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U.S. EQUITIES

U.S. equity markets were mixed following reports that a Chinese warship seized an underwater U.S. Navy drone in international waters off the coast of the Philippines. The Dow Jones though finished higher for its sixth week in a row, the longest winning streak in more than a year.

a) ***Dow Jones +0.45% MTD +3.86% YTD +16.96%*** b) ***S&P 500 -0.03% MTD +2.78% YTD +12.84%***
c) ***Russell 2000 -1.68% MTD +3.24% YTD +21.83%***

Drivers: I) ***The U.S. on Friday demanded the return of a underwater survey drone it says was captured by a Chinese navy vessel shadowing a U.S. Navy oceanographic survey ship in the South China Sea.*** The drone, known as an "underwater glider" was not on a classified surveillance mission but was collecting bathymetric data from the sea, along with data on the water's salinity, temperature and current flow, the Pentagon said.

II) ***The Federal Reserve last Wednesday raised the key short term interest rate to a range of 0.50% to 0.75%***, for the first time in a year. The vote was unanimous. In addition, ***the Fed signaled a more aggressive approach in 2017, as the "dot-plot" now showed three versus two rate hikes***. This is in anticipation of incoming president Donald Trump's plan for an all ahead full strategy to rev up the American economy.

III) ***Rising rents and more expensive gas drove inflation higher in November and put a damper on consumers***. *The consumer price index rose 0.2% last month*, the government reported last Thursday. That met economist's forecasts. ***From November 2015 to November 2016, the CPI advanced 1.7% to mark the highest level in more than two years. The rate of inflation has almost doubled since the summer.***

IV) ***Home builder confidence soared in December to a level last seen at the heights of the housing bubble as construction firms anticipated less bureaucracy under the presidency of Donald Trump***. The National Association of Home Builders ***reported its sentiment index surged to a reading of 70, the highest since July 2005***. Economists had forecast an unchanged reading of 63.

V) ***Equity prices in December are higher with Small-Cap, Value and Financials leading equity price performance. The laggards for the month are Large-Cap and Growth Stocks, Consumer Staples and Consumer Discretionary.***

Capitalization: ***Large Caps +2.67%*** (YTD +12.92%), Mid-Caps +1.88% (YTD +14.63%) and ***Small Caps +3.24%*** (YTD +21.83%). Style: ***Value +2.94%*** (YTD +28.67%) and ***Growth +2.93%*** (YTD +17.31%). Industry Groups (Leaders): Energy +3.24% (YTD +29.97%), ***Financial Services +4.39%*** (YTD +23.15%), Telecommunication +6.17% (YTD +21.21%), Materials +1.56% (YTD +18.29%), Information Technology +2.58% (YTD +15.83%), Utilities +4.52% (YTD +15.64%), Technology +2.86% (YTD +15.56%) and ***Consumer Staples -1.03%*** (YTD +1.76%). (Laggards): Healthcare +1.91% (YTD -1.07) and ***Consumer Discretionary -1.75% (YTD -1.73%)***.

EUROPEAN EQUITIES

The MSCI Europe index was higher last week gaining +0.15%. European equities saw the Stoxx Europe 600 achieved its highest close of the year, propelled by merger talks between Sanofi and Actelion Ltd.

Drivers: I) ***Sanofi is in advanced talks to acquire Actelion Ltd., according to sources with knowledge of the matter, a deal that could be announced as soon as next week.*** The companies are discussing a price of about $275 per Actelion share. That price may include a contingent value right, or CVR, for Actelion shareholders, the sources said, which would pay out depending on the future performance of certain pipeline drugs.

II) ***Italy's government is ready to inject 15 billion euros into Monte dei Paschi di Siena and other ailing banks, as the country's third-largest lender pushes ahead with a private rescue plan that is widely expected to fail. The world's oldest bank has until December 31 to raise 5 billion euros ($5.2 billion) in equity or face being wound down by the European Central Bank, potentially triggering a wider banking and political crisis in Italy.***

III) ***Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was up +0.15% for the week (MTD +3.47% YTD -2.08%).***

ASIAN EQUITIES

Asian equity markets were lower after the U.S. Federal Reserve raised interest rates for the second time in a decade. Rising U.S. rates typically increase funding costs for Asian companies in dollars, and trigger capital flight by regional investors back to the States in search of higher yields. The Dow Jones Asia Pacific Index was lower by -1.53% for the week, (MTD +0.19%), (YTD +2.80%).

Drivers: I) ***Industrial output in China accelerated slightly in November from a year earlier, adding to signs of recent firmness in the world's second-largest economy,*** the National Bureau of Statistics reported. Value-added industrial output, a rough proxy for economic growth, expanded by 6.2% in November, compared with a 6.1% increase in the previous month. The reading slightly outpaced a median forecast of 6.0% growth by economists.

II) ***The yen is on a clear downward path, down 13.1% against the dollar since the U.S. election on Nov. 8, and crossing above the ¥118 level last Friday***. That is supporting the share prices of Japan's exporters. A weaker yen makes Japanese exports more competitive. ***Should the yen averages ¥115 against the dollar, profits could surge by as much as 20%, compared with the consensus by forecasters of 9% to 10%.***

III) Performance of Asian Indexes for the week, month-to-date and year-to-date. ***The Nikkei was higher by +2.13% (MTD +5.97% YTD +1.93%), the Hang Seng Index fell by -1.33% (MTD -3.46% YTD +2.66%) and the Shanghai Composite declined by -3.40% (MTD -3.91% YTD -11.74%).***

FIXED INCOME

Treasury prices fell for the sixth week in a row as both the two-year and 10-year yields reached new multiyear highs earlier in the week, with the 10-year touching its highest level since late 2014 and the two-year reaching its highest level since the financial crisis.

Performance: I) ***The 10-year Treasury was higher last week ending at 2.591% up from 2.467%. The 30-year yield rose last week rising from 3.152% to 3.174%.***

II) ***Performance for the week, month-to-date and year-to-date. Barclays US Aggregate Bond was down -0.61% last week, MTD -0.96% and YTD +1.52%. The Barclays US MBS TR was down -0.97% last week, MTD -1.20% and YTD +0.45%. The Barclay's US Corporate HY Index fell by -0.13%, MTD +1.25% and YTD +16.64%.***

COMMODITIES

The DJ Commodity Index was lower last week by -1.09% and is up month to date +1.27% (YTD +13.22%), led by a drop in the precious metal gold as interest rates rose and the decline in copper and palladium, which had rallied recently on expectations of accelerated U.S. growth prompted by the pro-business policies of Donald Trump.

Performance: I) ***The price of oil was higher last week by +1.07%,*** rising from $51.48 to $52.03 and is up month to date +5.24% (YTD +27.81%). Oil rose for the week, ***with traders encouraged by signs that major oil producers will adhere to the pledge to curb output but still concerned about potential production increases in the U.S. and Libya.***

II) ***The ICE USD Index***, a gauge of the U.S dollar's movement against six other major currencies, was positive rising +1.22% from 101.57 to 102.81 for the week (MTD +1.26% YTD +4.17***%). The U.S. dollar index finished near its 14-year high after the Federal Reserve earlier in the week boosted the currency by signaling more interest-rate increases are likely in 2017.***

III) ***Gold fell for its sixth week in a row as the Fed induced interest rate hikes are a negative for the non-yielding precious metal.*** For the week gold was lower by -2.12% dropping from $1161.4 to $1136.8 (MTD -3.16% YTD +7.09%).

HEDGE FUNDS

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

Performance:

I) ***The HFRX Global Hedge Fund Index is higher at +0.77% MTD and +2.41% YTD.***
II) ***Equity Hedge has risen +0.66% MTD and is up +0.58% YTD.***
III) ***Event Driven is up MTD +0.97% and is higher YTD +10.04%.***
IV) ***Distressed Debt is higher at +1.83% MTD and is positive YTD +19.67%***
V) ***Macro/CTA has risen by +0.93% MTD and is down -2.50% YTD.***
VI) ***Relative Value Arbitrage is higher at +0.60% and is up +0.81% YTD.***

ECONOMIC DATA WATCH AND MARKET OUTLOOK

As we head into next week, investors will be wondering whether the market rally that began on November 8th is reaching the point of exhaustion. ***Sentiment is bullish, confidence in the economy is improving and earnings are showing signs of bouncing back. The consensus, in fact, points to further gains for equities***. All three major indexes this week touched all-time highs with the Dow Jones Industrial Average coming within striking distance of the key 20,000 milestone.

Though equity markets may be over-bought from a technical perspective, any decline maybe seen as a buying opportunity. This improvement in investor confidence has been ***trigger by the election of Donald Trump as president on November 8th. The expected pro-growth and lower tax regime has brought enthusiasm to the equity markets not seen in many years***. Strategists cite the U.S. Investors' Intelligence survey, which indicated that the number of bulls rose to 59.6%, above the "danger zone" reading of 55% and a decline in cash levels. ***A survey by Bank of America Merrill Lynch this week showed that cash holdings dropped to 4.8% in December from 5.8% in October.***

Historically, December has been good for stocks and thus far the pattern appears intact with the market up nearly 3% in the first two weeks of the month. Market pundits believe the Trump rally will continue well into 2017. The economy is solid and we are likely to get policies in 2017 which will boost growth. ***The main risk is the economy is already at full employment and thus we are likely to see higher inflation in 2017. But as long as inflation stays under control then the bull run in equities should continue.***

On the economic data front, the latest US durable goods orders data will be released on Thursday December 22nd at 08:30 EST. Investment spending will remain a important US economic factor over the next few months. The Federal Reserve has been consistently uneasy regarding capital spending levels in the economy, especially as this has dampened overall growth potential. ***The recent durable goods orders data has shown some signs of a tentative improvement and markets will want to see if this evidence has continued.***

Fed Chair Yellen is due to deliver a speech on the US job market on Monday December 19th at 13:30 EST. Following the expected interest rate increase at the December FOMC meeting, the main market moving aspect was the increase in interest rate projections by the individual FOMC members with three rate increases expected for 2017 compared with the two expected at the September meeting.

The overall Fed statement was relatively cautious surrounding inflation, but the 'dot plots' received all the attention. Markets will be looking at Yellen's speech carefully to assess whether she looks to provide greater clarity on 2017 prospects.

The most important aspect of the speech will probably be comments on how close the US economy is to full employment and how much slack the Fed has in trying to push employment gains further without risking overheating in the economy.