CLEARBROOK

INVESTMENT COMMITTEE MARKET COMMENTARY

APRIL 13, 2015 www.clearbrookglobal.com

U.S. EQUITIES

U.S. stocks booked their second straight weekly gain as rallies in Asia and Europe set the tone for U.S. markets. As reporting season has begun, the drop in earnings is already priced in. While the Street expects companies to beat already lowered expectations, forward guidance will be more important.

a) ***Dow Jones +1.68% MTD -0.17% YTD +1.95%*** b) ***S&P 500 +1.74% MTD +0.16% YTD +2.68%***
c) ***Russell 2000 +0.74% MTD +2.49% YTD +5.33%***

Drivers: I) ***Richmond Fed President Jeffrey Lacker, a voting member of the Federal Open Market Committee, in a speech reiterated his case for June hike.*** "In current circumstances, raising the funds rate target a notch or two is less like taking away the punch bowl and more like just slowing down the refills. We will still be spiking the punch, just not quite as rapidly as we have been," Lacker said.

II) ***Lower commodity prices and dollar strength will reflect in a -3.0% year-over-year decline in S&P 500 revenues.*** However, stripping out the energy sector, there is an estimated positive sales growth of +4.0%. Lower commodity prices lowered revenue growth by -6.0% versus Q1 of last year, but the impact will largely be felt in the energy sector. The USD is expected to have less of an impact on revenue growth (-3.0%), but the greatest impact will be across more sectors such as energy, consumer staples and industrials.

III) ***The Institute for Supply Management said its nonmanufacturing index fell to 56.5 from 56.9 in February.*** Companies in the U.S. service sector such as healthcare and retail grew at a slightly slower but still solid pace in March. The new orders index rose 1.1 points to 57.8 while employment edged up 0.2 points to 56.6, the highest level since last July.

IV) ***Consumer credit grew at a seasonally adjusted annual rate of +5.6%, for a gain of $15.5 billion in February***, the Federal Reserve reported last week. This is the fastest pace of growth since October. In the month, all of the increase came from non-revolving debt, such as car and student loans, which grew at a +9.4% rate up from a +5.8% rate in January. This is the fastest pace since February 2013***. Revolving, or credit card, debt declined at a -5.0% rate in February after a -1.4% decline in the prior month.***

V) ***Equity prices for the month are positive, with Mid Cap and Value along with Energy, Communication and Industrials leading equity price performance. The laggards for the month are Large Cap and Growth Stocks along Financials.***

Capitalization: ***Large Caps +2.31%*** (YTD +2.61%), ***Mid-Caps +2.57%*** (YTD +5.68%) and Small Caps +2.51% (YTD +5.15%). Style: ***Value +2.69%*** (YTD +1.28%) and ***Growth +2.18%*** (YTD +7.25%). Industry Groups (Leaders): Healthcare +2.41% (YTD +9.67%), Consumer Cyclicals +2.48% (YTD +6.42%), ***Communication +3.55%*** (YTD +5.03%), Technology +2.14% (YTD +3.08%), ***Industrials +3.01%*** (YTD +2.72%) and Basic Materials +2.21% (YTD +2.30%). (Laggards): ***Financial Services +1.61%*** (YTD -1.16***%), Energy +4.14% (YTD +1.70%) and*** Utilities +2.50% (YTD -4.07%).

EUROPEAN EQUITIES

The Stoxx Europe 600 index advanced last week from 397.80 to 412.93, to close higher by +3.80%. European stocks rallied last week as the euro moved lower, leaving the benchmark Stoxx Europe 600 with its strongest week in more than two months.

Drivers: I) ***Germany's exports picked up in February after a weaker start to the year, data from the federal statistics office showed last week.*** Exports increased by +1.5% in February compared with January, according to calendar and seasonally adjusted data, following a -2.1% drop in January, Destatis said. Imports rose by +1.8% on the month in February after a -0.2% decline in the first month of the year***. The adjusted trade surplus in Europe's largest economy was 19.7 billion euros ($21.34 billion), a tad above economists' forecast of EUR19.4 billion.***

II) ***German industrial output was slightly higher in February*** from the month before after a downward revision in January, ***supported by the production of capital goods and energy***. February's output was up +0.2% from January, after January's reading was revised to a decline of -0.4% from a previous increase of +0.6%. In March, the OECD raised its German growth forecast to +1.7% this year, from a previous +1.1%.

III) ***Performance of European Indexes for the week, month-to-date and year-to-date. The EuroStoxx 600 Index rose by +3.80% for the week (MTD +2.75% YTD +20.55%).***

ASIAN EQUITIES

Asian equity markets staged a strong rally last week, as the insatiable appetite for Asian stocks drove regional indicees with Hong Kong gaining the most in over three years and Tokyo's Nikkei Stock Average breaking 20,000 for the first time in 15 years. The Dow Jones Asia/Pacific Index was up +2.91% for the week. The Dow Jones Asia/Pacific Index was up +1.09% for the week.

Drivers: I) ***China will announce its first quarter economic data next week, and market expectations are for the economy to show year-on-year growth of about +6.9% for the period. Beijing has set a target of about +7.0% growth for all of 2015.*** Yu Bin of the Development Research Center, a leading government think tank, also said China was not in deflation and that the steady declines in producer prices, now in their third year, would ease in the months ahead.

II) Performance of Asian Indexes for the week, month-to-date and year-to-date. ***The Nikkei was higher by +2.43% (MTD +4.22% YTD +14.08%), the Hang Seng Index was up by +7.90% (MTD +7.52% YTD +15.54%) and the Shanghai Composite climbed higher by +4.41% (MTD +16.87% YTD +24.72%).***

FIXED INCOME

Treasury yields had their largest rise in a month after a series of Treasury auctions pumped $106 billion of new supply into the market and the release of the Federal Reserve's March meeting minutes on Wednesday, which showed that several Fed officials favored a June rate hike.

Performance: I) ***The 10-year Treasury yield was higher last week, ending at 1.948% up from 1.843%. The 30-year yield rose last week rising from 2.489% to 2.583%.***

II) Performance for the week, month-to-date and year-to-date***. Barclays US Agg Bond*** was down ***-0.40%*** last week, ***MTD +0.06% and YTD +1.65%***. The ***Barclays US MBS TR fell by -0.16%*** last week, MTD ***+0.21% and YTD +1.12%***. The ***BofAML US HY Master II was higher last week by +0.76%, MTD +0.21% and YTD +3.41%.***

COMMODITIES

The DJ Commodity Index strengthened last week climbing from 308.42 to 308.75 and is higher month-to-date +1.52% (YTD -4.61%) as volatility in the USD and a falling rig count helped push commodities higher.

Performance: I) ***Oil prices were up last week after oil services firm Baker Hughes reported another weekly drop in the number of U.S. oil rigs.*** Crude oil for the week advanced from $49.55 to $51.77 per barrel.

II) ***The ICE USD Index***, a gauge of the greenback's movement against six other major currencies, ***was higher climbing from 96.74 to 99.35 for the week. The USD rose for the first time in three weeks, as the release of minutes from a mid-March meeting of Fed policy makers showed that several of them had advocated for raising the Fed funds rate, its benchmark interest rate, in June***. For the week the Yen was weaker falling from ¥118.97 to ¥120.20 and the Euro declined from 1.0972 to 1.0602 against the USD.

III) ***Gold rose last week but its upside was capped by a stronger dollar and uncertainty over the timing of a Federal Reserve rate hike.*** For the week gold rose from $1202.5 to $1207.8

HEDGE FUNDS

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

Performance: I) ***The HFRX Global Hedge Fund Index is higher at +0.89% MTD and +2.97% YTD.***
II) ***Equity Hedge is up at +1.40% MTD and has risen +3.64% YTD.***
III) ***Event Driven has advanced MTD +0.78% and is higher +2.23% YTD.***
IV) ***Distressed Debt is up +0.31% MTD and is positive +0.78% YTD.***
V) ***Macro/CTA is higher at +0.74% MTD and +4.17% YTD.***
VI) ***Relative Value Arbitrage has risen by +0.59% and is up +2.21% YTD.***

ECONOMIC DATA WATCH AND MARKET OUTLOOK

Heading into next week, corporate earnings for Q1 is expected fall, due to weak oil prices and a strong dollar, which has not happened since 2009. Analysts are projecting EPS to fall -4.0% to -6.0%, excluding the impact of stock buybacks.

History suggests that a fall in earnings, when it occurs outside of a recession, is not necessarily a reason to sell. According to Bank Of America Merrill Lynch, ***during prior non-recessionary quarters in which EPS growth was negative,*** which has happened 31 times since 1960, the ***S&P 500 was up during earnings season 60% of those times, with an average return of +2.0%.***

For bullish investors, the EPS decline is likely to be short-lived and earnings are likely to recover in the second half and grow at its normal pace by 2016. The fact that estimate revisions have been so dramatic also leaves room for results to come in ahead of forecasts, with 70% of companies that have already reported beating expectations. ***The dollar's dramatic rise over the past year will also have a significant impact as expectations for companies with sizable foreign sales revised down -13.0% year-to-date while those with sales concentrated in the U.S. witnessed an upward revision.***

On the economic data front, economists believe shoppers returned to malls, car dealers and restaurants in March. The median Retail Sales forecast is a large +1.1% gain in total sales and a +0.6% rise when cars are excluded. ***A big miss would signify economic weakness heading into spring***. Retail sales will be reported Tuesday.

Extreme weather in the first quarter seemed to play the most havoc on the housing sector. Starts plunged -17.0% in February after no change in January. On Thursday the Commerce Department releases March data on starts and permits. ***Economists expect housing starts will rebound nearly +16.0%.*** If that does not occur, then some other factor beyond weather is hindering the industry.

The lack of pricing power in this expansion has stumped Fed officials. Falling oil prices since last summer exacerbated the situation. The Labor Department reports on March producer and consumer price indexes next week. ***Economists expect both indexes to be up in March versus February***. That is true for the headline indexes and the core numbers that exclude food and energy. But on a yearly basis, it is unlikely inflation increased last month.

The Fed reports on March industrial production Wednesday. Economists expect a drop in utility output dragged down the headline number. The decline in U.S. factory payrolls suggests manufacturing activity was also weak last month.