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INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

U.S. equity markets rose last week on dovish comments from Federal Reserve Chairman Jerome Powell, and softening language regarding interest rates from last month's FOMC minutes.

a) **Dow Jones +1.54%, MTD +2.83%, YTD +18.66** b) **S&P 500 +0.82%, MTD +2.53%, YTD +21.54%**
c) **Russell 2000 -0.34%, MTD +0.25%, YTD +17.28%**

Drivers: I) In his testimony before the House Financial Services Committee, **Fed Chairman Jerome Powell** emphasized **rising risks to the U.S. economy** from trade policy and slowing global growth, as well as falling price inflation. In particular, "economic momentum appears to have slowed in some major foreign economies, and that weakness could affect the U.S. economy." **Fed Fund futures** are now at a **77.5% probably for a 0.25% cut** and a **22.5% chance** for a **0.50% decrease.**

II) Though the labor market remained strong and GDP was expanding at a moderate rate, policy makers at last month's **FOMC** meeting **"generally agreed"** that downside **risks to the economy**, due to trade tensions and slowing global growth, had "risen materially". If risks to the economy were sustained, "many" of the 15 FOMC members agreed that a **cut in rates was warranted** to offset potential economic shocks and low inflation.

III) **CP**I came in as expected at a **1.6% rate** for June, but the core rate increased by 0.3% as apparel rose by a higher than expected 1.1% monthly. Year-on-year the **core** is up 0.1% to **2.1%** and, which is also at the high end of the Street consensus. Two key components in the report, **housing and medical care** which accounts for about half of the index, were on the high side, at 0.3% each on the month for respective yearly rates of 3.0% and 2.0%.

IV) **June's producer price index** came as expected at a **soft 0.1% rise.** The ex-food ex-energy reading rose 0.3% which is 0.1% above expectations though ex-food ex-energy ex-trade services under shot expectations by 0.2% coming in unchanged. **Energy was weak** falling by 3.1%, finished goods was lower by 0.4%, which included a 0.8% decline in computers.

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

Capitalization: **Large Caps +2.53%** (YTD +21.85%), Mid-Caps +2.03% (YTD +23.81%) and **Small Caps +0.25%** (YTD +17.28). **Style: Value** +**0.03%** (YTD +15.96%) and **Growth +1.05%** (YTD +18.60%). **Industry Groups (Leaders):** Technology +3.82% (YTD +31.83%), **Information Technology +3.64%** (YTD 31.62%), Consumer Discretionary +4.02% (YTD +26.20%), Industrials +1.37% (YTD +22.91%), REITs +2.26% (YTD +23.06%), **Communication Services +4.38%** (YTD +22.38%), Financials +2.50% (YTD +20.06%), Consumer Staples +2.99% (YTD +19.40%), **Materials -0.31%** (YTD +16.72%), Utilities +1.54% (YTD +16.32%), Energy +1.18% (YTD +14.35%) and Healthcare -0.17% (YTD +7.82).

EUROPEAN EQUITIES

The MSCI Europe index fell last week by -0.58% as minutes from last month's meeting of the ECB highlighted the economic slowdown in the EU.

Drivers: I) The **minutes from last month's ECB meeting** provided forward guidance that **interest rates** would remain **unchanged "at least through the first half of 2020"**. The extension reflects the central bank's disappointment with the **sluggishness** of the **Eurozone economy**. Economic risks are slanted to the downside and there are doubts inflation will rise near-2.0% medium-term target anything time soon.

II) **Euro-zone industrial production exceeded expectations** in May. Following a slightly lower revised 0.4% monthly fall in April, output (ex-construction) **rose 0.9%,** its first increase since January. Even so, annual workday adjusted growth still dropped from -0.4% to -0.5% due to a particularly strong period a year ago. The consumer sector led the way as non-durable goods climbed fully 2.7% and durables (2.3%) were not far behind.

III) **Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was lower by -0.58% for the week (MTD -0.71%, YTD +14.98%).**

ASIAN EQUITIES

Asian equity markets declined last week as disappointing export data from China showed a slowdown in June. The Dow Jones Asia Index declined by -0.33% for the week, (MTD +0.29%, YTD +6.30%).

Drivers: I) **China's trade surplus** on a U.S. dollar basis **widened** from U.S.$41.65 billion in May to U.S.$50.98 billion in June, larger than the consensus forecast of U.S.$43.2 billion. **Exports dropped 1.3%** on the year in June after advancing 1.1% in May, slightly stronger than the consensus forecast for a fall of 2.0%. Year-on-year growth in imports picked up from a fall of 8.5% to a decline of 7.3%, more than the consensus forecast for a drop of 2.0%.

II) The **Producer Price Index** in **China** showed **no change** on the year in June, down from an increase of 0.6% in May and weaker than the consensus forecast of 0.2%. The index declined 0.3% on the month after rising 0.2% previously. The drop in PPI inflation was driven primarily by **lower global oil prices** with energy prices experiencing a significant year-on-year fall. Motor vehicle prices also fell on the year in June.

III) **Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was lower at -0.28% (MTD +1.93%, YTD +9.57%), the Hang Seng Index dropped by -1.45% (MTD -0.45%, YTD +10.29%) and the Shanghai Composite declined by -2.67% (MTD -1.62%, YTD +17.51%).**

FIXED INCOME

Treasury yields saw their sharpest weekly increase in over three months, as rate rose on higher than expected CPI data and poor demand at the Treasury auctions.

Performance: I) **The 10-year Treasury yield was higher last week ending at 2.124% up from 2.037%. The 30-year yield rose last week, ending at 2.649% up from 2.541%.**

II) **Performance for the week, month-to-date and year-to-date. The Bloomberg Barclays US Aggregate Bond Index was lower -0.21% last week, MTD -0.36% and YTD +5.73%. The Bloomberg Barclays US MBS TR declined by -0.01% last week, MTD +0.01% and YTD +4.18%. The Bloomberg Barclay's US Corporate HY Index was lower by -0.06%, MTD +0.21% and YTD +10.17%.**

COMMODITIES

The DJ Commodity Index was soared last week by +2.53% last week and is positive month to date +1.73% (YTD +8.77%). Commodities rallied strongly as oil jumped on possible production disruptions due severe weather in the Gulf of Mexico and gold rose on "dovish" Fed comments and a declining USD.

Performance: I) The **price of oil** last week **was higher by +4.43%** up to $60.29 and has risen month to date in July by +3.59% (YTD +32.77%). Oil prices jumped last week on concerns that Tropical Storm Barry could curtail production coming out of the Gulf of Mexico.

II) The **ICE USD Index**, a gauge of the U.S. dollar's movement against six other major currencies, **was lower by -0.46%** ending at 96.72 for the week (MTD +0.61%, YTD +0.57%). The USD fell as the Congressional testimony from Federal Reserve Chairman Powell stressed the Fed is ready to cut rates to support the US economy.

III) **Gold rose last week by +1.17%,** as Fed Chairman Jerome Powell's testimony in front of Congress essentially confirmed a 0.25% rate cut at the end of July. **Gold was higher by +1.17%** last week, rising from $1401.2 to $1417.7 (MTD +0.37%, YTD +10.64%).

HEDGE FUNDS

Hedge fund returns in July 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 +0.44% MTD and up +4.68% YTD.
II) Equity Hedge has advance by +0.91% MTD and is up +6.93% YTD.
III) Event Driven is higher MTD +0.33% and is higher YTD +2.84%.
IV) Macro/CTA has risen by +0.35% MTD and is up +2.94% YTD.
V) Relative Value Arbitrage is higher by +0.11% and is up +4.31% YTD.
VI) Multi-Strategy is positive MTD at +0.10% and is higher by 4.03% YTD.

ECONOMIC DATA WATCH AND MARKET OUTLOOK

Looking ahead to the **next week of trading**, I must confess that I am in awe of the **strength of the U.S. equity market's** inexorable rise to new heights. Despite lingering worries over U.S./China trade, rising tensions in Iran and the never ending "Brexit" saga, the DJIA (27,332.03) and S&P 500 (3013.77) breached historical price levels and reached new all-time highs. **The lesson here is simply "don't fight the Fed". Federal Reserve Chairman Jerome Powell** last week in his testimony before Congress, ostensibly **assured a 0.25% rate cut** at the end of July. Concerns over **trade tensions and muted inflation** will prompt the Fed to "act as appropriate to sustain the expansion". The rate cut would be a reversal of the December 0.25% rate increase, which many market participants agreed was not necessary.

Despite the euphoria on Wall Street, I believe some statements coming out of the rebooted **U.S./China trade talks** could create some **headwinds**. Economic advisor Larry Kudlow stated last week that U.S. and China trade officials had constructive talks last week. However, **China officials** retorted that in order to make **further progress** in trade talks, the **U.S.** needed to **remove existing tariffs.** Also, White House claims that **China** would **increase purchases of U.S. agricultural goods** as a precursor to a trade deal were **dispelled**. This will be an interesting few months ahead.

In turning to **next week's economic calendar**, the spotlight will be on the U.S. consumer and housing data. On Tuesday, we open with **June retail sales**, where forecasters are predicting a **slowdown** in June. The Street consensus calls for an increase of only 0.1% versus a 0.5% rise in what was a strong May report. Unit vehicle sales were slightly lower in June and hint at a better showing for the ex-auto rate where the consensus is plus 0.3%. Ex-autos and ex-gasoline are expected to show a respectable 0.4% gain.

Industrial Production also out on Tuesday beat estimates in May by gaining 0.4%, boosted by a rise in utility output. Manufacturing which has been weak this year, and is of concern for the Fed, is projected to **increase by only 0.2% in May**. The capacity utilization rate is expected to increase by 0.1% to 78.2%. Closing out Tuesday is the **Housing Market Index**, which dropped 3 points in June and no **rebound is expected** in July. Despite the drop last month, June's index was still the second-best showing since October 2018. Market pundits see July reading rising by 1 point to 65.

Kicking off on **Wednesday** we will get the results for **June's housing starts and permits**, which in May for a second consecutive month, beat expectations. Housing starts are estimated to come in at **1.260 million** annualized rate versus **May's reading of 1.269 million**. The consensus for permits is 1.300 million vs 1.299 million in May (revised from an initial 1.294 million).

On Friday, we close out the week with **Consumer Sentiment** where forecasters see a **small lift**, calling for a preliminary July reading of 98.6 that would compare with June's 1.8-point drop to 98.2.

Data Source: Haver Economics