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INVESTMENT COMMITTEE MARKET COMMENTARY

OCTOBER 10, 2016 www.clearbrookglobal.com

U.S. EQUITIES

U.S. stocks ended the week lower following a report on U.S. employment that came in below expectations but was viewed as strong enough for the Federal Reserve to consider raising interest rates by the end of the year.

a) ***Dow Jones -0.31% MTD -0.31% YTD +6.88%*** b) ***S&P 500 -0.60% MTD -0.60% YTD +7.19%***
c) ***Russell 2000 -1.18% MTD -1.18% YTD +10.15%***

Drivers: I) ***The U.S. economy created 156,000 new jobs in September***, another solid gain in employment that is ***likely to prompt the Federal Reserve to raise interest rates in the next few months***. The unemployment rate rose a slightly to 5% for the first time since April, the government reported last Friday, though that was largely due to 444,000 people entering the labor force.

II) ***A tighter labor market has forced companies to pay higher wages to attract or retain employees***. ***Hourly pay for the typical worker rose 0.2% in September to $25.79 an hour***. The amount of time workers put in on the job rose in September after falling to a two and a half year low. That will ease worries about last month's surprise decline. ***Over the past year hourly wages have climbed 2.6%, just about matching the post-recession high***.

III) ***Americans manufacturers said business improved in September as new orders rose***, but the industry is still struggling to grow amid soft demand in the U.S. and weak exports, a survey of executives found. ***The Institute for Supply Management reported its manufacturing index rose to 51.5% last month*** after dropping into negative territory in August. Economists had forecast the index to total 50.6%.

IV) The services sector accelerated in September, reaching its highest level in 11 months, according to a closely followed report released last Wednesday. ***The Institute for Supply Management reported its services index shot up to 57.1% in September from 51.4% in August.*** According to its scale, any reading over 50% indicates improving conditions. ***Economists had expected a reading of 53.1%.***

V) ***Equity prices in October are mostly lower with Large-Cap, Growth, Financials and Energy leading equity price performance. The laggards for the month are Mid-Cap and Value Stocks along with Utilities.***

Capitalization: ***Large Caps -0.68%*** (YTD +7.18%), ***Mid-Caps -1.36%*** (YTD +8.76%) and Small Caps -1.18% (YTD +10.15%). Style: ***Value -1.17%*** (YTD +14.28%) and ***Growth -1.07%*** (YTD +9.01%). Industry Groups (Leaders): ***Energy +0.03%*** (YTD +19.43%), Telecommunication -2.75% (YTD +14.35%), Consumer Staples +0.52% (YTD +13.52%), Technology -0.34% (YTD +12.67%), Information Technology -0.11% (YTD +12.67%), ***Utilities -3.80%*** (YTD +11.54%), Consumer Discretionary +0.60% (YTD +10.89%), Materials -1.80% (YTD 9.37%), ***Financial Services +1.61%*** (YTD +3.51%) and Healthcare -0.25% (YTD +1.55). (Laggards):

EUROPEAN EQUITIES

The MSCI Europe index was lower last week falling -1.34%. European equities dropped last week following a Bloomberg report the European Central Bank was considering winding down monthly bond purchases before March, when the program was scheduled to end. The ECB had denied that such discussion took place.

Drivers: I) ***The European Central Bank is likely to gradually wind down bond purchases before the scheduled March 2017 conclusion of its quantitative-easing program***, Bloomberg reported last Tuesday, citing unnamed euro-zone central bank officials. The ECB is buying 80 billion euros ($89.7 billion) of government and corporate bonds a month, but could begin to slow purchases in steps of 10 billion euros, though any decision would depend on the euro-zone's economic outlook.

II) ***Producer prices in the euro-zone fell 0.2% in August from July, and were down 2.1% from August 2015***. Economists surveyed by The Wall Street Journal last week had estimated that prices would be flat on the month. ***The European Central Bank has been battling to boost inflation levels in the euro-zone.***

III) ***Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index fell -1.34% for the week (MTD -1.34% YTD -1.34%).***

ASIAN EQUITIES

Asian equity markets were higher for the week, but were broadly lower on Friday, as increasingly heated discussions over the U.K.'s exit from the European Union saw the pound plunging against the U.S. dollar. The Dow Jones Asia Pacific Index was up +0.57% for the week, (MTD +0.57), (YTD +6.70%).

Drivers: I) ***Japan's big manufacturers cut their profit outlook and recognized only a low pickup in business conditions during the third quarter, the Bank of Japan reported Monday***, highlighting the challenges facing Prime Minister Shinzo Abe's campaign to strengthen growth. The measure of large manufacturers' sentiment on current business conditions came to plus 6, unchanged from the previous quarter, per the bank's September tankan survey.

II) ***Finance officials trying to avert the next global economic crisis found time at IMF and World Bank summit to worry about*** something besides Brexit and European banks: ***China's mounting debts and its slow economic overhauls***. The country's surging credit growth, overcapacity in its steel and metals industries and its bloated housing market drew widespread complaints from finance officials and central bankers.

III) Performance of Asian Indexes for the week, month-to-date and year-to-date. ***The Nikkei was higher by +2.49% (MTD +2.49% YTD -11.42%), the Hang Seng Index rose by +2.28% (MTD +2.38% YTD +8.84%) and the Shanghai Composite declined by -0.96% (MTD -0.96% YTD -15.10%).***

FIXED INCOME

Treasury yields saw their largest one week rise since mid-July, as global rates have risen in recent weeks as investors prepare for central banks to begin unwinding their accommodative monetary policies.

Performance: I) ***The 10-year Treasury was higher last week ending at 1.722% up from 1.597%. The 30-year yield rose last week advancing from 2.316% to 2.456%.***

II) ***Performance for the week, month-to-date and year-to-date. Barclays US Aggregate Bond was down -0.51% last week, MTD -0.51% and YTD +5.26%. The Barclays US MBS TR fell by -0.21% last week, MTD -0.21% and YTD +3.50%. The Barclay's US Corporate HY Index was higher by +0.56%, MTD +0.56% and YTD +15.79%.***

COMMODITIES

The DJ Commodity Index was higher last week by +0.63% rising from 263.90 to 265.57 and is up month to date +0.63% (YTD +9.87%) as oil continued to rise on expectations of production freezes from the major producers.

Performance: I) ***The price of oil was higher last week by +3.12%*** climbing from $48.05 to $49.55 and is up month to date +3.12% (YTD +21.71%). ***Oil scored its third weekly gain in a row as traders paid close attention to comments from crude producers ahead of an informal meeting at an energy forum that begins this weekend.***

II) ***The ICE USD Index***, a gauge of the U.S dollar's movement against six other major currencies, ***was positive rising +1.11% from 95.42 to 96.48 for the week*** (MTD +1.11% YTD -2.24%). The USD was higher for the week, but fell against its major rivals on Friday, snapping a four-day streak of gains after a report showed fewer U.S. jobs added in September than had been expected but likely not surprising enough to change the Federal Reserve's timetable for raising interest rates.

III) ***Gold suffered its largest weekly loss in over three years, as traders looked to the latest monthly U.S. employment data for clues on the likelihood of a U.S. interest-rate increase before the end of the year***. For the week gold was lower by -4.56% declining from $1318.8 to $1258.6 (MTD -4.56% YTD 18.57%).

HEDGE FUNDS

Hedge funds returns in September are primarily higher with the core strategies Equity Hedge, Event Driven, Distressed and Relative Value positive while Macro is in negative territory

Performance:

I) ***The HFRX Global Hedge Fund Index is higher at +0.07% MTD and +1.41% YTD.***
II) ***Equity Hedge has risen +0.25% MTD and has fallen -0.43% YTD.***
III) ***Event Driven is up MTD +0.22% and is up YTD +7.41%.***
IV) ***Distressed Debt is higher at +0.31% MTD and is positive YTD +13.91%***
V) ***Macro/CTA has fallen by -0.28% MTD and is down -1.43% YTD.***
VI) ***Relative Value Arbitrage is flat at +0.00% and is down -0.25% YTD.***

ECONOMIC DATA WATCH AND MARKET OUTLOOK

As we head into next week, recent price action in the equity and fixed income markets are sending signals that they are preparing for the inevitable rise in interest rates, slated for this coming December. A period of ultralow rates has helped to propel equity values to record highs in part because it keeps borrowing costs for companies low. ***The reversal of easy money has typically led to tantrums from equity markets, forcing the major indexes to gap down. Data dependent, as the Fed has described its strategy, means that good news about the economy, which might prompt the central bank to lift rates, has meant bad news for the equity market.***

Market action is beginning to show us that market sentiment maybe changing, as the potential rise in rates is actually telling us the economy is strong enough to weather a rate increase. What has been missing in this entire cycle since 2014, has been a lack of economic growth and flat to down profits and now we are beginning to see that things look like they may be picking up in the economy. ***Strength in the economy may prompt investors who have been put off by lofty valuations, which have been driven higher amid the yield-starved environment***. ***S&P 500 stocks are trading at a price-to-earnings multiple of around 18.16 compared with a three-year average of 17.11, according to FactSet data***

On the economic data front, minutes from the September FOMC meeting will be released on Wednesday October 12th at 14:00 EST. At the September FOMC meeting, interest rates were left unchanged, but there were three dissenters who called for an increase in rates, the first time there had been three dissenters for five years. ***There is an assumption that the Fed will look to raise rates in December and markets will be looking for validation of this view with the September jobs data supportive of a rate move at the December meeting.***

The latest US retail sales report will be released on Friday October 14th at 08:30 EST. The last two retail sales reports have been relatively weak with some evidence that sale stalled after a strong quarter. The Federal Reserve remains generally confident in the outlook, but with some concerns that momentum will slow and the latest data will be watched closely. ***Another disappointing reading would trigger more sustained doubts surrounding the outlook, while a robust reading would engender greater confidence in the outlook, bolstering the case for Fed tightening***. The University of Michigan consumer confidence data will be released later on the same day.

OPEC officials are due to meet during the week in Istanbul. Following last week's agreement to cut crude production, there will be a series of OPEC meetings over the next few weeks with the first round of discussions due to be held during the forthcoming week in Istanbul. Amid conflicting reports, an important focus will be on any talks with Iran with a suggestion on Friday that the Iranian oil minister will not attend the talks. Rhetoric from Saudi officials will be an important focus during the week.