INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

U.S. stocks plunged at the end of last week as falling prices in crude oil and worries about junk-bond markets sent Wall Street reeling.

a) ***Dow Jones -3.19% MTD -2.43% YTD -0.72%*** b) ***S&P 500 -3.74% MTD -3.19% YTD -0.27%***
c) ***Russell 2000 -5.01% MTD -6.16% YTD -5.56%***

Drivers: I) ***OPEC's decision to effectively scrap its official production ceiling and keep the spigots open is "a de facto acknowledgment of current oil market reality", but there are signs that the group's strategy of driving out high-cost rival production is starting to work***, the International Energy Agency reported last week. "Lower prices are clearly taking a toll on non-OPEC supply with annual growth shrinking below 0.3 million barrels a day in November from 2.2 million barrels a day at the start of the year,". ***Non-OPEC supply is forecast to contract by 600,000 per day next year as U.S. shale, the driver of non-OPEC growth, shifts into contraction.***

II) ***The International Energy Agency reported global demand growth is forecast to slow to 1.2 million barrels a day in 2016 after surging to 1.8 million barrels a day this year*** as support from sharply falling oil prices begins to fade. Early indicators for the fourth quarter of this year show growth easing to 1.3 million barrels a day, from a peak of 2.2 million barrels in the previous quarter.

III) ***U.S. retail sales showed a bit more strength in November***, Commerce Department data released Friday revealed, pointing to a continued moderate pace of economic growth in coming months***. Sales at U.S. retail stores rose 0.2% in November, in line with expectations.*** This continues a string of little or no gains in sales since July. But total sales were held down by lower prices for gasoline and weaker demand for autos.

IV) U.S. producer prices perked up in November led by the service sector, although they remain lower over the past year. ***U.S. producer prices rose a seasonally adjusted 0.3% last month***, the biggest gain since June, the Labor Department reported last Friday. ***Economists had predicted a 0.1% rise in PPI. Continuing recent trends, the gain in inflation in November came entirely from the service sector. Goods prices have fallen for five straight months.***

V) ***Equity prices in December are primarily down, with Large-Cap, Growth, and Consumer Staples leading equity price performance. The laggards for the month are Small-Cap and Value Stocks along with Energy.***

Capitalization: ***Large Caps -3.39%*** (YTD -0.71%), Mid-Caps -4.19% (YTD -3.95%) and ***Small Caps -6.16%*** (YTD -5.56%). Style: ***Value -5.88%*** (YTD -7.40%) and ***Growth -4.45%*** (YTD +1.41%). Industry Groups (Leaders): Consumer Discretionary -3.37% (YTD +9.25%), Technology -2.47% (YTD +5.00%), Healthcare -1.11% (YTD +3.79%), and ***Consumer Staples +0.12%*** (YTD +3.94%). (Laggards): Communication -1.72% (YTD -0.15%), Financial Services -4.30% (YTD -3.79Industrials -3.80% (YTD -5.57%), Basic Materials -3.76% (YTD -8.23%), Utilities -2.45% (YTD -9.12%) and ***Energy -11.08%*** (YTD -22.02%).

EUROPEAN EQUITIES

The Stoxx Europe 600 Index declined last week from 370.59 to 355.79, to close lower by -3.99%. European stocks fell as the rout in oil prices created a negative sentiment which drove the benchmark index to its largest weekly loss since August. Year to date the Stoxx Europe 600 is up + 3.87% (MTD -7.69%).

Drivers: I) ***German consumer prices were higher in November but still remained well below the European Central Bank's medium-term inflation target*** because of continued pressure from weak energy prices. ***Consumer prices adjusted according to European Union standards rose 0.1% on the month and 0.3% on the year***, the Federal Statistics Office reported last Friday, confirming its first estimate published at the end of November.

II) ***Low inflation in Germany and elsewhere in the euro-zone has forced the ECB to reduce the deposit rate***, at which banks park excess cash with the central bank, to -0.30% from -0.20% at its December 3 meeting, when it also extended its asset purchasing program to March 2017 from September 2016. **The measures, however, fell short**

of market expectations as investors had expected an increase in the monthly 60 billion euros ($65.87 billion) value of the ECB's asset purchasing program.

III) ***Performance of European Indexes for the week, month-to-date and year-to-date. The EuroStoxx 600 Index fell by -3.99% for the week (MTD -7.69% YTD +3.87%).***

ASIAN EQUITIES

Asian equity markets fell last week as regional central banks came into focus, with less than a week before the U.S. Federal Reserve decides whether to raise interest rates. The Dow Jones Asia Pacific Index was down -2.01% for the week, (MTD -1.60), (YTD -4.53%).

Drivers: I) ***New car sales in China rose 24% from a year earlier in November, the largest monthly increase in nearly two years, as auto makers capitalized on tax breaks to ramp up sales***. Car makers in China shipped about 2.2 million vehicles, including sedans, sport-utility-vehicles and minivans to dealers in November, compared with the 1.78 million vehicles a year earlier. ***The growth was largely due to the government slashing the 10% purchase tax in half on small cars***. About 70% of China's new cars fall into the category that qualifies for the tax break.

II) ***China's exports fell in November for the fifth consecutive month, as weak global demand continued to weigh on the world's largest manufacturing nation.*** Imports were better than expected, though they remained weak, leading to another sizable monthly trade surplus. Last Tuesday, China's General Administration of Customs reported that ***exports fell 6.8% in November in dollar terms from a year earlier, compared with a decline of 6.9% in October.*** This compared with a median forecast of 5.3% in a survey of 14 economists.

II) Performance of Asian Indexes for the week, month-to-date and year-to-date. ***The Nikkei was lower by -1.40% (MTD -2.62% YTD +10.20%), the Hang Seng Index fell by -3.47% (MTD -2.42% YTD -9.07%) and the Shanghai Composite dropped -2.56% (MTD -0.31% YTD +6.18%).***

FIXED INCOME

Treasury yields fell to their lowest level since late October, as the crude-oil rout worsened and worries about risky assets, including stocks and high-yield bonds, drew investors into the perceived safety of government bonds.

Performance: I) ***The 10-year Treasury yield was lower last week ending at 2.124% down from 2.274%. The 30-year yield fell last week declining from 3.012% to 2.873%.***

II) ***Barclays US Aggregate Bond was up +0.47% last week, MTD +0.29% and YTD +1.17%. The Barclays US MBS TR fell by -0.30% last week, MTD +0.17% and YTD +1.72%. The BofAML US HY Master II declined last week by -1.55%, MTD -2.57% and YTD -3.63%.***

COMMODITIES

The DJ Commodity Index was lower last week dropping from 251.43 to 240.84 and is lower month to date -3.88% (YTD -25.59%) as oil fell to a multi-year low due to the continued supply overhang.

Performance: I) ***The price of oil fell below $36 a barrel last Friday, nearly a seven-year low, as the International Energy Agency warned that the global crude-supply glut will continue to pressure prices next year.*** For the week the price of oil fell from $40.14 to $35.36 per barrel.

II) ***The ICE USD Index***, a gauge of the US Dollar's movement against six other major currencies, ***was lower declining from 98.25 to 97.63 for the week. The USD fell as the ECB's announcement of another round of monetary stimulus measures fell short of investors' expectations.*** For the week the Yen strengthened rising from ¥123.12 to ¥120.98 and the Euro rallied from 1.0884 to 1.0990 against the USD.

III) ***Gold fell last week as cheaper oil has been dulling the appeal of precious metals as an inflation hedge.*** Another drag on the precious metal has been expectations that the Fed will lift interest rates after its two-day policy-setting meeting Dec. 15-16. For the week gold was lower falling from $1085.8 to $1073.7.

HEDGE FUNDS

Hedge funds returns in December are lower, with core strategies Equity Hedge, Distressed, Macro/CTA, Event Driven and Relative Value all in negative territory.

Performance:

I) ***The HFRX Global Hedge Fund Index is lower at -1.03% MTD and -3.35% YTD.***
II) ***Equity Hedge is negative at -1.20% MTD and has fallen -2.43% YTD.***
III) ***Event Driven is down MTD -0.47% and is down YTD -6.50%.***
IV) ***Distressed Debt is lower at -2.15% MTD and is negative YTD -10.08%***
V) ***Macro/CTA has fallen by -1.19% MTD and is down -1.76% YTD.***
VI) ***Relative Value Arbitrage is negative at -1.29% and is down -2.47% YTD.***

ECONOMIC DATA WATCH AND MARKET OUTLOOK

Heading into next week investors will be fixated on the highly anticipated December Federal Open Market Committee meeting which is met with a spike in market volatility and falling oil prices. On Wednesday, the Fed will end its two-day policy meeting where ***the central bank is widely expected to raise interest rates for the first time since 2006, and Fed watchers are already trying to anticipate the rate of increases over 2016.***

While the Fed meeting will be the key event this week, ***investors will still be keeping a sharp eye on the falling price of oil and market volatility. Last week, oil prices fell 11% and the CBOE Volatility Index VIX, the so-called "fear index," jumped 68%. Another area of concern is the selloff in high-yield debt sector, which places even more strain on energy companies, which make up a large portion of the high-yield debt market.*** Last week, the S&P 500's energy sector took the worst hit of the index's 10 sectors with a 6.5% drop.

On the economic data front ***on Tuesday the Labor Department releases the consumer-price index.*** While it is not the Fed's preferred indicator, it will help show how much, or little, prices have risen for rent, health care and an array of other goods and services. ***Low commodity prices and a strong dollar have combined to help keep inflation in check, and below the Fed's target rate of 2.0% per year.***

The housing market has been a relatively strong component of the economy, with new construction this year poised rise to the highest level in eight years. On Tuesday, the National Association of Home Builders will gauge the mood among construction companies, and ***on Wednesday the Commerce Department releases housing starts (projected to rise from 1.06 to 1.13 million units) for November.***

Outside the auto sector, U.S. factories have been struggling amid weak overseas demand and a strong dollar, while oil and gas companies have been stifled by cheap crude. The Fed's industrial production numbers ***(estimated to fall from -0.20% to -0.30%)*** on Wednesday will offer the latest details for the sectors.