

U.S. EQUITIES

U.S. stocks were up during a lackluster week, as the release on Wednesday of minutes from the central bank's July meeting offered little guidance for investors about the Fed's policy plans.

- a) *Dow Jones +0.02% MTD +1.00% YTD +8.45%* b) *S&P 500 +0.06% MTD +0.67% YTD +8.39%*
 c) *Russell 2000 +0.59% MTD +1.47% YTD +9.91%*

Drivers: I) *Minutes from the Fed's July meeting released last Wednesday, showed an almost even split between supporters of another rate increase in the near-term and others who would wait for more confidence that inflation was rising.* Earlier this week, New York Fed President William Dudley also hinted a September rate increase was possible, while Atlanta Fed boss, Dennis Lockhart, talked about "at least one" more increase this year.

II) *Three-month Libor ended last week at a seven-year high of 0.81825%. But the current rise in Libor and the widening of the Libor/OIS spread, which began in July, has been caused by new U.S. money market rules that are due to be implemented by the SEC in mid-October.* Among the new requirements, shares of money-market funds that service institutional investors and investors in corporate or municipal debt *will float in value.* That is in contrast to the stable \$1-a-share value that money-market funds have traditionally maintained.

III) *The change in money market fund rules have prompted many investors to shift money away from prime money-market funds into government funds in anticipation of the rule change. Since commercial paper funding through money-market funds is an important source of unsecured bank borrowing, on which the Libor quotes are based, money market conditions have tightened. This has caused a stealth rise in rates which should continue.*

IV) *The consumer price index rose 0.8% compared to a year ago, the Labor Department reported.* Core CPI, which strips out the volatile food and energy categories, rose 2.2%, lower than the 2.3% yearly change in June. The consensus among economists was for a 0.2% increase in the core reading. *The cost of food was unchanged in July, and has risen 0.2% over the past year, the smallest increase since the 12 months ending in March 2010.*

V) *Equity prices in August are higher with Small-Cap, Value, Energy and Consumer Discretionary leading equity price performance. The laggards for the month are Mid-Cap and Growth Stocks along with Telecom.*

Capitalization: Large Caps +0.61% (YTD +8.35%), *Mid-Caps +0.29%* (YTD +10.63%) and *Small Caps +1.47%* (YTD +9.91%). Style: *Value +0.65%* (YTD +15.40%) and *Growth +0.23%* (YTD +10.31%). Industry Groups (Leaders): *Telecommunication -5.51%* (YTD +18.97%), *Energy +4.49%* (YTD +18.35%), Utilities -3.60% (YTD +17.96%), Consumer Staples +1.85% (YTD +14.44%), Materials +0.56% (YTD 13.67%), Industrials +1.67% (YTD +12.50%), Technology +1.28% (YTD +10.83%), Information Technology +2.17% (YTD +10.10%), *Consumer Discretionary +3.70%* (YTD +9.89%), Healthcare -1.11% (YTD +4.41), and Financial Services +1.46% (YTD +1.76%). (Laggards):

EUROPEAN EQUITIES

The MSCI Europe index was lower last week falling -0.38%, as investor concerns grew over the problems related to Italy's Banca Monte dei Paschi di Siena. The bank's high level of nonperforming loans is creating fears for the rest of the Italian banking sector and may ultimately threaten Italy's membership of the euro-zone.

Drivers: I) *Shares of Banca Monte dei Paschi di Siena SpA closing at an all-time low last week.* The bank's Chief Executive Fabrizio Viola and former chairman, Alessandro Profumo, are *under investigation by prosecutors in Milan for allegations of false accounting and market manipulation stemming from past derivatives transaction,* according to The Wall Street Journal, citing two people familiar with the matter.

II) *U.K. stocks and the British pound declined last Friday after a news report suggested Prime Minister Theresa May is "sympathetic: to starting Brexit talks with the European Union by April at the latest.* Earlier media reports had suggested the prime minister would wait until the end of 2017 before opening up for the discussions.

III) *Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index fell -0.38% for the week (MTD +0.99% YTD -0.18%).*

ASIAN EQUITIES

Asian equity markets were mixed last week as the rally in energy lifted some equity markets that have a heavy focus on commodities stocks. The Dow Jones Asia Pacific Index was down -0.41% for the week, (MTD +1.39), (YTD +5.47%).

Drivers: I) *Japanese exports fell again in July, weighed down by a strong yen and sluggish global demand.* Exports slid 14.0% from a year earlier to 5.728 trillion yen (\$57 billion) in July, *down for the 10th consecutive month*, according to data released Thursday by the finance ministry. That marked the *longest sequence of declines since the global financial crisis*. Economists had expected a 13.0% fall. Exports of autos and ships were down.

II) *Japan's top currency official issued a new warning last Wednesday over the soaring yen*, saying the government would have to act should it rise too sharply. *"If there are excessively sharp movements, we will have to take action,"* Vice Finance Minister for International Affairs Masatsugu Asakawa told reporters at the ministry's headquarters. The comment was likely serious threat of direct intervention in the currency market to force lower the yen, a step increasingly seen as undesirable manipulation among developed economies.

III) *Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was lower by -2.21% (MTD -0.14% YTD -13.07%), the Hang Seng Index rose by +0.75% (MTD +4.80% YTD +4.67%) and the Shanghai Composite advanced by +1.88% (MTD +4.32% YTD -12.18%).*

FIXED INCOME

Treasury prices fell last week as a Federal Reserve policy maker John Williams of the San Francisco Fed added to calls for a potential rate hike next month, and investors looked ahead to Federal Reserve Chairwoman Janet Yellen's speech next week.

Performance: I) *The 10-year Treasury was higher last week ending at 1.581% up from 1.512%. The 30-year yield rose last week climbing from 2.234% to 2.289%.*

II) *Performance for the week, month-to-date and year-to-date. Barclays US Aggregate Bond was down -0.18% last week, MTD -0.29% and YTD +5.68%. The Barclays US MBS TR fell by -0.08% last week, MTD -0.04% and YTD +3.27%. The Barclay's US Corporate HY Index was up by +0.51%, MTD +1.77% and YTD +14.17%.*

COMMODITIES

The DJ Commodity Index was higher last week by +2.80% rising from 259.49 to 266.88 and is up month to date +2.80% (YTD +10.41%) as oil staged a strong rally on hopes of a production freeze

Performance: I) *The price of oil posted its best weekly performance in more than five months* as traders held on to expectations that *major oil producers could soon make a move to freeze production levels*. For the week oil advanced by +8.68% from \$44.69 to \$48.57 per barrel (MTD +17.38% YTD +19.31%).

II) *The ICE USD Index*, a gauge of the greenback's movement against six other major currencies, *was negative falling -1.23% from 95.68 to 94.50* for the week (MTD -1.07% YTD -4.24%). *The USD fell last week as investor await Janet Yellen's speech next week regarding the direction of rates*. For the week the Yen strengthened rising from ¥101.29 to ¥100.21 and the Euro rose from 1.1162 to 1.1325 against the USD.

III) *Gold suffered their largest daily decline in two weeks*, offsetting some of their gain for the latest week as investors *search for clues around the Federal Reserve's next interest-rate move continues*. For the week gold was higher by +0.35% rising from \$1341.7 to \$1345.8 (MTD -0.89% YTD 26.78%).

HEDGE FUNDS

Hedge funds returns in August are positive with all of the core strategies Equity Hedge, Event Driven, Distressed, Macro and Relative Value in positive territory.

Performance:

- I) **The HFRX Global Hedge Fund Index is higher at +0.49% MTD and +1.11% YTD.**
- II) **Equity Hedge has risen +0.53% MTD and has fallen -1.48% YTD.**
- III) **Event Driven is up MTD +0.97% and is up YTD +6.72%.**
- IV) **Distressed Debt is higher at +0.81% MTD and is positive YTD +12.29%**
- V) **Macro/CTA has climbed higher by +0.23% MTD and is up +0.20% YTD.**
- VI) **Relative Value Arbitrage is positive at +0.18% and is down -0.75% YTD.**

ECONOMIC DATA WATCH AND MARKET OUTLOOK

As we head into next week, **investors are eager to see whether Federal Reserve Chairwoman Janet Yellen will offer any clarity on the pace of future rate increases when she delivers remarks in Jackson Hole, Wyoming.** Yellen has the opportunity to clarify the outlook for rates when she speaks at the Kansas City Fed's annual symposium on Aug. 26. **Some market watchers are actually optimistic** that Yellen will use her remarks to signal readiness **for a September rate hike**, which market participants now view as an **18% probability**, according to CME Group's FedWatch Tool.

Not everyone, however, is expecting something to come out of Jackson Hole as the Fed continues to keep its cards close to the chest. **Still-weak inflation and mixed economic data does not support the case for a rate hike in September**, but the Fed is well aware of the pressure to start raising rates soon. **The bond market is starting to act like an imminent rate hike** is a distinct possibility given **the recent rise in Treasury yields and the selloff in bond-proxy high-yield sectors like utilities and telecom.**

On the economic data front, the National Association of Realtors releases figures on July **sales of existing homes on Wednesday (expected to fall from 5.57 to 5.50 million units)**. Watch to see if the housing market can maintain its strong momentum this year. This past May's annualized sales pace was the strongest since February 2007.

On Thursday, the Commerce Department reports a revised version of how the economy performed in the second quarter, with a refined release of gross domestic product for the period. Consumers have increased their spending in recent months, lifting hopes for stronger growth. **Private economists believe economic growth from April through June will come in at 1.1% down from the original estimate of 1.2%, matching the 1.1% growth seen in the first quarter.**

The Commerce Department reports Wednesday on July orders for durable goods, a measure of factory sales for big ticket items. The report offers key clues about whether demand from U.S. consumers and businesses is strengthening. Durable orders have been uneven in recent months, but they **are projected to rebound from -3.9% seen in June to 3.2% for the month of July.**

An improvement in the average workweek, the slope of the yield curve and higher stock prices were behind the Leading Economic Indicators rise last month. **Consumer Sentiment out of Friday is expected to rise from 90.4 to 90.9.**