INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

U.S. stocks advanced last week as investors took the Federal Reserve's hawkish statement, which explicitly mentioned a possibility of an interest-rate increase at its December meeting, as a vote of confidence for U.S. economic growth.

a) ***Dow Jones +0.10% MTD +8.59% YTD +1.04%*** b) ***S&P 500 +0.22% MTD +8.44% YTD +2.70%***
c) ***Russell 2000 -0.34% MTD +5.63% YTD -2.53%***

Drivers: I) ***The Federal Reserve kept interest rates close to zero during its meeting last week, but said it would focus on its "next meeting" in mid-December on whether to raise interest rates.*** In its statement, the Fed said it would determine "whether it will be appropriate to raise the target range at its next meeting." Previous statements have not had any time element, saying only that policymakers "would determine how long to maintain" rates close to zero.

II) ***Durable-goods orders fell a seasonally adjusted 1.2% in September following an even sharper 3% decline in the prior month, the Commerce Department reported.*** Previously the government had said orders dropped 2.3% in August. U.S. based manufacturers have been hit hard by a soaring dollar which has made U.S. goods more expensive overseas, particularly at a time when the global economy is decelerating. ***Depressed oil has also curbed demand for heavy-duty goods used by domestic drillers and energy firms***

III) ***The employment cost index advanced a seasonally adjusted 0.6% from July to September after a 0.2% gain in the second quarter.*** Economists had expected a 0.7% gain. Despite the third-quarter pickup ***there is little evidence of a broad acceleration in the cost of labor.*** Over the past 12 months, employment costs have risen an unadjusted 2%, the same as in the second quarter but down sharply from a post-recession high of 2.6% in Q1.

IV) The U.S. economy slowed in the third quarter as companies cut back production to prevent a problematic buildup in inventories, particularly of goods ticketed for foreign markets. ***Gross domestic product rose at a 1.5% annual pace from July through September, the government reported last week. The U.S. had grown at a solid 3.9% rate in the second quarter.***

V) ***Equity prices in October were strongly up, with Large-Cap, Value - along with Energy and Basic Materials- leading equity price performance. The laggards for the month are Small-Cap and Growth stocks along with Utilities.***

Capitalization: ***Large Caps +8.09%*** (YTD +2.43%), Mid-Caps +6.20% (YTD -0.01%) and ***Small Caps +5.63%*** (YTD -2.53%). Style: ***Value +6.25%*** (YTD -3.39%) and ***Growth +5.33%*** (YTD +4.39%). Industry Groups (Leaders): Consumer Discretionary +9.04% (YTD +13.34%), Consumer Staples +5.63% (YTD +4.77%), Healthcare +7.69% (YTD +5.40%), Technology +10.33% (YTD +6.99%) and Communication +7.28% (YTD +2.85%). (Laggards): ***Basic Materials +13.46%*** (YTD -5.42%), ***Energy +11.09%*** (YTD -12.25%), Industrials +8.72% (YTD -2.65%), Financial Services +6.21% (YTD -1.32%), and ***Utilities +1.09%*** (YTD -4.81%).

EUROPEAN EQUITIES

The Stoxx Europe 600 Index declined last week from 377.36 to 375.47, to close lower by -0.50%. European stocks finished with their best monthly gains in more than six years, after European Central Bank President Mario Draghi signaled the bank is open to ramping up its stimulus efforts in December. Year to date the Stoxx Europe 600 is up + 9.61% (MTD +7.97%).

Drivers: I) ***Germany's retailers had yet another slack month in September, as sales were flat from August, but economists said that a buoyant labor marke***t and solid wage increases would spur household spending ahead of the important Christmas-shopping season. Economists had forecast a monthly increase of 0.5%. Nonetheless, retail sales were up 3.4% from September last year, adjusted for inflation, as turnover in all categories improved, the Federal Statistics Office reported last week.

II) ***Eurostat reported consumer prices in October were the same as a year earlier, having been 0.1% lower in September.*** While that appears to be a step in the right direction, economists say ***the rise in inflation is too slow to convince the ECB that it will meet its target over the coming years.*** Policy makers worry that very low rates of inflation will make it difficult for governments, households and companies to repay high levels of debt, thereby depressing economic growth for years to come.

III) ***Performance of European Indexes for the week, month-to-date and year-to-date. The EuroStoxx 600 Index fell by -0.50% for the week (MTD +7.97% YTD +9.61%).***

ASIAN EQUITIES

Asian equity markets had their best month in more than six years on Friday, fueled by hopes that central banks around the world will inject stimulus into their economies. The Dow Jones Asia Pacific Index was down -0.55% for the week.

Drivers: I) ***The Bank of Japan kept its monetary stimulus program unchanged***, despite recent concern that a slowing global economy poses a threat to PM Shinzo Abe's economic revival program. ***The central bank said it would maintain the current pace of its asset purchases****, its primary weapon in a two-and-a-half-year effort "reflate" the world's third-largest economy by flooding it with cash.* The amount is about ¥80 trillion ($660 billion) annually.

II) ***The Bank of Japan lowered its price projections and again pushed back its supposed deadline to achieve stable 2% inflation.*** The central bank is likely to meet its target of creating 2% inflation, and then make it take firm hold by "around the second half of fiscal 2016," the BOJ said referring to the fiscal year that ends in March 2017. That compares with the previous wording used in April that it would achieve the goal by around the first half of fiscal 2016.

II) Performance of Asian Indexes for the week, month-to-date and year-to-date. ***The Nikkei was higher by +1.37% (MTD +9.75% YTD +9.35%), the Hang Seng Index was down by -2.21% (MTD +8.60% YTD -4.09%) and the Shanghai Composite declined by -0.88% (MTD +10.80% YTD +4.57%).***

FIXED INCOME

Treasury yields finished October higher after the Federal Reserve hinted at a potential December rate increase earlier this week, leading investors to sell U.S. government debt in favor of risk assets.

Performance: I) ***The 10-year Treasury yield was higher last week ending at 2.145% up from 2.088%. The 30-year yield rose last week advancing from 2.900% to 2.924%.***

II) ***Barclays US Aggregate Bond was down -0.32% last week, MTD +0.02% and YTD +1.14%. The Barclays US MBS TR fell by -0.23% last week, MTD +0.07% and YTD +1.68%. The BofAML US HY Master II declined last week by -0.09%, MTD +2.75% and YTD +0.13%.***

COMMODITIES

The DJ Commodity Index was lower last week, declining from 270.82 to 270.44, and is lower month to date -0.87% (YTD -16.44%) as the portent of a rate hike in the U.S. would be negative for commodities that settle trading in USD.

Performance: I) ***The price of oil posted a monthly gain of more than 3% on growing expectations that crude production will soon decline, as oil-services firm Baker Hughes reported a weekly drop in the number of active rigs drilling for oil.*** For the week the price of oil rose from $44.73 to $46.39 per barrel.

II) ***The ICE USD Index***, a gauge of the greenback's movement against six other major currencies, was lower falling from 97.04 to 96.91 for the week. ***The USD was up in October as market strategists expect higher rates to lead to a stronger dollar, making the currency more attractive to foreign investors***. For the week the Yen rose from ¥121.46 to ¥ 120.62 and the Euro dropped from 1.1017 to 1.1006 against the USD.

III) ***Gold dropped last week as inflation expectations continue to collapse due to the surprise hawkish tone that came from the FOMC meeting.*** For the week gold was lower falling from \$1164.0 to \$ 1141.7.

HEDGE FUNDS

Hedge funds returns in October are primarily higher, with core strategies Equity Hedge, Event Driven, Distressed, and Relative Value all positive, while Macro/CTA is in negative territory.

Performance:

I) ***The HFRX Global Hedge Fund Index is higher at +1.50% MTD and -1.59% YTD.***
II) ***Equity Hedge is positive at +1.85% MTD and has fallen -1.34% YTD.***
III) ***Event Driven has advanced MTD +2.34% and is down YTD -4.18%.***
IV) ***Distressed Debt is higher at +0.02% MTD and is negative YTD -4.72%***
V) ***Macro/CTA is lower at -0.82% MTD and is down -2.36% YTD.***
VI) ***Relative Value Arbitrage is positive at +1.91% and is up +1.08% YTD.***

ECONOMIC DATA WATCH AND MARKET OUTLOOK

Heading into next week, eyes remain on corporate earnings season which has surprisingly pushed the stock market higher, with the main indexes seeing some of their best gains in years. ***About half of S&P 500 companies have reported with 67% beating on bottom-line with an earnings surprise of plus 3.4%.*** More importantly, guidance activity so far has been better than feared. ***This euphoria may come to an end this week as the energy sector is poised to report Q3 earnings.***

Energy companies are likely to spoil the market's happy mood, with the sector expected to post an earnings decline of 65% year-over-year, as crude-oil prices remain depressed. West Texas Intermediate crude-oil closed at \$46.59 a barrel on the New York Mercantile Exchange Friday, down 43% over the past year. Specifically, by segment, upstream, or exploration-and-production, earnings are projected to drop by 95% while midstream (transportation, storage, marketing) is expected see earnings fall 25% and downstream (refining-and-processing) earnings forecast to decline 42%, according to RBC Capital Markets.

On the economic data front after a strong spring and summer, the labor market has slowed the past two months, adding just 136,000 jobs in August and 142,000 in September. Analysts will fixate on Friday's October jobs report to see whether the recent drop-off was temporary or whether a global economic slowdown is starting to affect American employers.

One of the recurrent questions regarding the U.S. economy has been productivity's inability to rise during the expansion. But the second quarter's business sector productivity results showed some promise, rising at a 3.3% seasonally adjusted annual rate. Thursday's report could indicate whether workers can keep up the pace.

U.S. manufacturers have been hurt by a weakness in export markets and a strong USD. The index of purchasing managers published by Markit Economics has reported slumping manufacturing activity for the past two years, although the sector is still expanding. ***October's survey, released Monday, will tell us whether that decline has worsened or whether there are signs of improvement.***

Americans have been buying up cars at a heightened rate, emboldened by cheap gas, low interest rates and a stronger job market. ***Auto makers last month said sales in September put them on track to exceed 18 million units on an annualized basis. We will see on Tuesday whether the pace has kept up in October.***