INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

U.S. stocks closed down last Friday as uncertainties in the wake of the Fed's decision to keep interest rates unchanged triggered a selloff, dragging the S&P 500's in the red for the week.

a) ***Dow Jones -0.29% MTD -0.75% YTD -6.38%*** b) ***S&P 500 -0.13% MTD -0.59% YTD -3.46%***
c) ***Russell 2000 +0.51% MTD +0.42% YTD -2.56%***

Drivers: I) ***The Federal Reserve held interest rates steady on Thursday*** due to global headwinds that could slow the economy and keep inflation subdued as the central bank kept alive the possibility of a hike before the end of the year. ***The Fed said in a statement: "recent global economic and financial developments may restrain economic activity somewhat and are likely to put further downward pressure on inflation in the near term."***

II) ***Fed Chairwoman Janet Yellen said the Fed considered hiking interest rates on Thursday***. "However, in light of the heightened uncertainties abroad and the slightly softer expected path for inflation, the committee judged it appropriate to wait for more evidence, including some ***further improvement in the labor market, to bolster its confidence that inflation will rise to 2% in the medium term***," she said in a statement to the news conference.

III) ***Sales at U.S. retailers rose modestly in August*** as consumers spent more on new cars and trucks and went out for more meals. Americans spent less on gasoline as prices fell again, and they also cut back on home furnishings. ***Retail sales rose a seasonally adjusted 0.2% last month, the Commerce Department reported and this matched the forecast of economists.*** With prices at the pump falling again, sales at gas stations sank 0.7% in August.

IV) ***The consumer price index fell in August for the first time since the start of the year, mainly because of a sharp drop in gasoline prices. The CPI dipped a seasonally adjusted 0.1% last month***, the first decline since January. Economists had expected no change.

V) ***Equity prices September are mixed, with Small-Cap, Growth along with Consumer Discretionary and Healthcare leading equity price performance. The laggards for the month are Large Cap and Value Stocks along with Energy and Utilities.***

Capitalization: ***Large Caps -0.49%*** (YTD -3.04%), *Mid-Caps -0.28%* (YTD -2.60%) and ***Small Caps +0.42%*** (YTD - 2.56%). Style: ***Value -1.46%*** (YTD -6.87%) and ***Growth +0.89%*** (YTD +2.92%). Industry Groups (Leaders): ***Consumer Discretionary +1.05%*** (YTD +5.72%), ***Healthcare +0.96%*** (YTD +4.73%), Communication -2.30% (YTD - 2.80%) and Consumer Staples +0.30% (YTD -0.96%) and Technology -0.08% (YTD -1.80%). (Laggards): ***Energy - 4.34%*** (YTD -18.57%), ***Basic Materials -2.95%*** (YTD -12.60%), Utilities +0.34% (YTD -8.19%), Industrials -0.22% (YTD -8.67%) and Financial Services -2.90% (YTD -7.01%).

EUROPEAN EQUITIES

The Stoxx Europe 600 Index declined last week from 355.72 to 354.77, to close lower by -0.27%. European stocks were lower for the week, as the U.S. Fed cited concerns about growth world-wide in its decision to leave interest rates at their record lows. Year to date the Stoxx Europe 600 is up +3.57% (MTD -2.22%).

Drivers: I) ***Regular pay for British employees rose at the fastest pace in over six years in the three months to July, adding to pressure on policy makers at the Bank of England to raise interest rates. Average weekly earnings, excluding bonuses, increased an annual 2.9%*** during the period, the Office for National Statistics said Wednesday. Gains to living standards were even heftier when compared with the cost of living: after inflation, wages grew at the fastest rate in almost 13 years.

II) ***The European Union's statistics agency reported last week output from factories, mines and power stations during July was 0.6% higher than in June, and 1.9% up compared with the same month a year earlier, the strongest performance since February***. The median forecast of twenty-two economists surveyed last week was for a month-to-month rise of 0.3%. A pickup in exports offset a slowdown in household consumption and a decline in investment spending.

III) ***Performance of European Indexes for the week, month-to-date and year-to-date. The EuroStoxx 600 Index fell by -0.27% for the week (MTD -2.22% YTD +3.57%).***

ASIAN EQUITIES

Asian equity markets limped to a higher close for the week after an early bout of currency market volatility following a decision by the U.S. Federal Reserve to keep rates unchanged. The Dow Jones Asia Pacific Index was up +1.50% for the week.

Drivers: I) ***Bank of Japan officials on Tuesday voted to maintain their policy of buying assets at a pace of 80 trillion yen ($668 billion) a year.*** That decision was widely expected, though ***a small group of experts had speculated the BOJ could spring a surprise increase in its asset purchases to combat recent recurring signs the recovery is faltering.*** In a news conference after the BOJ's two-day policy meeting at which no new action was taken, ***Gov. Haruhiko Kuroda said slowing emerging economies are undermining Japanese exports and production.*** This gave some investors a stronger impression that additional easing may be coming soon.

II) ***The average price of new homes in 70 Chinese cities rose for the fourth straight month in August*** from the month before, as lower costs of mortgages supported housing demand while shaky financial markets encouraged some investors to park money in real estate. ***Home prices rose by 0.17% in August from July, following the 0.15% gain recorded in July and the 0.16% in June.***

II) Performance of Asian Indexes for the week, month-to-date and year-to-date. ***The Nikkei was lower by -1.06% (MTD -4.34% YTD +3.55%), the Hang Seng Index was up by +1.94% (MTD +1.15% YTD -7.13%) and the Shanghai Composite fell by -3.20% (MTD -3.37% YTD -4.23%).***

FIXED INCOME

Treasury yields fell for a second session Friday, marking their largest two-day drop since October 2014, as the Federal Reserve's concerns about a global growth slowdown fueled demand for risk off investments.

Performance: I) ***The 10-year Treasury yield was lower last week, ending at 2.135% down from 2.191%. The 30-year yield declined last week falling from 2.955% to 2.935%.***

II) Performance for the week, month-to-date and year-to-date***. Barclays US Aggregate Bond*** was up ***+0.35%*** last week, ***MTD +0.56% and YTD +1.01%***. The ***Barclays US MBS TR rose by +0.35%*** last week, MTD ***+0.50% and YTD +1.53%***. The ***BofAML US HY Master II was lower last week by -0.55%, MTD +0.06% and YTD +0.13%.***

COMMODITIES

The DJ Commodity Index was lower last week rising from 276.44 to 272.83 and is down month to date -3.13% (YTD -15.70%) as the Fed left interest rates at historical low levels due to economic growth concerns.

Performance: I) ***Oil prices last Friday saw their largest daily drop in almost three weeks as the U.S. Federal Reserve's decision to keep interest rates unchanged raised worries about the U.S. economy and energy demand.*** For the week the price of oil rose from $44.78 to $44.98 per barrel.

II) ***The ICE USD Index***, a gauge of the greenback's movement against six other major currencies, was lower falling from 95.18 to 95.15 for the week. ***The USD posted a small loss after Federal Reserve policy makers decided to leave interest rates on hold.*** For the week the Yen climbed higher from ¥120.59 to ¥ 119.97 but the Euro was weaker falling from 1.1337 to 1.1302 against the USD.

III) ***Gold was higher last week as the metal rallied on the back of the Federal Reserve's decision to keep interest rates at historically low levels.*** For the week gold rose from $ 1107.9 to $1139.1.

HEDGE FUNDS

Hedge funds returns in September are mixed, with core strategy Equity Hedge on the plus side and, Event Driven, Distressed, Macro/CTA and Relative Value in negative territory.

Performance:

I) ***The HFRX Global Hedge Fund Index is lower at -0.11% MTD and -1.10% YTD.***
II) ***Equity Hedge is positive at +0.49% MTD and has fallen -0.59% YTD.***
III) ***Event Driven has declined MTD -0.16****%* ***and is down YTD -3.39%.***
IV) ***Distressed Debt is lower at -0.86% MTD and is negative YTD -2.91%***
V) ***Macro/CTA is lower at -0.90% MTD and is up -1.90% YTD.***
VI) ***Relative Value Arbitrage is negative at -0.08% and is up +1.17% YTD.***

ECONOMIC DATA WATCH AND MARKET OUTLOOK

Heading into next week, investors will be looking forward towards October when the majority of U.S. companies will have likely reported their upcoming quarterly earnings before the Fed's two-day meeting late in the month. They will be examining how severe the downturn in China affected earnings before the Fed's next meeting. In its September decision not to raise rates, ***the Fed added new language to its statement that it was "monitoring developments abroad," which many took to mean China.*** Across the board, however, companies with a large dependence on foreign sales are expected to suffer a bit this earnings season.

Even when you factor out the greatest drag on international earnings from U.S.-based companies, the energy sector, companies on the S&P 500 that derive more than half of their revenue from foreign sources are ***expected to see a 4.9% decline in earnings and a 3.9% decline in revenue*** according to FactSet. ***That is compared to an 8.8% gain in earnings and a 5.3% gain in revenue from companies with half or more of their sales originating in the U.S.***, when you exclude the energy sector.

On the economic data front a weak global economy and the sharp drop in oil prices have weighed on industry purchases of machinery and other big-ticket items, in turn hurting factories. ***Thursday's Commerce Department release of durable-goods orders (projected to fall from +2.2% to -1.3%) will offer clues about whether tougher times are ahead.*** Overall orders climbed a healthy 2.2% in July and 4.1% in June.

The National Association of Realtors offers an update Monday with the release of existing-home sales (expected to drop from 5.59 to 5.52 million units) for August, while the Commerce Department reports on new-home sales Thursday. The former was up 10% in July from a year earlier while the latter was up 26%.

T***he Commerce Department will solidify its estimate of how fast the economy grew in the second quarter.*** The agency's second reading, released last month, showed that ***gross domestic product grew at a 3.7% annual rate from April through June***, a solid rebound from the first quarter's 0.6% expansion.

And finally on Friday we get the report on consumer sentiment from the University of Michigan (estimated to rise from 85.7 to 87.0) which will show whether consumer spirits took a dip amid the market turmoil.