

INVESTMENT COMMITTEE MARKET COMMENTARY

APRIL 27, 2015

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U.S. EQUITIES

U.S. stocks rallied higher last week posting solid gains as better than expected earnings propelled the NASDAQ Composite and S&P 500 to finish at all-time highs.

- a) **Dow Jones -0.24% MTD +1.80% YTD +2.01%** b) **S&P 500 +0.39% MTD +2.50% YTD +3.24%**
 c) **Russell 2000 -0.10% MTD +1.23% YTD +5.92%**

Drivers: I) **Orders for durable U.S. goods jumped a seasonally adjusted +4.0% in March**, but the increase was driven almost entirely by higher demand for autos, commercial jets and military hardware. **A key measure of business investment, however, fell for the seventh straight month as core orders excluding aircraft and military goods fell -0.5%**. Shipments of core capital goods, a category used to help determine quarterly economic growth dropped -0.4% in March. **That is another sign that first-quarter gross domestic product is likely to be quite weak.**

II) **Strategists see a large decoupling in recent weeks between U.S. equity flows and prices, as investors continue to cut their exposure to stocks even as equity prices hit new highs this week.** Mutual fund data shows cumulative U.S. equity flows decreasing, while the S&P 500 climbs to new peaks. Investors have pulled \$79 billion from U.S. stock funds in the year to date, with outflows in nine out of the past 10 weeks. Strategists also have emphasized that investors this year have been fleeing U.S. stock funds at a rate last seen in 2009.

III) **Springing back from a tough winter and supported by the growing economy, sales of used homes in March reached the fastest pace in 18 months.** Sales of existing homes rose +6.1% in March to a seasonally adjusted annual rate of 5.19 million, the fastest pace in 18 months according to the National Association of Realtors. Economists had expected a March rate of 5.08 million, after a slightly revised 4.89 million pace in February.

IV) **The flash reading of the Markit manufacturing purchasing managers index fell in April to 54.2 from 55.7 in March. Survey respondents generally cited soft international markets for the decline.** The flash estimate is typically based on approximately 85%-90% of total PMI survey responses each month, and any reading above 50 indicates improving conditions.

V) **Equity prices for the month are solidly positive, with Large Cap and Value along with Energy, Communication and Healthcare leading equity price performance. The laggards for the month are Small Cap and Growth Stocks along Consumer Cyclicals.**

Capitalization: **Large Caps +1.79%** (YTD +3.24%), Mid Caps +1.77% (YTD +6.04%) and **Small Caps +1.19%** (YTD +5.31%). Style: **Value +2.27%** (YTD +1.92%) and **Growth +1.68%** (YTD +8.09%). Industry Groups (Leaders): **Healthcare +4.72%** (YTD +10.56%), **Communication +5.94%** (YTD +7.27%), **Consumer Cyclicals +2.49%** (YTD +6.10%), **Energy +9.39%** (YTD +4.54%), Technology +4.52% (YTD +4.52%), Basic Materials +3.72% (YTD +2.81%) and Industrials +4.54% (YTD +2.16%). (Laggards): Financial Services +2.53% (YTD -0.66%) and Utilities +3.49% (YTD -3.96%).

EUROPEAN EQUITIES

The Stoxx Europe 600 Index advanced last week from 403.69 to 408.42, to close higher by +1.17%. European stocks pared gains last Friday, following a lackluster end to a meeting on Greece's debt troubles, but equities still finished higher for the week. Year-to-date, the Stoxx Europe 600 is up +19.23% (MTD +3.03%).

Drivers: I) **Yields on Greek debt fell last Friday, as Eurozone finance ministers were set to talk about Greece's mounting debt troubles. The yield on 2-year debt fell 1.1 percentage points to 23.63%, and the yield on 10-year bonds fell 83 basis points to 12.04%.** Greece and its creditors have been unable to reach a deal on Greek economic reforms needed for Greece to receive its next tranche of bailout funds. A group of Eurozone finance ministers were gathering to meet in Riga, Latvia, but few people expect a final agreement to be reached.

II) *German consumer confidence is set to improve further in May but some sub-elements of the index are showing tentative signs that consumer optimism may be approaching its peak.* The forward-looking GfK consumer-sentiment index is set to rise to 10.1 points in May from 10.0 points in April, market research group GfK said on Thursday, marginally undershooting economists' expectation of 10.2 points in a survey by The Wall Street Journal. The May data is the highest value since Oct. 2001, when the indicator was 11.0 points, GfK said.

III) *Performance of European Indexes for the week, month-to-date and year-to-date. The EuroStoxx 600 Index rose by +1.17% for the week (MTD +3.03% YTD +19.23%).*

ASIAN EQUITIES

Asian equity markets were higher last week as Taiwan stocks hit their highest close in more than 7.5 years as the technology-heavy benchmark Taiex index ended one of its best weeks so far this year, while the recent rallies in Shanghai and Hong Kong showed signs of weakening. The Dow Jones Asia/Pacific Index was up +1.24% for the week.

Drivers: I) *China's central bank guided the yuan to its strongest level in three months as Beijing seeks to stem outflows and keep the tightly controlled currency buoyant just as the economy suffers a bruising slowdown.* A gauge of factory activity is at its lowest in a year, growth has fallen to its slowest since the global financial crisis and signs of distress are growing in China's bond markets. *After setting it at its weakest level for the year last month, authorities have reversed course and have slowly been pushing it stronger since then. The yuan is now up +0.40% for the year, erasing part of last year's +2.47% loss.*

II) *Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was higher by +1.87% (MTD +4.65% YTD +14.72%), the Hang Seng Index was up by +0.87% (MTD +12.45% YTD +18.17%) and the Shanghai Composite climbed higher by +2.48% (MTD +17.22% YTD +35.83%).*

FIXED INCOME

Treasury yields rose last week as the market prepares for this week's Federal Reserve meeting, as investors look out for new wording on how Fed officials view the economy.

Performance: I) *The 10-year Treasury yield was higher last week, ending at 1.909% up from 1.864%. The 30-year yield rose last week advancing from 2.519% to 2.612%.*

II) *Performance for the week, month-to-date and year-to-date. Barclays US Agg Bond was down -0.28% last week, MTD +0.24% and YTD +1.71%. The Barclays US MBS TR fell by -0.16% last week, MTD +0.26% and YTD +1.22%. The BofAML US HY Master II was higher last week by +0.06%, MTD +1.33% and YTD +3.80%.*

COMMODITIES

The DJ Commodity Index weakened last week dropping from 316.15 to 314.90, but is higher month-to-date +3.54% (YTD -2.71%) as commodities fell ahead of the FOMC meeting next week.

Performance: I) *Oil prices were up last week as strife in Yemen fed concerns over the potential for supply disruptions in the Middle East.* Crude oil for the week advanced from \$56.14 to \$57.42 per barrel.

II) *The ICE USD Index, a gauge of the greenback's movement against six other major currencies, was lower falling from 97.45 to 96.86 for the week. The USD fell last week as a disappointing durables report was the latest in a series of downbeat numbers that helped reduce investors' confidence that the Federal Reserve will raise short-term rates sometime this year.* For the week the Yen was weaker falling from ¥118.92 to ¥118.98 and the Euro advanced from 1.0806 to 1.0873 against the USD.

III) *Gold lost ground last week as investors awaited this week's Federal Open Market Committee and looked to the U.S. dollar for near-term directional cues.* For the week gold fell from \$1202.03 to \$1179.90.

HEDGE FUNDS

Hedge funds returns in April are primarily higher with the core strategies Event Driven, Equity Hedge, Distressed and Relative Value higher for the month, while Macro/CTA is slightly negative.

Performance: I) *The HFRX Global Hedge Fund Index is higher at +0.82% MTD and +2.90% YTD.*

II) *Equity Hedge is up at +1.71% MTD and has risen +3.95% YTD.*

III) *Event Driven has advanced +0.84% MTD and is higher +2.29% YTD.*

IV) *Distressed Debt is up +1.06% MTD and is positive +1.54% YTD.*

V) *Macro/CTA is lower by -0.55% MTD, but is up +2.83% YTD.*

VI) *Relative Value Arbitrage has risen by +0.87% and is up +2.50% YTD.*

ECONOMIC DATA WATCH AND MARKET OUTLOOK

Heading into next week, investors will be in the midst of earnings season with Apple Inc., energy, and health care company earnings taking center stage. The consumer tech giant is expected to buoy earnings growth for the tech sector. With Apple's contribution, earnings for the sector are expected to grow +0.7%. Without Apple, earnings for the sector are expected to decline by -5.1%.

In addition, about a third of the companies on the S&P 500 report earnings this week. *While nearly three out of four S&P 500 companies that have already reported have topped fairly low earnings expectations, only 47.0% have reported revenue above the Wall Street consensus, well below the five-year average of 58.0%.*

On the economic data front the Federal Reserve meets for two days, and economists do not expect policymakers to make major changes to the policy statement due next Wednesday. One possible addition to look for is any new mention of the dollar's strength or international concerns.

The Commerce Department will release its first look at first-quarter GDP. Economists expect the economy grew at an inflation-adjusted annual rate of just +1.0%, a reduction from +2.2% in the fourth quarter. Back in January, economists had forecast the economy would grow by +3.0% in the winter, but harsh weather conditions and supply disruptions from the West Coast port slowdown caused most of the decline.

The first major read on consumer spending will come from the April sales reported by automakers on Friday. Sales fell in January and February, but most economists attributed that to bad weather and auto sales bounced back to an annual rate of 17.1 million in more seasonal March. *Economists expect sales in April will have fallen slightly, back to 16.9 million.*

Average hourly earnings for private employees within the monthly payrolls report will garner the most attention when it comes to wage growth as tracked by the Federal Reserve. Yearly growth in the Employment Cost Index (ECI) has lagged that of hourly average pay, but unlike hourly pay, it sped up over the course of 2014. *The Labor Department will release its first-quarter ECI data on Thursday. If the ECI for wages and salaries accelerates further from 2014's 2.1% pace, it would be a sign of tighter labor markets.*

Consumer confidence will be released on Tuesday, and consumer sentiment on Friday. One area of interest will be consumer expectations about future incomes as captured in the Conference Board's confidence survey. Recent reports show an increasing number of consumers believe their earnings will increase in the next six months. The trend is a sign that more consumers are confident about job prospects.