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INVESTMENT COMMITTEE MARKET COMMENTARY

OCTOBER 5, 2015 www.clearbrookglobal.com

U.S. EQUITIES

U.S. stocks saw their sharpest reversal in four years on Friday, turning sharp opening losses into large gains by the end of the session, as the rebound may have been caused by the realization that the Fed may not raise rates this year.

a) ***Dow Jones -0.18% MTD -1.35% YTD -6.96%*** b) ***S&P 500 -0.53% MTD -2.47% YTD -5.30%***
c) ***Russell 2000 -1.84% MTD -4.91% YTD -7.79%***

Drivers: I) ***Prompting Friday's early selloff was the closely watched jobs report, which reported the U.S. economy added 142,000 jobs last month, far less than the consensus level of 200,000***. Job gains in the previous two months were cut, suggesting the pace of hiring slowed over the past few months. ***The unemployment rate remained at 5.1% and wage growth was non-existent.***

II) ***The average hourly wage paid to U.S. workers fell by $0.01 in September, once again refuting expectations that pay will rise because of the sharp decline in the unemployment rate over the past few years.*** The typical worker earned $25.09 an hour last month. From September 2014 to September 2015, hourly wages rose 2.2%. Annual increases in pay have stuck in a tight range of 1.9% to 2.2% since 2012, well below the normal pace at this stage of an economic cycle.

III) ***The labor-force participation rate continued its steady inexorable decline, falling to 62.4% in September. That is the lowest reading since October 1977.*** Simply put, just about six in ten of all working-age Americans have a job or are looking for one. The participation rate peaked at 67.2% in 1997, fell slightly over the next decade, and then tumbled during the Great Recession.

V) ***U.S. manufacturers of goods such as oil rigs, appliances and computers saw the weakest performance in September in more than two years.*** The Institute for Supply Management reported its manufacturing index fell to 50.2% last month from 51.1% in August, hitting the lowest level since mid-2013. Manufacturers have been hurt by a strong dollar, a weakening global economy and a decline in oil prices which has lowered demand for equipment.

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

Capitalization: ***Large Caps -2.74%*** (YTD -5.24%), *Mid-Caps -3.60%* (YTD -5.84%) and ***Small Caps -4.91%*** (YTD -7.73%). Style: ***Value -3.79%*** (YTD -9.08%) and ***Growth -2.84%*** (YTD -0.89%). Industry Groups (Leaders): Consumer Discretionary -0.64% (YTD +3.95%), Consumer Staples +0.44% (YTD -0.82%), Healthcare -5.65% (YTD -2.12%), Technology -1.32% (YTD -3.02%) and Communication -3.63% (YTD -4.13%). (Laggards): ***Energy -7.20%*** (YTD -21.01%), ***Basic Materials -7.44%*** (YTD -16.64%), Industrials -2.17% (YTD -10.46%), Financial Services -2.98% (YTD -7.09%) and Utilities +2.92% (YTD -5.83%).

EUROPEAN EQUITIES

The Stoxx Europe 600 Index declined last week from 349.28 to 347.77, to close lower by -0.42%. European stocks were lower for the week, but closed sharply higher on Friday as lackluster U.S. data probably pushes an interest-rate hike by the U.S. Fed into 2016. Year to date the Stoxx Europe 600 is up +1.55% (MTD -4.14%).

Drivers: I) ***European Central Bank President Mario Draghi said in a speech last week the euro-zone has become more resilient and growth is picking up***, the latest indication he believes the central bank's accommodative monetary policy is working. Draghi stated the euro-zone had returned to "sustained growth, under the impulse of our monetary policy." The results were "good news for everybody, everywhere".

II) ***Consumer prices in the euro-zone fell annually in September for the first time since the European Central Bank launched its program of government bond purchases*** in March, increasing pressure on policy makers to counter the renewed threat of a slide into deflation with even more stimulus. ***The 0.1% drop from year-ago levels was***

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driven largely by lower energy costs, suggesting that consumer prices could steady in the months to come amid a stabilization in oil prices.

III) ***Performance of European Indexes for the week, month-to-date and year-to-date. The EuroStoxx 600 Index fell by -0.42% for the week (MTD -4.14% YTD +1.55%).***

ASIAN EQUITIES

Asian equity markets were lower due to investors' continued caution, after slowing growth in China and market volatility shook stocks globally and made the three months to the end of September the worst quarter for many markets in years. The Dow Jones Asia Pacific Index was down -1.71% for the week.

Drivers: I) ***The preliminary measure of Chinese factory output in September was the lowest since the financial crisis***, adding to a plethora of weak data that is increasingly eroding hopes that China's slowdown would stabilize in the second half. ***The preliminary Caixin China Manufacturing Purchasing Managers' Index, a gauge of nationwide manufacturing activity, fell to 47.0 in September, compared with a final reading of 47.3 in August***, the lowest reading since March 2009.

II) ***The Bank of Japan's latest corporate survey showed Thursday that big manufacturers turned more cautious*** about the economy over the third quarter, underlying headwinds facing exporters across the global from China's sharpening economic slowdown. ***The tankan survey's main index measuring the mood among big manufacturers about present business conditions fell to plus 12 from plus 15 in June*** despite record-high profits, the quarterly poll showed.

II) Performance of Asian Indexes for the week, month-to-date and year-to-date. ***The Nikkei was lower by -2.60% (MTD -7.95% YTD -0.14%), the Hang Seng Index was down by -1.57% (MTD -3.80% YTD -11.82%) and the Shanghai Composite fell by -1.24% (MTD -4.78% YTD -5.64%).***

FIXED INCOME

Treasury prices were higher last week extending a two-week rally, further pulling down yields as investors continued to flock to U.S. government debt amid faltering stock markets and worries over a global growth slowdown.

Performance: I) ***The 10-year Treasury yield was lower last week ending at 1.994% down from 2.164%. The 30-year yield declined last week falling from 2.959% to 2.826%.***

II) Performance for the week, month-to-date and year-to-date***. Barclays US Aggregate Bond*** was up ***+0.36%*** last week, ***MTD +0.68% and YTD +1.13%***. The ***Barclays US MBS TR rose by +0.32%*** last week, MTD ***+0.58% and YTD +1.61%***. The ***BofAML US HY Master II was lower last week by -1.21%, MTD -2.60% and YTD -2.52%.***

COMMODITIES

The DJ Commodity Index was lower last week falling from 274.18 to 272.80 and is down month to date -3.14% (YTD -15.71%) as revised GDP showed greater strength, boosted by consumer spending.

Performance: I) ***Oil finished higher last week, propelled by data showing a weekly drop in the number of active U.S. drilling rigs to their lowest level in more than 5 years.*** For the week the price of oil rose from $45.34 to $45.66 per barrel.

II) ***The ICE USD Index, a gauge of the greenback's movement against six other major currencies, was lower falling from 96.25 to 95.92 for the week.*** The USD fell last week after a surprisingly weak September jobs report pushed back expectations for the Federal Reserve's first interest rate increase in nearly a decade. For the week the Yen rose from ¥120.59 to ¥ 119.90 and the Euro strengthened advancing from 1.1198 to 1.1213 against the USD.

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III) ***Gold was lower last week but rallied 2.0% on Friday, ending a five session losing streak after a weak September jobs report led investors to believe the Federal Reserve may further delay raising interest rates.*** For the week gold declined from $ 1145.5 to $ 1137.6.

HEDGE FUNDS

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

Performance:
I) ***The HFRX Global Hedge Fund Index is lower at -2.07% MTD and -3.05% YTD.***
II) ***Equity Hedge is positive at -2.08% MTD and has fallen -3.13% YTD.***
III) ***Event Driven has declined MTD -5.24% and is down YTD -6.37%.***
IV) ***Distressed Debt is lower at -2.72% MTD and is negative YTD -4.74%***
V) ***Macro/CTA is lower at -0.55% MTD and is down -1.56% YTD.***
VI) ***Relative Value Arbitrage is negative at -2.04% and is down -0.82% YTD.***

ECONOMIC DATA WATCH AND MARKET OUTLOOK

Heading into next week, investor focus will turn to the third quarter earnings season. The third quarter seems like a replay of ***Q1 and Q2, with market pundits forecasting year over year S&P 500 earnings to fall, only to see companies beat lowered forecasts***, thus showing a rise in earnings during their respective quarters. The third quarter may not be able to show such resilience, as ***a drop in earnings in the energy sector lowers the S&P500 earnings estimates to a 4.6% decline over the year period. The energy sector expecting a 65% decline in earnings, if excluded, would boost S&P 500 earnings ex-energy to a positive 3.4% level.***

One positive trend, however, going into this earnings season is that fewer companies have issued profit warnings while more companies have forecast earnings that have been higher than consensus estimates. Should S&P 500 earnings beat expectations, it would be welcome relief to investors after a poor third quarter performance. ***The poor Q3 performance has lowered the current forward 12-month P/E to 15.1. Though above the 10-year average of 14.1x, it is far lower than their level of 16.4x seen at the beginning of the third quarter***

On the economic data front the Fed releases minutes from its Sept. 16-17 meeting next Thursday. Economists, analysts and investors will watch closely for clues on the Fed's thinking, including how close the central bank was to raising its benchmark interest rate last month. In addition, ***we will look to see if the Fed drops any hints as to whether they will leave rates close to zero until the December meeting. The Fed's next meeting is October 27-28.***

The U.S. service sector has been humming alongside healthy consumer spending. ***The Institute for Supply Management's nonmanufacturing index, reporting on Monday, will help show how a key sector of the economy is holding up.*** Data provider Markit also releases its services purchasing managers index Monday (August reading was 59.0).

U.S. exports are heading lower in 2015, acting as a drag on overall economic growth and is a headwind for manufacturers. Weak import prices (-1.8% last month), on the flip side, have kept inflation in check. The Commerce Department's international trade report (-$41.9 billion last month) next Tuesday and its import prices report Friday will offer the latest data on these trends.

The Fed's consumer credit report, reporting next Wednesday, will give us a clue on how comfortable consumers are to increase credit card and auto loan debt. Higher levels of debt typically indicate consumer optimism. During a recession, household debt normally declines as consumers will clean up their balance sheets.

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