CLEARBROOK

# INVESTMENT COMMITTEE MARKET COMMENTARY

MARCH 28, 2016 www.clearbrookglobal.com

## U.S. EQUITIES

***U.S. stocks snapped a five week winning streak seeing weakness in the industrial and financial sectors, as data painted a weaker than expected picture of the U.S. economy***

a) ***Dow Jones +0.20% MTD +6.19% YTD +1.22%*** b) ***S&P 500 -0.21% MTD +5.52% YTD +0.14%***
c) ***Russell 2000 -1.05% MTD +4.55% YTD -4.65%***

Drivers: I) ***The U.S. dollar received a boost from a series of upbeat comments by Federal Reserve officials last week*** that rekindled speculation ***that the central bank might soon raise short-term interest rates again.*** Last Wednesday, St. Louis Federal Reserve Bank President James Bullard suggested that a rate increase in April remained a possibility.

II) ***U.S. orders for durable goods fell 2.8% in February, the third drop in four months, as every major industrial sector except for autos showed declines.*** Economists expected a seasonally adjusted 2.9% decline last month, but the details of the report show widespread weakness that underscores why the economy has slowed since last fall. A strong dollar, weak global economy and drop in the U.S. energy sector have slowed demand for goods.

III) ***Existing-home-sales data slid 7.1% to the lowest level since November, the National Association of Realtors said. NAR has warned for many months that low levels of supply, which are pushing prices ever higher, will eventually stifle the market.*** The main issue continues to be a supply and affordability problem. Finding the right property at an affordable price is burdening many potential buyers.

IV) ***Corporate profits sank 3.2% in 2015 to mark the first decline since the Great Recession, adding another weight on a slow-growing U.S. economy.*** American companies have been squeezed by falling exports, cheaper imports and continued caution on the part of savings-minded consumers. Firms have also incurred higher labor costs. By contrast they rose 1.7% in 2014, 1.9% in 2013 and 9.1% in 2012.

V) ***Equity prices in March are higher, with Mid-Cap, Value, Energy and Consumer Discretionary leading equity price performance. The laggards for the month are Small Cap and Growth Stocks along with Healthcare.***

Capitalization: Large Caps +5.58% (YTD -0.14%), ***Mid-Caps +6.10%*** (YTD +0.27%) and ***Small Caps +4.55%*** (YTD -4.65%). Style: ***Value +7.48%*** (YTD +3.66%) and ***Growth +4.04%*** (YTD -1.76%). Industry Groups (Leaders): Communication +5.19% (YTD +15.15%), Utilities +6.49% (YTD +13.88%), Industrials +6.27% (YTD +4.43%), Basic Materials +8.00% (YTD +3.84%), ***Energy +9.88%*** (YTD +3.24%), Consumer Staples +7.22% (YTD +2.83%), Technology +6.86% (YTD +2.24%) and information Technology +6.84% (YTD +0.55%). (Laggards): ***Consumer Discretionary +9.35%*** (YTD -0.63%), Financial Services +6.32% (YTD -5.95%) and ***Healthcare +2.18%*** (YTD -6.13%).

## EUROPEAN EQUITIES

***The MSCI Europe index was down last week losing -3.03%. European equities were lower last week led by commodity shares which fell as the U.S. dollar continued to march higher. Year to date the MSCI Europe Index is down -5.17% (MTD +3.38%).***

Drivers: I) Data showed manufacturing and services activity improved by more than expected in March. ***Data firm Markit said its manufacturing purchasing managers index hit a two-month high at 51.4 and its services PMI reached a three-month high at 54.0.*** Manufacturing once again lagged behind services, but also saw growth of output and new orders accelerate slightly, improving on the 12- and ten-month respective lows seen in February

II) ***The pound slumped to the lowest level against the euro in more than a year on Thursday as concerns over a potential U.K. exit from the European Union continued to frighten investors.*** The polls for the Brexit vote point to an ever-closer race between the remain and leave sides. Several economists and financial institutions have expressed concerns that a goodbye to the EU would hit U.K. economic growth and significantly weaken the pound.

III) ***Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index fell by -3.03% for the week (MTD +3.38% YTD -5.17%).***

## ASIAN EQUITIES

***Asian equity markets ended lower last week, as a strong USD prompted declines in oil and commodities prices which sent energy and materials shares lower across Asia. The Dow Jones Asia Pacific Index was down -0.88% for the week, (MTD +6.92), (YTD -3.27%).***

Drivers: I) ***Japan's main price gauge remained stuck at zero in February, the latest indication of the limits of monetary easing in fighting deflation.*** The core consumer price index was flat for the second straight month from a year earlier, according to data released last week by the Ministry of Internal Affairs and Communications. ***The economy is in danger of sliding into recession, while wage growth among manufacturers has slowed.***

II) ***China's central bank chief Zhou Xiaochuan said the government encourages more savings into capital markets to help lower the country's elevated debt ratios.*** The country's high savings ratio was part of the factors behind the country's high debt levels as firms rely more on debt financing, borrowing via bank lending and issuing bonds than equity financing. The nation's total savings as a percentage of its gross domestic product was a little over 46% last year, with its residents' savings ratio at 35%, much higher than an average of between 20% and 30% for most countries.

II) Performance of Asian Indexes for the week, month-to-date and year-to-date. ***The Nikkei was higher by +1.66% (MTD +6.30% YTD -10.67%), the Hang Seng Index declined by -0.77% (MTD +6.67% YTD -7.16%) and the Shanghai Composite rose by +0.82% (MTD +10.84% YTD -15.82%).***

## FIXED INCOME

***Treasury yields were mixed last week, as conflicting messages from Fed policy makers this week have muddied the outlook following the release of its updated policy statement on March 16.***

Performance: I) ***The 10-year Treasury yield was higher last week ending at 1.900% up from 1.878%. The 30-year yield dropped last week declining from 2.677% to 2.673%.***

II) ***Performance for the week, month-to-date and year-to-date. Barclays US Aggregate Bond was down -0.14% last week, MTD +0.29% and YTD +2.39%. The Barclays US MBS TR fell by -0.16% last week, MTD -0.15% and YTD +1.52%. The Barclay's US Corporate HY Index fell last week by -0.10%, MTD +4.09% and YTD +2.88%.***

## COMMODITIES

***The DJ Commodity Index was lower last week falling from 250.22 to 245.18 and is up month to date +4.82% (YTD +1.43%) as a strong U.S. dollar weighted on commodity prices.***

Performance: I) ***The price of oil rose slightly, despite the news that there was a rise in last week's U.S. crude inventories and recent strength in the dollar.*** For the week the price of oil was higher, rising from $39.35 to $39.59 per barrel.

II) ***The ICE USD Index***, a gauge of the greenback's movement against six other major currencies, ***was positive rising from 95.06 to 96.13 for the week. The USD dollar advanced after a third estimate of U.S. fourth quarter GDP was revised to show 1.4% growth***, ***up from 1% in a previous reading.*** For the week the Yen weakened falling from ¥111.55 to ¥113.09 and the Euro declined from 1.1269 to 1.1167 against the USD.

III) ***Gold suffered its their third straight weekly loss, and the worst of 2016, as shifting expectations for a Federal Reserve interest-rate increase supported the dollar at the expense of metals.*** For the week gold was lower falling from $1256.00 to $1218.7.

### HEDGE FUNDS

***Hedge funds returns in March are mostly higher, as core strategies Equity Hedge, Distressed, Event Driven, and Relative Value are in positive territory and only Macro experiencing a negative return.***

Performance:

***I) The HFRX Global Hedge Fund Index is higher at +0.98% MTD and -2.13% YTD.***
II) ***Equity Hedge is positive at +2.08% MTD and has fallen -3.60% YTD.***
III) ***Event Driven is up MTD +2.23% and is down YTD -1.61%.***
IV) ***Distressed Debt is higher at +3.47% MTD and is negative YTD -2.33%***
V) ***Macro/CTA has fallen by -1.05% MTD and is up +0.15% YTD.***
VI) ***Relative Value Arbitrage is positive at +0.13% and is down -2.67% YTD.***

### ECONOMIC DATA WATCH AND MARKET OUTLOOK

***Heading into next week, investors will fixate on inflation readings and jobs data which take center stage in the days ahead.*** Investors will look to fill in the gaps between the Federal Reserve's dovish March policy meeting and more hawkish comments from some central bank officials. ***Back in February, core inflation was running at 2.2% over the past 12 months. Inflation based on personal consumption expenditures, the Fed's preferred indicator, has also seen a recent uptick. Recently, St. Louis Fed President James Bullard said the central bank needed to be ready to raise interest rates at every meeting, noting that the odds of the Fed falling behind the curve on inflation are "moving up modestly."***

***On the economic data front, close attention will be paid to the Labor Department's March jobs report, due out Friday.*** Hiring remained strong through the turn of the year, with nonfarm payrolls growth averaging 228,000 over the past three months. The unemployment rate has hovered at 4.9% since January. Wages dipped in February, but labor-force participation has been rising since last fall.

***The U.S. manufacturing sector has faced headwinds in recent months from reduced foreign demand and weakness in the domestic energy industry.*** But there are signs its contraction may be easing. The Institute for Supply Management's closely watched gauge of factory activity rose to 49.5 in February (expected to rise to 50.8) its highest level since September.

***The Commerce Department on Monday will release data on personal income and outlays (projected to decline from 0.5% to 0.1%) during February. Automakers on Friday report their March sales numbers (estimated to remain unchanged at 17.4 million units), car and light-truck sales were strong in February. Two releases will offer insight into the public mood: The Conference Board's March consumer-confidence report (projected to improve from 92.2 to 94.1) is due out Tuesday, and the University of Michigan will put out final March consumer-sentiment data (projected to improve from 90.0 to 90.5) Friday.***

***The Labor Department will release February PCE price data on Monday, revealing if the recent acceleration in price growth is being sustained***. Ms. Yellen has sounded skeptical, telling reporters in mid-March that she was "wary and haven't yet concluded that we have seen any significant uptick that will be lasting."

The Federal Reserve signaled in mid-March that it planned to move more slowly this year on raising short-term interest rates, but left open the timing of its next rate increase. A move could come as soon as late April, according to Atlanta Fed President Dennis Lockhart, a closely watched centrist policy maker. ***Fed Chairwoman Janet Yellen should offer important guidance Tuesday when she addresses the Economic Club of New York.***