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# INVESTMENT COMMITTEE MARKET COMMENTARY

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## U.S. EQUITIES

**U.S. equity markets were higher last week as first estimate of Q2 GDP growth at 2.1% exceeded expectations, but subdued inflation will not derail the Federal Reserves plan to lower short rates by 0.25%.**

a) **Dow Jones +0.14%, MTD +2.35%, YTD +18.11** b) **S&P 500 +1.66%, MTD +2.97%, YTD +22.06%**
c) **Russell 2000 +2.02%, MTD +0.84%, YTD +17.97%**

**Drivers:** I) A **rise** in **personal consumption expenditures** and **government spending** pushed **Q2 GDP** growth to a **2.1%** annualized rate, exceeding the Street consensus estimate by 0.2%. Inflation adjusted **consumer spending** came in at a **solid 4.3%,** beating consensus estimates by 0.4%. All other major categories such as inventories and non-residential fixed investment were lower, clearing the way for the Fed to lower interest rates next week.

II) The **Composite PMI** flash report came in **as expected at 51.6**, with **manufacturing** remaining **weak** matching June's tepid result of 50.0. The weakness in manufacturing is the worse showing in 10 years and will be a major concern at the FOMC meeting next week. Weakness in auto manufacturing and global trade concerns were primary worries cited in the report. Services rose from 50.7 to 52.2, carried by a rise in new orders.

III) **Durable Goods orders** posted a **solid 2.0% jump** in June, easily beating the consensus estimate of 0.5%. New orders for machinery rose 2.4% in the month with fabrications up 2.1% and primary metals up 0.8%. These are all important inputs to an increase future production. Other good news included a 3.1% order surge for motor vehicles, and a 75.5% jump for civilian aircraft orders which had been depressed due to Boeing 737 troubles.

IV) **Existing home sales** came in **softer-than-expected at a 5.270 million** annual rate in June which, however, is right in line with the 3-month average of 5.280 million. Single-family resales fell 1.5% in the month to a 4.690 million pace while condo sales, the second and much smaller component in the report, fell 3.3% to 580,000. For home sellers, the **good news** is **prices rose a sharp 2.7%** to a median $285,700.

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

**Capitalization**: **Large Caps +3.06%** (YTD +22.48%), Mid-Caps +2.60% (YTD +24.50%) and **Small Caps +0.84%** (YTD +17.97). **Style: Value +1.61%** (YTD +17.79%) and **Growth +1.81%** (YTD +19.50%). **Industry Groups (Leaders): Technology +5.64%** (YTD +34.14%), Information Technology +5.56% (YTD 34.06%), Consumer Discretionary +3.56% (YTD +25.64%), **Communication Services +5.70%** (YTD +23.94%), Industrials +1.52% (YTD +23.09%), Financials +3.86% (YTD +21.65%), REITs +0.66% (YTD +21.13%), Consumer Staples +3.87% (YTD +20.41%), Materials +0.82% (YTD +18.05%), Utilities +0.47% (YTD +15.10%), **Energy -2.02%** (YTD +10.73%) and **Healthcare -0.59%** (YTD +7.36).

## EUROPEAN EQUITIES

**The MSCI Europe index rose last week by +0.07% as the ECB announced it was ready to cut rates and provide "highly accommodative" monetary policy to push inflation and flagging economic growth higher.**

**Drivers:** I) The **ECB** as expected left the benchmark refi rate at 0.00%, the deposit rate at -0.40% and the rate on the marginal lending facility at 0.25%. However, the central bank did take the first steps towards easing by **modifying its forward guidance on interest rates**. This has now been amended to include the possibility of lower rates and opened the door for the **potential** of **new asset purchases** including bonds and perhaps equity indices.

II) The **Flash Composite PMI** in July were **weak** and point to **slowing GDP growth**. The flash composite output index came in at just 51.5, down 0.7 points versus its final June reading and well short of market expectations. It was also perilously close to the 50-expansion threshold and a 3-month low. The headline decline was largely due to another poor period for manufacturing where the flash PMI dropped 1.2 points from its final June mark to 46.4, its worst showing in over seventy-nine months.

III) **Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was higher by +0.07% for the week (MTD -0.84%, YTD +14.83%).**

### ASIAN EQUITIES

**Asian equity markets were lower last week as investors were immersed in the on-going trade conflict between the U.S. and China, and the escalating trade boycott between Japan and South Korea. The Dow Jones Asia Index fell by -0.70% for the week, (MTD +0.06%, YTD +6.05%).**

**Drivers:** I) **Japan's Kyoto news** reported that Japan will decide on Aug. 2 to **remove South Korea** from its list of countries allowed under **preferential arrangements** to **buy products** that could be diverted for military use. The Cabinet of Prime Minister Shinzo Abe plans to endorse South Korea's removal, which will likely take effect in late August. The two countries are in a dispute over compensation for wartime labor during Japan's 1910-1945 colonial rule of the Korean Peninsula.

II) The **flash estimate** for the **Japan manufacturing PMI** headline index for July was **49.6**, up from the final estimate of 49.3 for June. The report cited **weak Chinese demand** as a significant factor weighing on activity and sentiment. This survey has shown contraction in the Japanese manufacturing sector for five of the last six months. Output fell for a seventh consecutive month in July though at a slower pace than in June, while new orders and new export orders were also reported to have fallen again.

III) **Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was higher at +0.89% (MTD +1.80%, YTD +9.43%), the Hang Seng Index fell by -1.41% (MTD -0.62%, YTD +10.10%) and the Shanghai Composite advanced by +0.70% (MTD -1.15%, YTD +18.07%).**

### FIXED INCOME

**Treasury yields were slightly higher last week as Q2 GDP came in stronger than expected but inflations remained tame, clearing the way for the Fed to lower rates next week.**

**Performance:** I) **The 10-year Treasury yield was higher last week ending at 2.069% up from 2.057%. The 30-year yield rose last week, ending at 2.590% a rise from 2.580%.**

II) **Performance for the week, month-to-date and year-to-date. The Bloomberg Barclays US Aggregate Bond Index fell -0.03% last week, MTD -0.02% and YTD +6.09%. The Bloomberg Barclays US MBS TR declined by -0.03% last week, MTD +0.31% and YTD +4.49%. The Bloomberg Barclay's US Corporate HY Index was higher by +0.49%, MTD +0.55% and YTD +10.54%.**

### COMMODITIES

**The DJ Commodity Index was lower last week dropping by -0.73% and is negative month to date -1.22% (YTD +5.62%).** Commodity prices dropped last week as the USD climbed to a two-month high on the back of stronger than expected GDP growth in the US, and weaker industry metal prices due to trade worries.

**Performance:** I) The **price of oil** advanced last week **by +0.75%** up to $56.16 and has fallen month to date in July by -3.50% (YTD +23.67%). Oil prices were higher as the market grapples with increased production out of the U.S. offset by OPEC cuts, and moderate U.S. economic growth negated by a slowdown in Europe.

II) The **ICE USD Index**, a gauge of the U.S. dollar's movement against six other major currencies, **was higher by +0.86%** ending at 97.91 for the week (MTD +1.85%, YTD +1.81%). The USD hit a two-month high last week as stronger than expected Q2 U.S. GDP growth and weak Euro-zone economic data supported the dollar.

III) **Gold declined last week by -0.56% due to profit taking,** as investors weighted the possibility of a greater than 0.25% rate cut by the Fed next week. **Gold was lower by -0.56%** last week, dropping from $1426.5 to $1418.5 (MTD +0.42%, YTD +10.70%).

## 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 +0.81% MTD and up +5.06% YTD.**
**II) Equity Hedge has advance by +1.33% MTD and is up +7.38% YTD.**
**III) Event Driven is higher MTD +0.32% and is higher YTD +2.82%.**
**IV) Macro/CTA has risen by +1.49% MTD and is up +4.10% YTD.**
**V) Relative Value Arbitrage is higher by +0.29% and is up +4.49% YTD.**
**VI) Multi-Strategy is positive MTD at +0.24% and is higher by 4.18% YTD.**

## ECONOMIC DATA WATCH AND MARKET OUTLOOK

Looking ahead to the **next week of trading**, the **direction and magnitude** of **asset price movements** will most likely be affected by both **geo-political and fundamental factors**. Geo-politically, investors are hoping that the recent goodwill gestures from the **U.S. and China** will get the **trade talks** back on track. The White House met with U.S. technology companies to discuss a possible resumption of equipment sales to Huawei, and Chinese trade officials meet with soybean buyers in hopes of increasing purchases of U.S. agricultural goods. **Fundamentally,** investors came into the **Q2 earnings season expecting a downturn** in year over year earnings of **-1.9%.** With **43% (213 companies) S&P 500 companies** having reported, **earning**s are up **3.1**%. Also, on the plus side, 77.0% and 59% of companies have beaten their earnings and revenue estimates. Hopefully these positive trends will continue to support risk asset pricing for the week.

In turning to **next week's economic calendar**, the schedule is jammed packed with consumer data and the much anticipated FOMC meeting. On Tuesday, we with start off with **Consumer Spending,** which was **solid in May** (up 0.4%) and even stronger in April (up 0.6%). Forecasters though see a **slowing in June** where the Street consensus is a **gain of 0.3%. Personal income** is expected to also **rise 0.3%** following a strong 0.5% increase in May that did not include, however, much strength for wages and salaries. **Consumer Confidence** also out on Monday, fell sharply and unexpectedly in June, reflecting deterioration in job assessments and income prospects. Inflation expectations surged in the June report. For July, the Street is looking for a **3.5-point rise** in confidence to 125.0.

After a weak April report where there was no change, **Case-Shiller's 20-city adjusted index** is expected to **rise** only **0.2% in May**. Year-on-year growth of 2.5% in April, has been dropping to a seven-year lows and 2.6% is the estimate for May. **Pending Home Sales** close out Tuesday and after jumping 1.1% in May, the Index is expected to **rise to a more normal 0.3%** in **June**. Final sales of existing home sales moved higher in the early Spring but have since been flat.

**Mid-week** we will get the **rate decision** from the **Fed**, where a **25-basis-point rate cut** is the high probability **consensus call** for July's policy meeting. Federal Reserve policy makers have been signaling that chances for a shift to accommodation have risen, the result of weakening in business investment, manufacturing and global trade. But strength seen in other economic data, from June employment to Q2 consumer spending, has tamped down expectations for a 50-basis point cut.

On Thursday, we get the release of the **ISM Manufacturing index** where slowing growth has been the pattern. For June, the Index came in at 51.7, which was a three-year low. Most indications in June's report, including new orders, were flat. For July, the Street **consensus is 51.9**.

The **Consumer Sentiment Index** out on Friday and the consensus for **July is 98.4** which would be **unchanged** from the preliminary reading. Inflation expectations in this report have been volatile from report to report, but overall still moderate.

***Data Source: Haver Economics***