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INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

U.S. stocks finished last week sharply lower, as the highly anticipated monthly jobs report signaled to investors that the Federal Reserve may soon decide to end its ultra-loose monetary policy in two weeks.

a) ***Dow Jones -1.59% MTD -0.89% YTD -6.52%*** b) ***S&P 500 -3.36% MTD -2.55% YTD -5.36%***
c) ***Russell 2000 -2.28% MTD -1.99% YTD -4.90%***

Drivers: I) ***The pace of hiring in the United States slowed in August, but the drop-off probably may not be weak enough to force the Federal Reserve to reconsider plans to raise interest rates this year as the unemployment rate fell to the lowest level since 2008.*** The U.S. added 173,000 jobs last month, marking the smallest increase since March. Economists had expected a seasonally adjusted 213,000 increase in jobs.

II) ***Offsetting slower job creation last month, the pace of hiring in July and June was stronger than initially reported***, according to a survey of business establishments. ***The Labor Department said 245,000 new jobs were created in July instead of 215,000. June's gain was revised up to 245,000 from 231,000.***

III) ***The overall unemployment rate fell from 5.3% to 5.1%, the lowest level since the onset of the Great Recession in April 2008.*** In addition, the improvement in the labor market also appears to be prompting more companies to increase pay. The average hourly wage paid to American workers rose 8 cents, or 0.3%, in August to $25.09 an hour. ***From August 2014 to August 2015 hourly wages rose 2.2%, matching the best gain of the past four years.***

IV) ***The U.S. construction sector is reviving up and is fast becoming the growth engine for the economy. Outlays for U.S. construction projects rose 0.7% in July***, to a seasonally adjusted annual rate of $1.08 trillion, the highest level since May 2008. Construction is up 13.7% over the past year. ***Construction played a pivotal role in the second quarter, adding 1.3% to the solid 3.7% annual gross domestic product.***

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

Capitalization: ***Large Caps -2.46%*** (YTD -4.97%), *Mid-Caps -2.19%* (YTD -4.47%) and ***Small Caps -1.99%*** (YTD -4.90%). Style: ***Value -2.54%*** (YTD -7.89%) and ***Growth -1.71%*** (YTD +0.27%). Industry Groups (Leaders): ***Consumer Discretionary -1.53%*** (YTD +3.01%), Healthcare -2.60% (YTD +1.04%), Communication -2.01% (YTD -2.51%) and Consumer Staples -1.69% (YTD -2.92%) and Technology -2.34% (YTD -4.03%). (Laggards): ***Energy -4.06%*** (YTD -18.33%), Basic Materials -3.11% (YTD -12.74%), ***Utilities -3.56%*** (YTD -11.76%), Industrials -1.79% (YTD -10.11%) and Financial Services -3.50% (YTD -7.59%).

EUROPEAN EQUITIES

The Stoxx Europe 600 Index fell last week from 363.28 to 353.11, to close lower by -2.80%. European stocks ended finished lower for the week, weighed down by disappointing German manufacturing data and a U.S. jobs report viewed as decent enough to allow for an interest-rate hike this month. Year to date the Stoxx Europe 600 is up +3.09% (MTD -2.67%).

Drivers: I) ***ECB President Mario Draghi signaled last week that the door to further quantitative easing is wide open as policy makers assess downside risks to the euro-zone's economic picture.*** "The door is now clearly wide open to the ECB stepping up its near-term pace of quantitative easing and/or increasing its overall size and duration," according to IHS Global Insight "Whether the ECB steps through that door will clearly depend on whether euro-zone growth continues to struggle and inflation prospects deteriorate further."

II) ***German manufacturing orders, adjusted for seasonal swings and calendar effects, dropped 1.4% in July*** from the previous month, falling short of economists' forecasts of a more modest decline of 0.6%. ***But the trend in orders is "clearly pointing upwards, despite the latest decline***," the Economic Ministry said, supported by the euro-zone's economic recovery and a weaker euro-exchange rate, which makes euro-zone goods more competitive overseas.

III) ***Performance of European Indexes for the week, month-to-date and year-to-date. The EuroStoxx 600 Index fell by -2.80% for the week (MTD -2.67% YTD +3.09%).***

ASIAN EQUITIES

Asian equity markets were primarily down last week as worries about an imminent rate increase by the U.S. Federal Reserve overshadowed the potential for stimulus by the European Central Bank. The Dow Jones Asia Pacific Index was down -4.68% for the week.

Drivers: I) ***Foreign investors last week sold a net ¥1.47 trillion ($12 billion) of Japanese stocks and futures contracts for the Nikkei and Topix, the biggest combined net selling since 2007***, according to Japan Exchange Group data. The selling was driven by futures trading. UBS Securities Japan, said Japanese shares are suffering from the risk-averse attitude of investors and a shift away from stocks globally.

II) ***The Caixin China manufacturing purchasing manager's index, a gauge of nationwide manufacturing activity, fell to a final reading of 47.3 in August from 47.8 in July, the lowest point in more than six years.*** Reinforcing the idea that the regional economies are getting caught up in China's economic malaise, manufacturing data from Taiwan, Malaysia and Vietnam also showed declines for August.

II) Performance of Asian Indexes for the week, month-to-date and year-to-date. ***The Nikkei was lower by -7.02% (MTD -5.81% YTD +1.96%), the Hang Seng Index was down by -3.57% (MTD -3.83% YTD -11.71%) and the Shanghai Composite rose by +7.96% (MTD -1.43% YTD -2.30%).***

FIXED INCOME

Treasury yields finished the week at their lowest level since Aug. 24 on Friday after official data showed the U.S. economy added 173,000 jobs in August, missing economist's expectations by a wide margin.

Performance: I) ***The 10-year Treasury yield was lower last week, ending at 2.129% down from 2.182%. The 30-year yield declined last week falling from 2.911% to 2.887%.***

II) Performance for the week, month-to-date and year-to-date***. Barclays US Aggregate Bond*** was up +***0.27%*** last week, ***MTD +0.33% and YTD +0.78%***. The ***Barclays US MBS TR rose by +0.14%*** last week, MTD ***+0.18% and YTD +1.20%***. The ***BofAML US HY Master II was higher last week by +0.28%, MTD +0.16% and YTD +0.23%.***

COMMODITIES

The DJ Commodity Index declined last week falling from 276.96 to 274.61 and is down month to date -2.49% (YTD -15.15%) as economic data from the U.S. left the market unsure of the Fed's next move in September.

Performance: I) ***Oil prices rose last week as Baker Hughes reported that the number of active oil-drilling rigs fell 13 to 662 as of Sept. 4.*** The total active rig count, which includes natural-gas rigs, was at 864, also down 13 rigs. For the week the price of oil rose from $45.33 to $45.77 per barrel.

II) ***The ICE USD Index***, a gauge of the greenback's movement against six other major currencies, ***was higher rising from 96.15 to 96.22 for the week. The USD was mixed posting its second straight weekly gain against the euro, while weakening against the yen after Friday's closely watched jobs report delivered a blurry picture of the U.S. labor market.*** For the week the Yen rallied higher advancing from ¥121.70 to ¥ 119.01 but the Euro was weaker falling from 1.1184 to 1.1152 against the USD.

III) ***Gold settled at their lowest level in more than two weeks, suffering a weekly loss of 1.1% in the wake of the monthly U.S. jobs report, which offered a mixed picture of the health of the U.S. labor market.*** For the week gold declined from $1133.3 to $ 1122.3.

HEDGE FUNDS

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

Performance:

I) ***The HFRX Global Hedge Fund Index is lower at -0.22% MTD and -1.22% YTD.***
II) ***Equity Hedge is negative at -0.57% MTD and has fallen -1.64% YTD.***
III) ***Event Driven has declined MTD -0.27% and is down YTD -3.50%.***
IV) ***Distressed Debt is lower at -0.18% MTD and is negative YTD -2.25%***
V) ***Macro/CTA is up at +0.04% MTD and is up -0.97% YTD.***
VI) ***Relative Value Arbitrage is flat at +0.00% and is up +1.25% YTD.***

ECONOMIC DATA WATCH AND MARKET OUTLOOK

Heading into next week, investors will be looking for clues as to whether the recent uncertainty overseas and in the U.S. will continue to heighten volatility in the financial markets. The lackluster manufacturing report out of Germany and the less than stellar non-farm payroll report, did little to clarify or answer questions regarding global growth. In turn, ***the direction of the Federal Reserve in terms of interest policy remains nebulous as well. But one important issue that may cause the Fed to defer a raise in short term rates, is the recent correction in the U.S. and global equity markets.***

The stock market's losses in August may be foreshadowing more declines in September, if history is any guide. In the 11 instances since 1945 when the S&P 500 fell more than 5% in August, September returns were negative 80% of the time, averaging a decline of 4%, according to S&P Capital IQ. September with its negative start may follow history due to: end-of-quarter mutual fund window dressing, a projected 4% decline in Q3 S&P 500 operating EPS, and the renewed possibility that the Fed may begin its rate-tightening cycle at its upcoming mid-September FOMC meeting. ***But the possibility that the market reaches Bear Market status is less likely, as a more severe market downturn is typically associated with an economic downturn, which is not the case as we are in a growth phase though muted.***

On the economic data front Friday's survey on consumer sentiment from the University of Michigan (projected to decline from 91.9 to 90.3) could signal whether a firming labor market, low gas prices and rising home values will cause Americans' to open up their pockets during the last half of 2015, or whether the financial market correction has left them anxious and less willing to increase spending.

Next Thursday's report on import prices and Friday's release of the producer-price index (estimated to rise from -0.2% to +0.2%), will offer insight into how continuing economic turmoil overseas and sustained low oil prices have affected prices for consumer goods and services. The Fed is looking for inflation to approach its 2% annual target, though the central bank's preferred measure has come in below target for more than three years.