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INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

The U.S. equity market rally took a breather, as the positive price momentum prompted by the expected Fed rate cut in late July was stymied by negative U.S./China trade comments from President Trump.

a) **Dow Jones -0.61%, MTD, +2.21%, YTD +17.95** b) **S&P 500 -1.21%, MTD +1.29%, YTD +20.26%**
c) **Russell 2000 -1.40%, MTD -1.15%, YTD +15.64%**

Drivers: I) **President Donald Trump** ratcheted up the pressure on China over trade with the U.S., as he vowed to "take a look" into concerns raised by investor Peter Thiel about Google's relationship to the Chinese government. President Trump also said during a cabinet meeting at the White House that there's a **"long way to go" on a trade pact with Beijing**.

II) **June retail sales rose 0.4%** with ex-auto sales also up 0.4%, both at the upper side of the consensus range. The report showed isolated weak points led by gasoline stations, where lower oil prices pulled down sales by 2.8%, and department stores where there was no rebound in the ailing sector. The most surprising strength in the report, is the **0.7% jump in auto sales** that contradicts what was a flat month for unit sales

III) With the **Fed ready to cut interest rates** due to **weakening industrial production**, the manufacturing component came in at a **solid 0.4% gain** in June, the **best result so far this year**. This offsets the overall headline that came in unchanged but reflected a 3.6% output decline at utilities which are always subject to strong weather effects. Mining, the third component in the report, managed a 0.2% rise on the month.

IV) **Consumer sentiment was steady** coming in at **98.4 for July versus 98.2 for final June**. The current conditions component, which is very solid, fell slightly to 111.1 while the expectations component, which is likewise positive, rose slightly to 90.1. Inflation expectations are mixed but moderate, with the year-ahead outlook down 0.1% at 2.6% and the 5-year outlook, which is often more volatile, up 0.3% and at 2.6%.

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

Capitalization: **Large Caps +1.33%** (YTD +20.43%), Mid-Caps +0.89% (YTD +22.43%) and **Small Caps -1.15%** (YTD +15.64). **Style: Value -1.05%** (YTD +14.72%) and **Growth -0.25%** (YTD +17.08%). **Industry Groups (Leaders): Technology +3.15%** (YTD +30.98%), Information Technology +2.94% (YTD 30.73%), Consumer Discretionary +2.39% (YTD +24.22%), Industrials +0.13% (YTD +21.41%), REITs -0.07% (YTD +20.24%), Communication Services +1.47% (YTD +18.97%), Financials +1.15% (YTD +18.48%), **Consumer Staples +3.11%** (YTD +19.53%), Materials -0.20% (YTD +16.85%), Utilities +1.09% (YTD +15.81%), **Energy -1.47%** (YTD +11.36%) and **Healthcare -0.96%** (YTD +6.96).

EUROPEAN EQUITIES

The MSCI Europe index fell last week by -0.21% as on-going global trade concerns were partially offset by the potential for further monetary stimulus from the ECB.

Drivers: I) **Economists** have been **negative on Germany's economy** and the **ZEW survey** supported this stance, as it came in at the lower end of consensus expectations. The current conditions gauge **dropped almost 9 points t**o -1.1, its ninth drop over the last ten months and its steepest decline since February. This was also its first sub-zero showing since June 2010. At the same time, expectations eased a further 3.4 points to minus 24.5.

II) **Euro-zone inflation** was revised a bit higher in **June to 1.3%,** the final annual rate was a slightly higher than both its flash estimate and the final report in May. That said, it was still the second weakest reading in 2019 to date. Of more significance to financial markets, core prices were mixed. The narrowest gauge which excludes energy, food, alcohol and tobacco, was unchanged, leaving its yearly rate 0.03% above its final May level at 1.1% which is vey much **in line with its 2018 average**.

III) **Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was lower by -0.21% for the week (MTD -0.91%, YTD +14.75%).**

ASIAN EQUITIES

Asian equity markets rose last week as New York Fed President John Williams said in a speech that since interest rates are so close to zero, cutting them at the first sign of trouble would be the wisest move. The Dow Jones Asia Index rose by +0.47% for the week, (MTD +0.77%, YTD +6.80%).

Drivers: I) **Japan's exports fell 6.7**% on the year **in June** after dropping 7.8% in May, more than the consensus forecast for a decline of 5.3%. Year-on-year growth in imports weakened from a decline of 1.5% to a fall of 5.2%, again larger than the consensus forecast for a 0.6% fall. Japanese exports to China fell 10.1% on the year in June after dropping 9.7% in May, year-on-year growth in exports to the United States picked up from 3.3% to 4.8%.

II) The headline **consumer price index in Japan rose 0.7%** on the year in June, **unchanged** from the level seen in **May**, and was flat on the month in seasonally adjusted terms. This stability in headline inflation in June reflects offsetting moves in major components. The year-on-year change in food prices accelerated from 0.8% to 1.4% while the year-on-year change in housing costs was unchanged at 0.1%. Core CPI, which excludes fresh food prices, rose 0.6% on the year in June, down from 0.8% in May and matching the consensus forecast.

III) **Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was lower at -1.01% (MTD +0.90%, YTD +8.47%), the Hang Seng Index rose by +1.25% (MTD +0.80%, YTD +11.67%) and the Shanghai Composite declined by -0.22% (MTD -1.84%, YTD +17.25%).**

FIXED INCOME

Treasury yields fell last week on the all but assured 0.25% Fed rate scheduled for the end of July, but bond yields rose a bit on Friday as a Fed official lowered expectations for a potential 0.50% rate cut.

Performance: I) **The 10-year Treasury yield was lower last week ending at 2.057% down from 2.124%. The 30-year yield fell last week, ending at 2.580% down from 2.649%.**

II) **Performance for the week, month-to-date and year-to-date. The Bloomberg Barclays US Aggregate Bond Index rose +0.38% last week, MTD +0.01% and YTD +6.13%. The Bloomberg Barclays US MBS TR advanced by +0.33% last week, MTD +0.34% and YTD +4.52%. The Bloomberg Barclay's US Corporate HY Index was lower by -0.15%, MTD +0.06% and YTD +10.00%.**

COMMODITIES

The DJ Commodity Index was slumped last week dropping by -2.37% last week and is negative month to date -0.49% (YTD +6.40%). Commodities declined last week as energy fell on global demand concerns, and agriculture fell on US/China trade talk worries.

Performance: I) The **price of oil** last week **plunged by -7.54%** down to $55.74 and has fallen month to date in July by -4.22% (YTD +22.75%). Oil prices slumped for the week as worries over a global slowdown in demand remained and U.S. production looked to have fully recovered from the recent storm-related disruption.

II) The **ICE USD Index**, a gauge of the U.S. dollar's movement against six other major currencies, **was higher by +0.36%** ending at 97.07 for the week (MTD +0.98%, YTD +0.93%). The USD rose last week as a Fed official refuted the probability of a 0.50% rate cut in July.

III) **Gold rose last week by +0.62%,** reaching the $1450 price level for the first time in six years, as the precious metal rallied on lower interest rates and positive fund flows into the commodity. **Gold was higher by +0.62%** last week, rising from $1417.7 to $1426.5 (MTD +0.99%, YTD +11.33%).

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 +0.60% MTD and up +4.85% YTD.
II) Equity Hedge has advance by +1.09% MTD and is up +7.13% YTD.
III) Event Driven is higher MTD +0.49% and is higher YTD +3.00%.
IV) Macro/CTA has risen by +0.82% MTD and is up +3.42% YTD.
V) Relative Value Arbitrage is higher by +0.09% and is up +4.29% YTD.
VI) Multi-Strategy is positive MTD at +0.07% and is higher by 4.00% YTD.

ECONOMIC DATA WATCH AND MARKET OUTLOOK

Looking ahead to the **next week of trading**, while U.S./China trade talks are bogged down over issues concerning Huawei and Congress is wrangling over a new budget, **U.S. corporate earnings season** is in full swing. According to FactSet, **Q2 S&P 500 earnings** are **projected** to suffer a **decline of -0.4%** on a year over year basis, while revenues are expected to increase by 5.3%. After the reported **drop** in **earnings during Q1 of -1.9%,** this would mark a **second consecutive quarterly decline** in earnings for the first time since Q1 and Q2 in 2016. It is expected that 10 out of 11 sectors will see an earning decrease, with the **weakness growth** seen in energy (+5.9%), consumer staples (+6.7%) and consumer discretionary (+7.0%).

S&P 500 sectors projected to show the **best growth** in earnings are **real estate** (+34.2%), **information technology** (+20.6%) and **Financials** (+17.7%). Thus far, with a small sampling of 77 companies (15%) having reported, 78% and 61% have beaten their earnings and revenue projections respectively.

In turning to **next week's economic calendar**, the markets will see if the decline in U.S. mortgage rates has helped the **housing sector** as we will get the **Existing and New Home sales reports**. Kicking off the housing data on **Tuesday is FHFA's house price index** for May, where a **gain of 0.3%** is the forecast. The April estimate had beaten expectations with a 0.4% jump, while the yearly rate was up 0.2% to 5.2%. **Existing home sales** also reporting on Tuesday, has the June level expected to remain **unchanged** from the May report's rate of **5.340 million**.

On **Wednesday** we will have the release of the **Composite PMI** where there has been a slowing in both manufacturing and services growth. The consensus estimate for July's PMI has **services** coming in at **51.4** and **manufacturing at 50.8**, both **little changed from June. New Home sales** close out Wednesday, and there is hope for a rebound from the weak 626.000 sales seen in May where home prices also declined. The June estimate is for a **rise to a 655,000-annual rate**.

Durable Goods orders are the highlight on Thursday, as forecasters are **projecting orders rose 0.7% in June**. This follows a soft May report where there was a 1.3% overall decline. Core capital goods though, rose a better than expected 0.5% in May with an increase of 0.2% estimated for June. Ex-transportation orders are also seen up 0.2% after May's 0.4% gain (revised from an initial 0.3%).

We close out the week on **Friday** with the first estimate for **second quarter GDP growth**, which has a Street consensus of 1.9%, a level lowered by expected corrections for net exports and inventories. The fundamental strength of second-quarter GDP is expected to lie in consumer spending as personal consumption expenditures are expected to post a 3.9% growth rate that would be well up from 0.9% in the first quarter. The GDP price index is seen at **1.9%** with the **core price index at 1.7%.**

Data Source: Haver Economics