.14% (YTD +13.55%) and **Small Caps -7.78%** (YTD +9.26). **Style: Value -9.75%** (YTD +7.20%) and **Growth -6.69%** (YTD +9.63%). **Industry Groups (Leaders): REITs +1.15%** (YTD +18.25%), **Technology -8.67%** (YTD +16.39%), Information Technology -8.84% (YTD 16.31%), Communication Services -5.58% (YTD +12.99%), Industrials -7.75% (YTD +12.47%), Consumer Discretionary -7.57% (YTD +12.47%), Utilities -0.78% (YTD +10.92%), Consumer Staples -3.62% (YTD +10.13%), Financials -7.17% (YTD +9.77%), Materials -8.17% (YTD +4.87%), **Energy -11.09%** (YTD +3.46%) and Healthcare -2.36% (YTD +1.31).

EUROPEAN EQUITIES

The MSCI Europe index declined last week by -2.24% as worsening U.S. trade tensions with China and Mexico came to the fore, and the budget dispute between the European Commission and Italy intensified.

Drivers: I) The **European Commission** could impose a **3 billion euro fine** on **Italy** for breaking EU rules due to its **rising debt** and structural **deficit levels**, the country's Deputy Prime Minister Matteo Salvini stated last week. The EC and Italy had agreed in 2018 by to a 2.04% deficit to gross GDP target for 2019. But sluggish growth in the Eurozone has led Italy's national statistics office to cut its GDP forecast to 0.3% this year, from 1.3%.

II) The **EU Commission's economic sentiment rebounded in May**, coming in at 105.1. The index was 1.2 points above a marginally weaker revised April reading, but this only reversed a part of that month's 1.7-point decline. Still, the rise was the first increase of any kind following a stretch of back-to-back declines that began in July 2018. The improvement reflected a more optimistic consumer sector (-6.5 after -7.3) as well as stronger morale in industry (-2.9 after -4.3) and services (12.2 after 11.8).

III) **Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was lower by -2.24% for the week (MTD -5.48%, YTD +8.51%).**

ASIAN EQUITIES

Asian equity markets declined last week as President Trump announced new tariffs on imports from Mexico, prompting concerns over an acceleration of global trade tensions. The Dow Jones Asia Index dropped by -0.88% for the week, (MTD -6.90%, YTD +1.23%).

Drivers: I) **China's manufacturing purchasing managers' index fell to 49.4** in May from 50.1 in April, the National Bureau of Statistics reported last week. May's reading fell short of the Street's median forecast of 49.9. The decline was caused by a **drop-in export orders** due to the U.S./China trade dispute. The new export sub index, an indicator of **external demand** for Chinese goods, **fell sharply** to 46.5 from 49.2 in April.

II) **Japan's retail sales rose 0.5%** on the year in April, **slowing** from growth of **1.0% in March** and below the Street consensus forecast of 1.0%. Seasonally adjusted retail sales were flat on the month after climbing 0.2% previously. Weaker year-on-year growth in retail sales in April was largely driven by a **sharp decline** in **motor vehicle sales**, down 1.4% on the year after rising 2.5% previously.

III) **Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was lower at -2.44% (MTD -7.44%, YTD +3.85%), the Hang Seng Index fell by -1.60% (MTD -9.40%, YTD +3.92%) and the Shanghai Composite rose by +1.60% (MTD -5.84%, YTD +16.23%).**

FIXED INCOME

Treasury yields experienced their largest weekly declines in over a year, while 10-year and 30-year rates reached their lowest levels in over 20 and 31 months respectively, as escalating global trade tensions caused investors to flock to safe haven assets.

Performance: I) **The 10-year Treasury yield was lower last week ending at 2.130% down from 2.326%. The 30-year yield fell last week from 2.751 to 2.569.**

II) **Performance for the week, month-to-date and year-to-date. The Bloomberg Barclays US Aggregate Bond Index rose +0.92% last week, MTD +1.78% and YTD +4.80%. The Bloomberg Barclays US MBS TR advanced by +0.56% last week, MTD +1.29% and YTD +3.43%. The Bloomberg Barclay's US Corporate HY Index was lower by -0.54%, MTD -1.19% and YTD +7.49%.**

COMMODITIES

The DJ Commodity Index was lower by -1.25% last week and is negative month to date -3.61% (YTD +3.68%). Commodities experienced a decline last week, as oil plunged by 9.60% and industrial metals dropped in price as rising trade tensions have engendered greater concerns over a global economic slowdown.

Performance: I) The **price of oil** last week **was sharply lower by -9.60%** down to $53.36 and has fallen month to date in May by -16.50% (YTD +17.50%). Oil prices plunged as U.S. tariffs on Mexico heightened concerns over the global economy and demand for oil

II) The **ICE USD Index**, a gauge of the U.S dollar's movement against six other major currencies, **was unchanged +0.00%** at 97.61 for the week (MTD +0.09%, YTD +1.50%). The USD was flat, while investors sought out the Japanese Yen as a currency haven, when President Trump threatened to levy tariffs on Mexican imports.

III) **Gold rose last week by +2.02%,** rallying to its highest level in over seven weeks, as investors flocked to the safe haven as rising global trade tensions threatened economic growth. **Gold was higher by +2.02%** last week, climbing from $1284.1 to $1310.2 (MTD +1.90%, YTD +2.25%).

HEDGE FUNDS

Hedge fund returns in May are primarily 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 +2.61% YTD.
II) Equity Hedge has declined by -1.89% MTD and is up +4.66% YTD.
III) Event Driven is lower MTD -0.43% and is higher YTD +0.84%.
IV) Macro/CTA has fallen by -0.24% MTD and is up +0.03% YTD.
V) Relative Value Arbitrage is higher by +0.15% and is up +2.98% YTD.
VI) Multi-Strategy is positive MTD at +0.19% and is higher by 2.74% YTD.

ECONOMIC DATA WATCH AND MARKET OUTLOOK

Looking ahead to the **next week of trading**, the investors will be fixated on one word, **"trade". President Trump** last week increased trade tensions by **threatening** to impose a **5% tariff on all Mexican imports** by June 10, **unless** the government of **Mexico takes "decisive measures"** to **curb illegal immigration** into the U.S. Trade officials are still determining whether such a move would violate NAFTA which is still in place until the USMCA is passed by the U.S., Canadian and Mexican governments. On the **U.S./China front**, **President Trump** has moved to **ban the sale** of **U.S. technology** to Chinese telecom giant, **Huawei**. In turn, the **China** has **postponed** any **further** "goodwill" **purchases of U.S. soybeans** until the trade dispute is resolved. The **hope** is for some **progress** to be made on trade by **President's Trump and Xi** at the **G-20 conference**. The two leaders are tentatively scheduled to meet at the gathering in Osaka, Japan, between June 28 and 29.

In turning to **next week's economic calendar**, we will get a clue as to the present state of the U.S. economy as we will get the release of the ISM Manufacturing and Non-Manufacturing reports, and the all-important U.S. non-farm payroll report. We start off on **Monday** with the **ISM Manufacturing Index for May**, where the consensus estimate is 52.9. This reading would show **moderate strength** in manufacturing for May, which in April came in well below expectations at a nearly 2-year low of 52.8.

Out on **Tuesday** is the report for **April factory orders**, which saw the advance headline of the durable goods fall 2.1% though ex-transportation orders remained unchanged. Forecasters see factory orders in April, which will include initial data on non-durable goods, **falling 0.9%.**

Wednesday brings us the **ISM non-manufacturing index**, where Street estimates call for **steady strength** at a consensus **55.7** versus April's 55.5. **New orders** were **very strong** in the April report as were new export orders. Also, earlier in the day, we get the **ADP's private payroll estimate**, where the Street's consensus is **175,000** which would compare with 275,000 for ADP's estimate and against 236,000 in the government's data for April.

Another peak into the US job market will be Thursday's **Weekly Jobless Claims**. After stabilizing at **230,000** in late **April** and early **May**, initial jobless claims have **moved lower** the last three reports to the 215,000 level. And for the **June 1 week, 215,000** is the Street consensus.

On Friday, we get the release of the **U.S. non-farm payroll** results for May, where moderating strength is the call. The Street consensus is for the creation of another **180,000 jobs**, which follows the surprisingly strong April increase of 263,000 jobs. The **unemployment rate** is seen slightly higher at **3.7%** with average hourly earnings climbing back up from April's 0.2% to an increase of 0.3%. The **year-on-year rate for earnings** is expected to hold **steady at 3.2%.**

Data Source: Haver Economics