

INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

U.S. stocks fought their way to positive territory as Microsoft moved techs higher with better earnings results, but the market was also weighted down by weak GE revenues. There is still a great deal of uncertainty in the market, as global monetary policy and election concerns continue to lurk in the background.

a) **Dow Jones +0.09% MTD -0.77% YTD +6.38%** b) **S&P 500 +0.41% MTD -1.15% YTD +6.60%**
 c) **Russell 2000 +0.48% MTD -2.63% YTD +8.53%**

Drivers: I) **Microsoft reported profits for its fiscal first quarter last Thursday that beat Wall Street's expectations by more than 11%. Investors responded by boosting Microsoft shares higher than \$60, up almost 6% after-hours, to what would be the tech giant's highest per-share price since Microsoft's price run in 1999. Microsoft executives credited the momentum in its cloud business as the predominant factor in the outperformance.**

II) **U.S. equity market trading has been quiet as an estimated 5.9 billion shares a day have changed hands since Oct. 10, 19% below this year's average daily volume.** Market pundits believe the lower activity levels are due to the election season, third-quarter earnings reports and debates about the Federal Reserve's next interest-rate move. The major concern is lower trading levels will lead to higher market anxiety and volatility later in the year.

III) **Market participants are awaiting a highly anticipated decision from the Federal Reserve to resume normalizing interest-rate policy,** which have remained ultralow for nearly a decade. The market is predicting that the best chance of a rate hike is at the **December meeting,** with federal-futures rates, used by traders to bet on **Fed-hike expectations, showing a 70% probability of a raise according to the CME Group.**

IV) **Higher prices for gas and rising housing costs boosted consumer inflation in September by the largest amount in five months,** keeping the Fed on track to raise U.S. interest rates. **The consumer price index climbed 0.3% last month, the government reported Tuesday, matching the forecast of economists.**

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

Capitalization: **Large Caps -2.63%** (YTD +8.53%), Mid-Caps -2.16% (YTD +7.88%) and **Small Caps -1.23%** (YTD +6.59%). Style: **Value -1.64%** (YTD +13.74%) and **Growth -2.41%** (YTD +7.52%). Industry Groups (Leaders): **Energy -0.59%** (YTD +18.68%), Utilities -1.99% (YTD +13.64%), Consumer Staples +0.12% (YTD +13.07%), Technology -0.53% (YTD +12.46%), Information Technology -0.14% (YTD +12.63%), **Telecommunication -5.76%** (YTD +10.81%), Consumer Discretionary -0.17% (YTD +10.04%), Materials -1.44% (YTD +9.77%) and **Financial Services +1.77%** (YTD +3.07%). (Laggards): **Healthcare -3.32%** (YTD -1.57%).

EUROPEAN EQUITIES

The MSCI Europe index was lower last week falling -1.44%. European equities were lower last week as investors shifted through corporate earnings reports, while they also considered European Central Bank President Mario Draghi's remarks toward the possibility of more monetary stimulus.

Drivers: I) **ECB President Draghi said the Governing Council had not discussed an extension of its quantitative easing program** at last Thursday's meeting. **The comment at first blush seemed to squash any hope the central bank would extend the bond purchases beyond March 2017,** which many economists have built into their forecasts. However, shortly after, Draghi also said the bank has no plans to abruptly end the QE program.

II) **New car sales in the European Union rose 7.2% in September as double-digit growth in Italy and Spain** pushed the region to its highest ever result for the month. Sales grew 17% in Italy and 14% in Spain. The other three major European markets posted more modest gains with Germany up 9.4%, France 2.5% and the U.K. 1.6%.

III) *Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was up +0.11% for the week (MTD -2.65% YTD -2.65%).*

ASIAN EQUITIES

Asian equity markets were higher for the week, led by Japanese stocks driven higher by a weaker yen and a view that Democratic nominee Clinton prevailed in her debate with Republican rival Donald Trump. The Dow Jones Asia Pacific Index was up +1.14% for the week, (MTD -0.11), (YTD +5.97%).

Drivers: I) *China's drifting economy steadied in the third quarter, achieving a 6.7% growth rate fueled by easy credit, a hot property market and other stimulus measures* that economists say come at the expense of needed restructuring. Economists expect the stronger pace of expansion to last through the end of the year, supported by a flood of loans and *government spending that has fed infrastructure spending and a rebound in the property market.*

II) *Bank of Japan Gov. Haruhiko Kuroda said Monday that he would adjust policy to maintain inflation momentum if necessary, using relatively weaker language that suggests he feels less urgency to add to stimulus. "We will continue to make necessary policy adjustments to maintain the momentum toward our price-stability target, based on economic and price conditions," Kuroda said in prepared remarks for a quarterly meeting of the central bank's local branch managers. The bank targets 2% inflation.*

III) *Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was higher by +1.95% (MTD +4.47% YTD -9.71%), the Hang Seng Index rose by +1.49% (MTD +1.71% YTD +6.66%) and the Shanghai Composite advanced by +0.89% (MTD +2.87% YTD -12.67%).*

FIXED INCOME

Treasury yields fell last week as European Central Bank President Mario Draghi left the door open for an extension of the central bank's massive bond-buying program at the bank's December meeting.

Performance: I) *The 10-year Treasury was lower last week ending at 1.738% down from 1.810%. The 30-year yield fell last week declining from 2.561% to 2.488%.*

II) *Performance for the week, month-to-date and year-to-date. Barclays US Aggregate Bond was up +0.33% last week, MTD -0.35% and YTD +5.43%. The Barclays US MBS TR was higher at +0.14% last week, MTD -0.13% and YTD +3.59%. The Barclay's US Corporate HY Index rose by +0.61%, MTD +1.13% and YTD +16.63%.*

COMMODITIES

The DJ Commodity Index was lower last week by -0.22% and is up month to date +1.07% (YTD +10.34%) as commodities were weighted down by a rising USD and prospects of higher interest rates in the U.S.

Performance: I) *The price of oil was higher last week by +1.35% climbing from \$50.32 to \$51.00 and is up month to date +6.14% (YTD +25.28%). Oil saw a fifth-consecutive weekly gain amid growing expectations that major crude producers will strike a firm deal late next month to curb output.*

II) *The ICE USD Index, a gauge of the U.S dollar's movement against six other major currencies, was positive rising +0.55% from 98.09 to 98.63 for the week (MTD +3.36% YTD -0.06%). The USD strengthened to its highest level against most major rivals in more than eight months as major European currencies were reeling from the prospect of more stimulus for the euro-zone economy from the European Central Bank.*

III) *Gold rose last week as uncertainty surrounding the outcome of the U.S. election and the timing of Federal Reserve's next interest-rate hike helped to lift investment interest in the metal despite some strength in the U.S. dollar. For the week gold was higher by +1.20% climbing from \$1251.7 to \$1266.7 (MTD -3.95% YTD 19.33%).*

HEDGE FUNDS

Hedge funds returns in October are mixed with the core strategies Event Driven, Distressed and Relative Value positive while Equity Hedge and Macro are in negative territory

Performance:

- I) *The HFRX Global Hedge Fund Index is lower at -0.04% MTD and +1.29% YTD.*
- II) *Equity Hedge has fallen -0.01% MTD and is down -0.69% YTD.*
- III) *Event Driven is up MTD +0.08% and is higher YTD +7.26%.*
- IV) *Distressed Debt is higher at +1.37% MTD and is positive YTD +15.12%*
- V) *Macro/CTA has fallen by -0.61% MTD and is down -1.76% YTD.*
- VI) *Relative Value Arbitrage is higher at +0.21% and is down -0.04% YTD.*

ECONOMIC DATA WATCH AND MARKET OUTLOOK

As we head into next week, investors which have seen a market remain in a trading range may finally get some excitement. The two largest cap weighted companies in the U.S., Apple Inc. and Alphabet Inc. are scheduled to report quarterly results. The tech leader's earnings come at a time when the market has been static, as investors are hesitant to buy into equities despite better than expected earnings as political and interest rate policy uncertainties dampen appetite for risk.

Alphabet is expected on Thursday to report third-quarter earnings of \$8.63 a share on revenue of \$17.99 billion, per a FactSet survey of analysts. Google's parent company posted earnings of \$7.21 a share on revenue of \$15.03 billion in third quarter 2015. *Apple is projected to post fiscal fourth-quarter earnings per share of \$1.66, down from \$1.88 in the year-earlier period.* Revenue is also forecast to shrink to \$46.99 billion from \$50.98 billion, largely as sales of iPhones drop off. *With corporate results the main driver of stock prices in recent sessions, earnings beats from the two tech giants could go a long way toward bolstering investor confidence.*

As of last Friday, with 23% of S&P 500 components having reported, 78% of the companies have turned in earnings above mean estimates and 65% have beat median sales expectations, according to FactSet.

On the economic data front, the advance US Q3 GDP will be released on Friday October 28th at 08:30 EST. *The latest GDP data will be important for overall market sentiment, especially after generally disappointing figures for the first and second quarter GDP data.* The second quarter GDP data was undermined by a weak reading for investment, although there was an upward revision to the original non-residential investment data.

This revision was significant given that weak capital spending has been a key concern for the Federal Reserve. *A stronger reading for investment in the third-quarter data would provide an important boost to Federal Reserve confidence in the overall outlook.*

The latest US durable goods report will be released on Thursday October 27th at 08:30 EST. *After a generally weak series of readings for 2016, the last two monthly releases have shown some signs of stabilization, especially in orders for core capital goods.* Levels of core orders are particularly important for underlying growth trends. The Federal Reserve remains very uneasy over the levels of capital spending, and durable goods orders are an important indicator of underlying investment levels.

The latest Japanese consumer inflation readings will be released on Friday October 28th local time (19:30 EST Thursday). The Bank of Japan's core inflation reading will be released on Friday October 28th at 01:00 EST. *The Bank of Japan is still substantially short of reaching its inflation target of reported inflation being at least 2%. The Bank's own reading of underlying inflation was at 0.4% last month,* while national underlying inflation was at -0.5%. Bank of Japan Governor Kuroda has also suggested that the bank's target of hitting its inflation target could be pushed back even further at the next policy meeting.