

INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

U.S. stocks declined in six of the past seven sessions, since the Federal Reserve left its key borrowing rate unchanged on Sept 17, citing concerns over slowing global growth.

- a) **Dow Jones -0.43%** MTD -1.17% YTD -6.78% b) **S&P 500 -1.35%** MTD -1.94% YTD -4.77%
 c) **Russell 2000 -3.47%** MTD -3.07% YTD -5.95%

Drivers: I) **The biotech sector just closed out one of its worst weeks in years after Democratic presidential hopeful Hillary Clinton raised concerns about what she described as "price gouging" by health-care and biotech companies. The biotech exchange-traded fund dropped by 13.5%, the largest weekly fall since October 2008 during the financial crisis, when the ETF which tracks a basket of biotech companies lost 15.25%.**

II) **Fed Chairwoman Janet Yellen temporarily lifted stocks last Friday as she said "Prospects for the U.S. economy generally appear solid,"** in her speech late Thursday after U.S. markets closed. **She argued in favor of hiking interest rates this year,** giving more clarity to Fed watchers. "Signs of weak growth overseas won't prove large enough to have a significant impact on policy".

III) **U.S. gross domestic product rose at a 3.9% annual rate from April to June,** according to the government's second update of how fast the nation's economy expanded during the spring. Previously the Commerce Department had said GDP increased 3.7%. **Growth was powered by higher consumer spending and a bit stronger business investment than previously reported.**

IV) **Sales of previously owned homes fell in August** to mark the first decline in four months, with some buyers potentially put off by higher prices. **Existing-home sales dropped 4.8% to an annual rate of 5.31 million last month from a slightly revised 5.58 million in July,** as reported by the National Association of Realtors. The number reflects how many homes would be sold in a year if they were purchased at the same rate as in August.

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 -2.04%** (YTD -4.56%), **Mid-Caps -2.42%** (YTD -4.69%) and **Small Caps -3.07%** (YTD -5.95%). Style: **Value -2.78%** (YTD -8.12%) and **Growth -0.96%** (YTD +1.03%). Industry Groups (Leaders): Consumer Discretionary -0.05% (YTD +4.56%), Consumer Staples +1.02% (YTD -0.24%), Healthcare -4.83% (YTD -1.27%), Technology -0.64% (YTD -2.36%) and Communication -3.18% (YTD -3.68%). (Laggards): **Energy -5.50%** (YTD -19.57%), **Basic Materials -6.88%** (YTD -16.13%), Industrials -2.34% (YTD -10.61%), Utilities +1.60% (YTD -7.04%) and Financial Services -2.38% (YTD -6.52%).

EUROPEAN EQUITIES

The Stoxx Europe 600 Index declined last week from 354.77 to 349.28, to close lower by -1.55%. European stocks were lower for the week, but closed sharply higher Friday, as comments by U.S. Federal Reserve Chairwoman Janet Yellen eased some of the concern about lackluster global economic growth. Year to date the Stoxx Europe 600 is up +1.97% (MTD -3.72%).

Drivers: I) Data firm Markit surveyed more than 5,000 businesses across the euro-zone during September. Its **composite Purchasing Managers Index, a measure of activity in the manufacturing and services sectors, fell to 53.9 in September from 54.3 in August. However, the surveys found that new orders were at a five-month high, and indication that the September slowdown may prove temporary.**

II) **European Central Bank President Mario Draghi said on Wednesday the Governing Council is ready expand its quantitative easing program to fend off the threat of low inflation.** Giving his introductory remarks before the Committee on Economic and Monetary Affairs of the European Parliament in Brussels, the ECB boss warned that

renewed downside risks to inflation have emerged. These risks include slowing growth in emerging-market economies, a stronger euro and a fall in oil and commodity prices.

III) *Performance of European Indexes for the week, month-to-date and year-to-date. The EuroStoxx 600 Index fell by -1.55% for the week (MTD -3.72% YTD +1.97%).*

ASIAN EQUITIES

Asian equity markets were mixed as shares in Japan rebounded Friday after a pledge by Japanese Prime Minister Shinzo Abe to strengthen the country's economy, while markets elsewhere mostly fell amid the prospect of higher rates in the U.S. The Dow Jones Asia Pacific Index was down -3.06% for the week.

Drivers: I) *The preliminary measure of Chinese factory output in September was the lowest since the financial crisis, adding to a parade 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) *China has announced a flurry of infrastructure plans in recent months, prompting local officials to spend their full budgets and tried to ease funding constraints for highway, rail and other projects. The infrastructure sub-index of fixed-asset investment data in August grew 19.9% year-over-year in August compared with 16.4% in July.*

III) *Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was lower by -1.05% (MTD -5.35% YTD +2.46%), the Hang Seng Index was down by -3.35% (MTD -2.23% YTD -10.25%) and the Shanghai Composite fell by -0.18% (MTD -3.54% YTD -4.40%).*

FIXED INCOME

Treasury yields finished the week higher, after falling Thursday to their lowest level in a month, following news Friday that the U.S. economy grew in the second quarter at a faster pace than what had been initially reported.

Performance: I) *The 10-year Treasury yield was higher last week ending at 2.164% up from 2.135%. The 30-year yield advanced last week rising from 2.935% to 2.959%.*

II) *Performance for the week, month-to-date and year-to-date. Barclays US Aggregate Bond was down -0.24% last week, MTD +0.32% and YTD +0.77%. The Barclays US MBS TR fell by -0.22% last week, MTD +0.26% and YTD +1.29%. The BofAML US HY Master II was lower last week by -1.45%, MTD -1.39% and YTD -1.31%.*

COMMODITIES

The DJ Commodity Index was higher last week climbing from 272.83 to 274.18 but is down month to date -2.65% (YTD -15.29%) as revised GDP showed greater strength, boosted by consumer spending.

Performance: I) *Oil prices posted weekly gains, as upbeat comments on the U.S. economy from Federal Reserve Chairwoman Janet Yellen helped provide a boost to the outlook for crude demand. For the week the price of oil rose from \$44.98 to \$45.34 per barrel.*

II) *The ICE USD Index, a gauge of the greenback's movement against six other major currencies, was higher rising from 95.15 to 96.25 for the week. The USD achieved a weekly gain against both its developed and emerging-market rivals after Fed Chairwoman Janet Yellen said the central bank would likely raise interest rates in 2015. For the week the Yen fell from ¥119.97 to ¥120.59 and the Euro was weaker falling from 1.1302 to 1.1198 against the USD.*

III) *Gold was higher last week due in part to safe-haven demand as stocks and other riskier assets declined. For the week gold rose from \$ 1139.1 to \$1145.5.*

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 -1.25% MTD and -2.23% YTD.*
- II) *Equity Hedge is positive at -1.39% MTD and has fallen -2.44% YTD.*
- III) *Event Driven has declined MTD -1.86% and is down YTD -5.03%.*
- IV) *Distressed Debt is lower at -1.95% MTD and is negative YTD -3.98%*
- V) *Macro/CTA is lower at -0.52% MTD and is down -1.53% YTD.*
- VI) *Relative Value Arbitrage is negative at -1.07% and is up +0.20% YTD.*

ECONOMIC DATA WATCH AND MARKET OUTLOOK

Heading into next week, while awaiting the beginning of the third quarter earnings season, investors will be fixated on the plethora of economic data that will be released. In addition, investors will also need realize the damage done to the equity markets over the past several weeks. *Specifically, the Dow remains more than 10% off its peak from May, while the S&P 500 is 9.5% off its May high and the NASDAQ is also more than 10% off its high from July.*

On the economic data front investors will have all eyes on Friday's jobs report. The pace of hiring slowed sharply in August, U.S. employers added a seasonally adjusted 173,000 jobs, the worst monthly gain since March. Still, the headline unemployment rate declined to 5.1%, and wages appear to be accelerating. *Even a modest improvement in September (expected to increase to 190,000) could reassure Fed officials the economy is strong enough to withstand the first interest rate increase in nearly a decade.*

A highlight of next week will be Ms. Yellen, who speaks Wednesday afternoon at a community banking conference hosted by the St. Louis Fed. New York Fed President William Dudley will start things off early Monday morning, followed later that day by Chicago Fed President Charles Evans and San Francisco Fed President John Williams, who speaks again on Thursday.

On Monday, the Commerce Department releases August data on consumer spending (estimated to remain flat at 0.3%) and personal income (projected to remain at 0.4%). Consumers are expected to play an even bigger role in the second half of the year, as the stronger dollar and weak global demand weigh on business investment and trade. This will also be Fed officials' last chance to take a look at their favorite inflation gauge—the personal consumption expenditures price index—before their next meeting in October.

On Wednesday, the National Association of Realtors releases its index of pending home sales, which is based on signings for purchases of previously owned homes. Last month's report showed the surge in momentum in the first half of the year had likely leveled off over the summer. *The Realtors' index of pending home sales was 110.9 in July, a 7.4% increase from a year earlier.*