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INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

U.S. stocks fell last week, seeing multiple down days and suffering the worst weekly losses in months as poor retail data and falling commodities combined to stunt the demand for equities.

a) ***Dow Jones -3.64% MTD -2.18% YTD -1.16%*** b) ***S&P 500 -3.56% MTD -2.58% YTD +0.06%***
c) ***Russell 2000 -4.40% MTD -1.25% YTD -3.75%***

Drivers: I***) Sales at U.S. retailers rose just 0.1% in October, held down by lower spending at gas stations, auto dealers and grocery stores. Economists had forecast a seasonally adjusted 0.4% increase.*** Although the number of autos sold last month was quite strong, sales fell a seasonally adjusted 0.5%, perhaps suggesting heavier discounting. Sales at gas stations also fell again, and stripping out gas and autos, sales rose a somewhat better 0.3%.

II) ***Two Federal Reserve officials on Thursday said the pledge to hike interest rates at a gradual pace had important caveats and is not an outright promise. With a rate hike in December now seen as very likely, the focus is shifting towards the pace of hikes, economists said.*** In a rare joint press conference following speeches at the Cato Institute, ***St. Louis Fed President James Bullard and Richmond Fed President Jeffrey Lacker said the gradual pace was just a forecast.***

III) ***Inflationary pressure in all parts of the U.S. economy is hard to find. The producer price index, which includes wholesale costs, fell 0.4% in October***, the Labor Department reported last week. ***The index has been flat or lower for four straight months, contributing to a record 1.6% decline over the past year.*** The cost of wholesale goods declined 0.4%. The overall cost of services dropped 0.3% last month, reflecting lower revenue generated by wholesalers and retailers.

IV) ***The University of Michigan preliminary November sentiment index rose to 93.1 from a final October reading of 90.0.*** Economists had predicted the early November index would rise to 91.5. ***The survey suggested consumers are feeling reassured by low gas prices, an improving labor market, and few worries about rising inflation after some concerns in the fall.***

V) ***Equity prices in November are down, with Small-Cap, Value, Industrials and Financials leading equity price performance. The laggards for the month are Mid-Cap and Growth stocks along with Communications.***

Capitalization: Large Caps -2.57% (YTD -0.21%), ***Mid-Caps -3.04%*** (YTD -3.04%) and ***Small Caps -1.25%*** (YTD -3.75%). Style: ***Value -2.22%*** (YTD -5.54%) and ***Growth -2.53%*** (YTD +1.75%). Industry Groups (Leaders): Consumer Discretionary -4.03% (YTD +8.77%), Technology -2.88% (YTD +3.92%), Healthcare -2.57% (YTD +2.69%), and Consumer Staples -4.06% (YTD +0.51%). (Laggards): ***Communication -4.45%*** (YTD -1.73%), ***Financial Services -0.64%*** (YTD -1.96%), ***Industrials -1.36%*** (YTD -3.98%), Basic Materials -2.04% (YTD -7.36%), Utilities -2.82% (YTD -7.49%) and Energy -2.99% (YTD -14.88%).

EUROPEAN EQUITIES

The Stoxx Europe 600 Index declined last week from 379.95 to 369.53, to close lower by -2.74%. European stocks were lower driven by persistent investor worries about slowing global growth and the possibility of a U.S. interest-rate increase next month. Year to date the Stoxx Europe 600 is up + 7.86% (MTD -1.58%).

Drivers: I) ***The European Union's statistics agency reported GDP in the 19 countries that share the euro was 0.3% higher than in the three months to June, and 1.6% higher than in the third quarter of 2014***. The quarter to quarter growth rate was down from 0.4% in the second quarter, and ***translates into an annualized growth rate of 1.2%, the weakest since the third quarter of last year.*** The slowdown was led by Germany, the currency area's exporting powerhouse, while Italian economic growth also eased.

II) ***German inflation picked up slightly in October but still remained well below the European Central Bank's target, raising expectations for further monetary stimulus. Consumer prices*** measured according to common

European standards were unchanged on the month in October, and ***rose by 0.2% on the year***, the Federal Statistics Office reported last week, confirming its preliminary estimate that was published on Oct. 29. In September, the CPI was -0.3% for the month, and -0.2% on the year.

III) ***Performance of European Indexes for the week, month-to-date and year-to-date. The EuroStoxx 600 Index fell by -2.74% for the week (MTD -1.58% YTD +7.86%).***

ASIAN EQUITIES

Asian equity markets declined last week, prompted by sliding oil prices and concerns about the prospect of higher borrowing costs due to the impending Fed rate hike. The Dow Jones Asia Pacific Index was down -1.19% for the week.

<u>Drivers:</u> I) ***China's industrial output rose 5.6% in October from a year earlier, slowing from a 5.7% increase in September*** government data showed last week. September's rise was below the median 5.8% gain forecast by 11 economists in a survey by The Wall Street Journal. ***The worse than expected figure indicates a further weakening in factory activity, suggesting the worst may not be over as China's economy decelerates.***

II) ***Retail sales in China rose 11% in October from a year earlier, accelerating from a 10.9% year over year increase in September. The increase in retail sales exceeded economists' median forecast of a 10.9% gain.*** Recent increases in retail sales, suggesting firmness in demand, contrast with inflation figures released last Tuesday that showed another slowdown in price growth. Retail sales also increased 0.83% in October from September. In September, they rose 0.87% from the previous month.

III) Performance of Asian Indexes for the week, month-to-date and year-to-date. ***The Nikkei was higher by +1.72% (MTD +2.69% YTD +12.30%), the Hang Seng Index was lower by -2.06% (MTD -1.08% YTD -5.12%) and the Shanghai Composite lost -0.26% (MTD +5.86% YTD +10.70%).***

FIXED INCOME

Treasury yields finished the week lower, experiencing their largest weekly decline since mid-October, due to weaker than expected economic data along with falling oil and equity prices.

<u>Performance</u>: I) ***The 10-year Treasury yield was lower last week ending at 2.268% down from 2.324%. The 30-year yield fell last week declining from 3.086% to 3.054%.***

II) ***Barclays US Aggregate Bond was up +0.19% last week, MTD -0.61% and YTD +0.53%. The Barclays US MBS TR rose by +0.09% last week, MTD -0.41% and YTD +1.27%. The BofAML US HY Master II declined last week by -1.40%, MTD -1.75% and YTD -1.62%.***

COMMODITIES

The DJ Commodity Index was lower last week declining from 263.84 to 254.99 and is lower month to date -5.71% (YTD -21.21%) as commodities fell due to the prospects of higher U.S. rates and a stronger USD.

<u>Performance</u>: I) ***The price of oil fell sharply for the week, driven by a growing glut of global crude supplies, a forecast for a slowdown in demand growth next year and data showing a weekly rise in the number of U.S. oil rigs.*** For the week the price of oil dropped from $44.52 to $40.73 per barrel.

II) ***The ICE USD Index***, a gauge of the US Dollar's movement against six other major currencies, ***was lower declining from 99.15 to 98.80 for the week.*** The USD ***saw a slight weekly decline against other major currencies after retail sales in the U.S. failed to accelerate as economists had projected***. For the week the Yen rose from ¥123.16 to ¥122.62 and the Euro advanced from 1.0741 to 1.0773 against the USD.

III) ***Gold was down last week as commodities have been hampered by the prospect of a hike in interest rates by the Federal Reserve in December.*** For the week gold was lower dropping from $1088.9 to $ 1083.4.

HEDGE FUNDS

Hedge funds returns in November are mostly lower, with core strategy Macro/CTA posting positive returns, while Equity Hedge, Distressed, Event Driven and Relative Value are in negative territory.

Performance:
I) ***The HFRX Global Hedge Fund Index is lower at -0.80% MTD and -2.42% YTD.***
II) ***Equity Hedge is negative at -0.68% MTD and has fallen -1.96% YTD.***
III) ***Event Driven is down MTD -1.48% and is down YTD -5.70%.***
IV) ***Distressed Debt is lower at -0.87% MTD and is negative YTD -5.42%***
V) ***Macro/CTA is higher at +1.24% MTD and is down -1.28% YTD.***
VI) ***Relative Value Arbitrage is negative at -1.64% and is down -0.58% YTD.***

ECONOMIC DATA WATCH AND MARKET OUTLOOK

Heading into next week U.S. stocks may see more downward pressure as earnings from the beaten-up retail sector continue roll out. Shares of Nordstrom, Macy's and J.C. Penney were hit as their respective earnings reports, reflected consumers' changing spending patterns as they shift from traditional retailers. The fallout hit shares of specialty retailers and multiline retailers across the board. ***The S&P 500's consumer discretionary sector fell about 6% last week. Stocks in the specialty retail subsector fell an average of more than 9%, while those in the multiline retailer subsector fell an average of more than 12% for the week.***

For the S&P 500, earnings are still indicating an overall decline for the quarter, hampered for the most part by energy and materials earnings. With more than 90% of the S&P 500 having already reported, blended earnings are looking at a 1.8% decline from a year ago, according to FactSet. ***A decline for the third quarter will mark the first back-to-back quarterly earnings decline for the index since 2009.***

On the economic data front the Labor Department ***on Tuesday will release the consumer-price index and we will be watching for any sign of rising inflation (expected to rise from -0.2% to 0.2%).*** A sign could come from prices excluding volatile food and energy components. A small uptick could push core prices to a 2% annual gain for the first time since early 2013.

The manufacturing component of the Fed's industrial-production index (estimated to improve from -0.2% to 0.1%), scheduled for Tuesday, has dropped three out of the past four months. The market will look for signs that a strong dollar and weak overseas economies continues to be a headwind for U.S. factories.

Housing starts to be reported on Wednesday (projected to fall from 1.21 to 1.18 million units), rose in September due primarily to apartment and condominium building. Starts of single-family homes, which compose about two-thirds of the market, rose by only 0.3%.

On Wednesday, the Fed minutes from the October meeting will be released, and investors will be looking for additional context as to how likely it is for the central bank to make a move in December.