

INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

U.S. stocks rallied over the week as fears about Greece's debt crisis have receded, and as Federal Reserve Chairwoman Janet Yellen and other central bankers worked to reassure investors.

- a) *Dow Jones +0.19% MTD +0.87% YTD +0.90%* b) *S&P 500 +0.03% MTD +0.71% YTD +1.95%*
 c) *Russell 2000 +0.31% MTD -0.14% YTD +4.61%*

Drivers: I) *The consumer price index rose a seasonally adjusted 0.3% in June, prompted by rising costs for housing, gasoline and food such as eggs, meeting the forecast of economists.* Energy prices rose 1.7% and food prices increased 0.3%, the Labor Department reported. Excluding food and energy, so-called core consumer prices rose 0.2% in June. *Over the past 12 months the main CPI has risen by an unadjusted 0.1%, the first time it has shown a yearly increase since December.*

II) *Housing starts in the U.S. jumped 10% in June to an annual pace of 1.17 million, led by a surge in construction on complexes with five units or more. Construction on multi-dwelling projects soared to the highest level since 1987,* the Commerce Department reported. Economists expected housing starts to rise to a seasonally adjusted 1.11 million. Builders were especially busy in the Northeast and South, with an increased focus on condo developments, townhouses and apartment buildings.

III) Consumers' attitudes soured in July, with a gauge of their sentiment pulling back from June's five-month high, according to reports on the University of Michigan index. *The University of Michigan's index of consumer sentiment fell to a preliminary July reading of 93.3 from a final June level of 96.1.* Economists had expected a July figure of 95. *Recent stock market volatility, increasing gas prices, and the most recent tensions around the ongoing debt crisis in Greece were likely the key drivers of the drop.*

IV) *Last Thursday, the commonwealth of Puerto Rico announced that it failed to make a \$94 million deposit for the debt of its Public Finance Corporation (PFC). Investors that hold the PFC bonds are somewhat in a bind because the language in PFC bonds makes payment dependent on appropriations from Puerto Rico's legislature.*

V) *Equity prices for the month of July are mostly positive, with Large-Cap and Growth along with Consumer Staples and Technology leading equity price performance. The laggards for the month are Small Cap and Value Stocks along with Basic Materials and Energy.*

Capitalization: *Large Caps +2.91%* (YTD +4.67%), Mid-Caps +1.17% (YTD +3.55%) and *Small Caps +1.08%* (YTD +5.89%). Style: *Value -0.73%* (YTD +0.62%) and *Growth +1.62%* (YTD +8.57%). Industry Groups (Leaders): Healthcare +3.55% (YTD +13.22%), Consumer Discretionary +3.46% (YTD +10.40%), *Technology +4.90%* (YTD +6.02%), Communication +1.71% (YTD +4.79%), *Consumer Staples +5.09%* (YTD +4.46%), and Financial Services +4.03% (YTD +3.58%). (Laggards): *Energy -3.57%* (YTD -7.23%), *Utilities +4.54%* (YTD -6.60%), Industrials +1.51% (YTD -2.00%) and *Basic Materials -1.49%* (YTD -1.07%).

EUROPEAN EQUITIES

The Stoxx Europe 600 Index advanced last week from 388.80 to 405.68, to close higher by +4.34%. European stocks saw their best weekly gain since the start of the year Friday, after a volatile week in Greece's debt odyssey, where fears of a default and an exit from the euro-zone abated. Year to date the Stoxx Europe 600 is up +18.43% (MTD +6.39%).

Drivers: I) *The EU has approved a bridge loan of 7.16 billion euros (\$7.76 billion) for Greece, giving the debt-stricken country breathing room to push ahead with its bid for a third bailout.* The short-term financial assistance, made under the European Financial Stabilisation Mechanism (EFSM), will have a maximum maturity of three months and be delivered in two installments, the Council of Europe said last week. "This agreement, backed by 28 European Union Member States, prevents Greece from an immediate default.

II) *The euro-zone economic recovery is expected to continue in the months ahead, but may be hit by sluggish growth in emerging markets, ECB President Mario Draghi said last week.* "The ongoing slowdown in emerging market economies continues to weigh on the global outlook and economic growth in the euro area is likely to continue to be dampened by the necessary balance sheet adjustments in a number of sectors and the sluggish pace of implementation of structural reforms." *He cautioned, however, that the adverse effect on growth has generally been contained by the central bank's monetary-easing program, as well as low oil prices and a weak euro.*

III) *Performance of European Indexes for the week, month-to-date and year-to-date. The EuroStoxx 600 Index rose by +4.34% for the week (MTD +6.39% YTD +18.43%).*

ASIAN EQUITIES

Asian equity markets were higher last week as Chinese officials' stabilization plan over the past few week, ranging from encouraging brokerages to buy stocks to making it easier to invest with borrowed funds seems to have succeeded. The Dow Jones Asia Pacific Index was up +2.64% for the week.

Drivers: I) *Chinese economic data came in slightly above expectations. Statistics released a half-hour after the start of trade showed second-quarter economic growth at 7% from a year earlier, beating a consensus forecast for a 6.8% gain in a Wall Street Journal survey. June industrial production (up 6.8% on year) and retail sales (up 10.6%) also exceeded projections.*

II) *The average price of new homes in 70 Chinese cities rose for the second straight month in June on a month-over-month basis, as repeated policy easing moves by the central government and local governments as well as earlier stock-market gains strengthened housing demand.* Home prices rose by 0.16% in June from May, following the 0.06% gain recorded in May, The Wall Street Journal's calculations from data released Saturday by the National Bureau of Statistics showed. May's reading had been the first positive showing after 12 consecutive months of decline.

II) *Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was higher by +4.40% (MTD +2.05% YTD +18.34%), the Hang Seng Index was up by +2.06% (MTD -3.18% YTD +7.67%) and the Shanghai Composite rebounded by +2.05% (MTD -7.49% YTD +22.34%).*

FIXED INCOME

Treasury yields fell last week as investors digested mixed U.S. economic data and a flurry of earnings reports, amid positive news coming out of the euro-zone, where the Greek debt drama seemed closer to a resolution.

Performance: I) *The 10-year Treasury yield was lower last week, ending at 2.348% down from 2.399%. The 30-year yield fell last week declining from 3.192% to 3.087%.*

II) *Performance for the week, month-to-date and year-to-date. Barclays US Aggregate Bond was up +0.42% last week, MTD +0.10% and YTD -0.01%. The Barclays US MBS TR rose by +0.44% last week, MTD +0.15% and YTD +0.46%. The BofAML US HY Master II was higher last week by +0.07%, MTD -0.03% and YTD +2.45%.*

COMMODITIES

The DJ Commodity Index was lower last week falling from 308.03 to 302.59 and is down month to date -5.07% (YTD -6.51%) prompted by falling energy prices and large sales of gold positions.

Performance: I) *Oil prices fell last week, pressured by ongoing concerns over a glut of crude supplies and a stronger U.S. dollar, but pared most of their losses after Baker Hughes reported a weekly decline in the number of active U.S. oil rigs.* For the week the price of oil fell from \$52.82 to \$50.78 per barrel.

II) *The ICE USD Index, a gauge of the greenback's movement against six other major currencies, was higher rising from 95.78 to 97.96 for the week. The USD ended the week higher after a number of economic reports pointed to*

¥124.08 and the Euro dropped from 1.1155 to 1.0830 against the USD.

III) **Gold fell for a seventh straight session on Friday to mark their lowest settlement in more than five years, as a large seller dumped \$1.4 billion of positions in the market.** For the week gold climbed dropped from \$1162.3 to \$1132.3.

HEDGE FUNDS

Hedge funds returns in July are primarily higher with core strategies Equity Hedge, Distressed, Macro/CTA and Relative Value in positive territory while Event Driven is lower for the month.

Performance:

I) **The HFRX Global Hedge Fund Index is higher at +0.64% MTD and +1.92% YTD.**

II) **Equity Hedge is positive at +0.52% MTD and has risen +2.90% YTD.**

III) **Event Driven has declined MTD -0.10% and is higher YTD +1.33%.**

IV) **Distressed Debt is up +0.27% MTD and is positive YTD +1.14%**

V) **Macro/CTA is higher at +2.13% MTD and is up +0.74% YTD.**

VI) **Relative Value Arbitrage has risen by +0.45% and is up +2.30% YTD.**

ECONOMIC DATA WATCH AND MARKET OUTLOOK

Heading into next week we are in the peak of earning season, as more than one-third of the Dow 30 reports along with more than 100 components of the S&P 500. Apple is set to report results after the close Tuesday, and has become an earnings bellwether, especially in the tech sector. Excluding Apple, the sector would be expected to see a 6% profit decline, rather than the 0.2% gain that is being forecast, according to FactSet. That pronounced effect on tech-sector earnings appears firmly linked to a breakout in iPhone sales growth in 2014.

As seen in the first quarter of 2015, broader earnings are also coming in better than "expected," given baked-in low expectations. With less than a fifth of the S&P 500 having reported, earnings are on track for a 3.7% decline, rather than the forecast 4.5% decline at the end of the second quarter.

On the economic data front on Wednesday, the National Association of Realtors will report on sales of existing homes. On Friday, the Commerce Department will release June data on new home sales. Economists expect sales of both new and existing homes increased in June. The recent rise in mortgage rates may have prompted house hunters to accelerate their decision process.

After falling steadily in 2014, applications for unemployment benefits have ranged between 275,000 and 300,000 for most of this year. The historically low level of claims is another sign of better labor markets. The Labor Department will report on claims filed for the week ending July 18. **Economists expect the number to drop a bit from the 281,000 reading of the previous week.**

Data provider Markit will release its early look at this month's factory sector on Friday. The flash purchasing managers' index, accounting for about 85% of all respondents, will provide an early peek at how the manufacturing sector is starting the third quarter.