

## INVESTMENT COMMITTEE MARKET COMMENTARY

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## U.S. EQUITIES

*U.S. equity markets were mixed last week as investors digested a weaker-than-expected payroll report, shifting assets to sectors viewed as defensive in economically uncertain times.*

a) *Dow Jones +0.22% MTD +5.88%\* YTD +12.90%* b) *S&P 500 -0.91% MTD +3.70% YTD +9.45%*  
 c) *Russell 2000 -2.40% MTD +11.15% YTD +17.29%*

\* *Month to Date Results are through November 30th*

**Drivers:** I) *The U.S. unemployment rate fell much more than expected in November, hitting a nine-year low, as the economy added 178,000 new jobs in the month, U.S. government data showed on Friday. Economists had forecast an increase of 200,000 in nonfarm payrolls for the month. **The unemployment rate had been expected to hold steady at 4.9% but fell to 4.6%.***

II) *The large drop in the jobless rate, which had barely changed in the past year, came as the civilian labor force fell by 226,000. The number of unemployed people fell by 387,000 and 160,000 people found jobs. A broader measure of unemployment fell to 9.3% from 9.5%, the lowest level since April 2008. The U6 rate includes part-time workers who cannot find a good full-time job and discouraged workers who have given up looking for work.*

III) *The economy grew at the fastest pace in over two years in the third quarter as consumers and government stepped up their spending and exports surged. Gross domestic product expanded at a 3.2% annual rate in the Commerce Department's second reading, reported last week. That is the strongest pace since the second quarter of 2014. Consumer spending rose 2.8% in the quarter, stronger than the original estimate of 2.1%.*

IV) *The consumer-confidence index rose to 107.1, the highest since July 2007, the Conference Board reported last week. The index had reached a 20-month high of 103.5 in September but pulled back in October to a revised 100.8. Economists had expected the index to rise to 102 in November from an initial October estimate of 98.6. **Consumer optimism may have been boosted by the end of the Presidential Election, which was so acrimonious that having the election over may have had people feeling better.***

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

Capitalization: **Large Caps +3.94%** (YTD +9.99%), Mid-Caps +5.39% (YTD +12.52%) and **Small Caps +11.15%** (YTD +18.00%). Style: **Value +10.93%** (YTD +24.99%) and **Growth +7.66%** (YTD +13.97%). Industry Groups (Leaders): Energy +8.54% (YTD +25.89%), **Financial Services +13.89%** (YTD +17.97%), Materials +6.84% (YTD +16.47%), Telecommunication +3.70% (YTD +14.18%), Information Technology +0.40% (YTD +12.92%), Technology +0.10% (YTD +12.35%), Utilities -5.38% (YTD +10.64%), **Consumer Staples -7.64%** (YTD +2.82%) and **Consumer Discretionary -8.05%** (YTD +0.02%). (Laggards): Healthcare +2.17% (YTD -2.92%).

## EUROPEAN EQUITIES

*The MSCI Europe index was lower last week falling -0.32%. European equities suffered a losing week as investors prepared for Italy's constitutional-reform referendum that could trigger a wave of euro-zone worries.*

**Drivers:** I) *Europe is bracing for Sunday's referendum on Italy's constitutional reforms, which is widely seen by Italians as a vote of confidence in Prime Minister Matteo Renzi and his government. Renzi argues the changes will help efforts to reinvigorate Italy's economy, particularly its embattled banking sector. **Polls ahead of the vote indicate voters will reject the proposals, which analysts suggest may lead to Renzi's resignation.***

II) *Next week, hearings will begin at the Supreme Court in London, where U.K. government lawmakers will seek to overturn a November ruling that the British government must receive parliamentary approval before it begins the process that will lead to its withdrawal from the union. Prime Minister Theresa May has said she wants to trigger Article 50 to begin the negotiations by the end of March.*

III) *Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was down -0.32% for the week (MTD -2.18% YTD -5.57%).*

#### ASIAN EQUITIES

*Asian equity markets were higher last week as investors banked on U.S. president-elect Donald Trump's ability to push up inflation and U.S. growth, which in turn would continue the decline in Asian currencies. The Dow Jones Asia Pacific Index was higher by +0.08% for the week, (MTD -2.70%), (YTD +2.73%).*

Drivers: I) *An official gauge of China's factory activity rose for a second straight month in November, adding to recent signs of firmness in the world's second-largest economy, official data showed Thursday. China's official manufacturing purchasing managers' index increased to 51.7 from October's 51.2. The November reading beat a median forecast of 51.0 by 10 economists.*

II) *China's official nonmanufacturing purchasing managers' index, a measure of activity outside factory gates, rose for the third straight month to 54.7 in November from 54.0 in October, the National Bureau of Statistics reported last week. The sub index for services climbed to 53.7 from 52.6 in October, though the sub index for construction increased to 60.4 from 61.8, the statistics bureau said. The nonmanufacturing PMI covers services including retail, aviation and software as well as the real-estate and construction sectors.*

III) *Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was higher by +0.24% (MTD +5.09% YTD -3.19%), the Hang Seng Index fell by -0.70% (MTD -0.64% YTD +2.97%) and the Shanghai Composite declined by -0.55% (MTD +4.82% YTD -8.34%).*

#### FIXED INCOME

*Treasury yields continued to rise as President-elect Donald Trump's unexpected electoral victory has ignited a global bond-market rout that carried on for a fourth straight week, though the pace of declines has slowed somewhat.*

Performance: I) *The 10-year Treasury was higher last week ending at 2.387% up from 2.359%. The 30-year yield rose last week rising from 3.007% to 3.065%.*

II) *Performance for the week, month-to-date and year-to-date. Barclays US Aggregate Bond was up +0.08% last week, MTD -2.37% and YTD +2.41%. The Barclays US MBS TR was higher at +0.22% last week, MTD -1.71% and YTD +1.60%. The Barclay's US Corporate HY Index rose by +0.32%, MTD -0.47% and YTD +15.31%.*

#### COMMODITIES

*The DJ Commodity Index was higher last week by +1.81% and is up month to date +2.31% (YTD +12.87%), led by the sharp rise in oil prompted by OPEC's cut in production, and natural gas as storage supplies declined.*

Performance: I) *The price of oil was higher last week by +12.27%, rising from \$45.96 to \$51.60 and is up month to date +5.51% (YTD +26.75%). Oil rocketed higher last week as traders held out hope for the success of OPEC's output deal to reduce daily production by 1.4 million barrels, would help shrink the world's glut of crude supplies.*

II) *The ICE USD Index, a gauge of the U.S dollar's movement against six other major currencies, was negative falling -0.74% from 101.50 to 100.74 for the week (MTD +3.22% YTD +2.08%). The U.S. dollar index was down slightly last week, taking a breather after rallying strongly against the Euro and Yen recently on expectations of higher inflation and interest rates prompted by President-Elect Trump's economic and tax plans.*

III) *Gold fell again last week as the metal continues to drop due to expectations of a rate hike in December, and potentially two or three hikes in 2017, which are negatives for the non-yielding asset. For the week gold was lower by -0.85% dropping from \$1186.1 to \$1176.0 (MTD -7.79% YTD +10.78%).*

### HEDGE FUNDS

*Hedge funds returns in November were primarily higher with the core strategies Equity Hedge, Event Driven, Distressed and Relative Value higher, while Macro was in negative territory.*

#### Performance:

- I) *The HFRX Global Hedge Fund Index is higher at +0.87% MTD and +1.63% YTD.*
- II) *Equity Hedge has risen +1.47% MTD and is down -0.08% YTD.*
- III) *Event Driven is up MTD +1.82% and is higher YTD +8.99%.*
- IV) *Distressed Debt is higher at +1.77% MTD and is positive YTD +17.53%*
- V) *Macro/CTA has fallen by -0.69% MTD and is down -3.39% YTD.*
- VI) *Relative Value Arbitrage is higher at +0.45% and is up +0.21% YTD.*

### ECONOMIC DATA WATCH AND MARKET OUTLOOK

*As we head into next week, investors are going to assess whether the recent equity market rally prompted by the election of Donald Trump has moved equity prices too high too soon. The S&P 500 index's forward price-to-earnings ratio has jumped to 16.9 multiples at the end of last week from 16.4 multiples on Nov. 8 while the P/E ratio for the small-cap S&P 600 soared to 19.9 from 17.4 during the same period. The rise in valuation has been helped by the \$1.2 billion of new inflows into equities in November, the largest four-week inflow in two years, according to data from Bank of America Merrill Lynch.*

*Small cap equities have been the main beneficiary of the rise in valuations. The belief is that there will be a reduction of some of the more onerous regulations that have stifled small business and small business creation. In addition, any increase economic activity and interest rates will benefit the small companies in relationship to mega caps. Valuations to be sustained will need to be supported by a rise in GDP growth above 4%, as well as a commensurate rise in corporate earnings. It would not be surprising to see a pull-back in equity prices over the next few weeks, with Financials and Industrials vulnerable as they have rise 14% and 8% respectively in November.*

*Any market correction though could be short lived, as it would coincide with a seasonally favorable time for the market. Since their inception, the Dow industrials have risen in December 71% of the time while the S&P 500 has ended higher 74% of the time, according to Dow Jones data.*

*On the economic data front, the latest US ISM non-manufacturing survey will be released on Monday December 5th at 10:00 EST. The ISM non-manufacturing index dropped last month, although this followed a very strong gain in the previous survey. The impact of the data tends to be diluted slightly when it follows the US employment report, but it will still contain important evidence on underlying trends in the dominant US services sector.*

*The Italian referendum on Italian constitutional reform will be held on December 4th. The referendum on constitutional reform is designed to make the Italian government work more effectively and make it easier for the controversial legislation to be passed by reducing the powers of the Senate. The mood of populism has given the vote a greater symbolic importance and, after originally having a comfortable opinion poll lead, the final polls suggested that the government was behind.*

*The stakes were increased by Prime Minister Renzi's threat to resign if there was a defeat, although the situation has been complicated further by the threat of a resignation even if he wins the vote and uncertainty will remain a key factor. Defeat would increase the risk of wider stresses within the Eurozone and intensify concerns over the French and German elections next year.*