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INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

U.S. stocks were slightly higher last week overcoming concerns over the financial health of Deutsche Bank, while being boosted by gains in oil prices after a turbulent week during that resulted in a tentative agreement to limit crude production by some of the world's largest producer.

a) ***Dow Jones +0.26% MTD -0.41% YTD +7.21%*** b) ***S&P 500 +0.20% MTD +0.02% YTD +7.84%***
c) ***Russell 2000 -0.17% MTD +1.11% YTD +11.46%***

Drivers: I) Shares of ***Deutsche Bank*** soared 13% last Friday on an AFP report that ***the German bank is close to settling a Department of Justice probe for selling toxic mortgage backed securities for $5.4 billion***. If confirmed, the penalty is ***significantly below the $14 billion initially proposed*** by the authorities. Concerns about Deutsche Bank battered global stocks as investors worried over the possibility of a contagion effect on banks.

II) ***Consumers spending was essentially unchanged in August*** as lower sales of new cars and trucks offset an increase in services such as education and health care. ***The flat reading last month, the weakest since March, fell short of Wall Street expectations***. Economists had forecast a 0.2% gain.

III) Incomes for Americans grew more slowly last month. ***Personal income rose 0.2% in August, the smallest increase in seven months.*** The decline in spending and slightly higher income helped boost savings. The savings rate for the typical consumer climbed to 5.7% from 5.6% to mark a three-month high.

IV***) Inflation as measured by the PCE index rose 0.1% in August***, Commerce reported. The core rate of inflation that removes the volatile food and energy categories increased 0.2%. The PCE index, the Federal Reserve's preferred inflation measure, increased 1% in the 12 months ended in August. That is up from 0.8% in July***. Inflation is still running below the 2% target desired by the Federal Reserve, one reason the central bank has held off on raising interest rates***. Still, the Fed is expected to boost a key lending rate before the end of the year.

V) ***Equity prices in September are mixed with Small-Cap, Value, Energy and Information Technology leading equity price performance. The laggards for the month are Large-Cap and Growth Stocks along with Financials.***

Capitalization: ***Large Caps +0.08%*** (YTD +7.92%), Mid-Caps +0.20% (YTD +10.26%) and ***Small Caps +1.11%*** (YTD +11.46%). Style: ***Value +0.25%*** (YTD +15.64%) and ***Growth -0.79%*** (YTD +10.18%). Industry Groups (Leaders): Telecommunication -0.90% (YTD +17.58%), Utilities +0.38% (YTD +15.94%), ***Energy +3.66%*** (YTD +19.39%), Technology +2.06% (YTD +13.06%), ***Information Technology +2.39%*** (YTD +12.79%), Consumer Staples +1.00% (YTD +12.93%), Materials -1.26% (YTD 11.38%), Consumer Discretionary +1.95% (YTD +10.22%), Industrials +0.15% (YTD +11.88%), Healthcare -0.44% (YTD +1.81) and ***Financial Services -2.82%*** (YTD +1.18%). (Laggards):

EUROPEAN EQUITIES

The MSCI Europe index was lower last week falling -0.42%. European equities erased earlier sharp losses and closed slightly lower as concerns over Deutsche Bank's financial health subsided on hopes the lender will pay a lower than feared fine to U.S. regulators.

Drivers: I) ***Leading German think tanks last Thursday raised growth projections for Europe's largest economy for this year but lowered their expectations for 2017***. They forecast growth of 1.9 % in 2016, compared with April's prediction of 1.6%. Germany's economic growth rate is expected to ease to 1.4% in 2017, compared with an earlier estimate of 1.5%. ***The primary reason is the U.K.'s pending exit from the European Union could potentially impede economic activity, weighing on exports and investment.***

II) ***The British economy grew faster in the second quarter than earlier estimates suggested, while the country's services sector posted strong growth in the month immediately following the June vote***, the U.K.'s Office for National Statistics reported. The ONS said that in its final estimate of second-quarter growth the U.K. economy grew at an annualized rate of 2.7%, up from an earlier estimate of 2.4%. The revision was driven by recent data showing stronger growth in the services sector than previously thought and higher business investment.

III) ***Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index fell -0.42% for the week (MTD +0.87% YTD +0.00%).***

ASIAN EQUITIES

Asian equity markets were lower as traders reduced their hopes for proposed oil-production cuts, and as Deutsche Bank worries continued to rattle global markets. The Dow Jones Asia Pacific Index was down -1.37% for the week, (MTD +1.45), (YTD +6.09%).

Drivers: I) ***The Bank of Japan's inflation gauge rose 0.4% in August, the slowest gain in a year and a half, underlying the limited effects so far of expanded stimulus.*** Central bank officials see their consumer price index, which removes fresh food and energy prices, as the best measure of underlying inflation and pay it close attention in deciding policy. ***The latest reading, released Friday, was the weakest since February 2015. It followed a 0.5% rise in July and represented the second straight month of slowing.***

II) ***The BOJ*** doubled its stock-fund purchases in late July to 6 trillion yen ($59 billion) a year. ***Last week it took an unexpected step to adopt a target for 10-year Japanese government bond yields.*** The equity-purchase increase has yet to deliver its intended results, while economists are generally skeptical that the new policy initiative will help the BOJ reach its 2% price goal in the immediate future.

III) Performance of Asian Indexes for the week, month-to-date and year-to-date. ***The Nikkei was lower by -1.82% (MTD -1.91% YTD -13.58%), the Hang Seng Index fell by -1.64% (MTD +1.43% YTD +6.31%) and the Shanghai Composite declined by -0.96% (MTD -2.62% YTD -15.10%).***

FIXED INCOME

Treasury yields fell as worries about the financial health of Deutsche Bank AG, which had unsettled global markets for several days last week, pushed Treasury yields to a three-week low.

Performance: I) ***The 10-year Treasury was lower last week ending at 1.597% down from 1.618%. The 30-year yield fell last week declining from 2.346% to 2.316%.***

II) ***Performance for the week, month-to-date and year-to-date. Barclays US Aggregate Bond was up +0.06% last week, MTD -0.06% and YTD +5.80%. The Barclays US MBS TR rose by +0.05% last week, MTD +0.28% and YTD +3.72%. The Barclay's US Corporate HY Index was higher by +0.41%, MTD +0.67% and YTD +15.32%.***

COMMODITIES

The DJ Commodity Index was higher last week by +1.45% rising from 260.12 to 263.90 and is up month to date +3.45% (YTD +9.18%) as OPEC surprised markets by agreeing to reduce the output for oil.

Performance: I) ***The price of oil was higher last week by +7.76%*** climbing from $44.59 to $48.05 and is up month to date +7.50% (YTD +18.02%). ***Oil rallied as OPEC reached an agreement last week to reduce output to a set range.*** Traders, however, are forced to wait two months before the deal is ratified and details are released on how the cutbacks in output will be distributed among producers.

II) ***The ICE USD Index***, a gauge of the U.S dollar's movement against six other major currencies, ***was negative falling -0.09% from 95.51 to 95.42*** for the week (MTD -0.59% YTD -3.31%). The USD declined modestly against the euro and yen during the third quarter, ***which analysts blamed on the Federal Reserve's unwillingness to raise interest rates.***

III) ***Gold was lower last week as global market concerns prompted by German financial giant Deutsche Bank eased, prompting investors to turn their attention away from the metal to focus on a rise in the U.S. equity market***. For the week gold was lower by -1.66% declining from $1341.1 to $1318.8 (MTD +0.56% YTD 24.24%).

HEDGE FUNDS

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

<u>Performance</u>:

I) The HFRX Global Hedge Fund Index is higher at +0.36% MTD and +1.13% YTD.
II) ***Equity Hedge has risen +1.23% MTD and has fallen -0.98% YTD.***
III) ***Event Driven is down MTD -0.06% and is up YTD +7.05%.***
IV) ***Distressed Debt is higher at +0.14% MTD and is positive YTD +13.46%***
V) ***Macro/CTA has fallen by -0.10% MTD and is down -1.11% YTD.***
VI) ***Relative Value Arbitrage is positive at +0.16% and is down -0.59% YTD.***

ECONOMIC DATA WATCH AND MARKET OUTLOOK

As we head into next week, investors should be ready to see a volatile market environment engendered by political uncertainty, economic data releases and the outcome of the Deutsche Bank settlement with the U.S. Department of Justice. Politics are front and center as Democrat Tim Kaine faces off against his Republican rival Mike Pence in the vice presidential debate on Tuesday. A swath of key economic indicators is set for release including the ISM, auto sales for September, ISM nonmanufacturing data, weekly jobless claims, and nonfarm payrolls.

Worries about Deutsche Bank, and by extension European banks, are likely to continue weighing on sentiment until the German lender reaches a settlement with the Justice Department over its packaging of mortgage-backed securities in the run-up to the 2008 financial crisis.

On the economic data front, the US employment report for September will be released on Friday October 7th at 08.30 EST. Last month's employment report was generally weaker than expected with a headline increase in non-farm payrolls of 151,000 while unemployment held at 4.9%, and the increase in earnings was below expectations at 0.1%. ***This month's data has less immediate importance for expectations surrounding Federal Reserve policy, given the assumption that it will be very difficult to raise rates at the November FOMC meeting, although this is the final employment report before that meeting.***

The unemployment and participation rates will be watched closely within the jobs data given that the economy is close to full employment. In this context, increasing divisions within the Fed will be a very important factor moving forward and details within the report will be crucial. ***The average earnings data will also be very important for expectations surrounding inflation and will continue to be a key metric for the Federal Reserve***. In reality, the average earnings data could well be the most important element in the report.

The latest US ISM manufacturing report will be released on Monday October 3rd at 10.00 EST. The ISM manufacturing survey for last month was much weaker than expected with a retreat back into contraction at 49.4 from 52.6 the previous month. This report will be watched very closely given a suspicion that faulty seasonal adjustment could have been an element in weakening last month's data. ***The non-manufacturing report on Wednesday will be equally important given the underperformance reported last month.*** A notable improvement will be needed to boost confidence.

The UK PMI manufacturing survey will be released on Monday October 3rd at 08.30 EST. There was a sharp recovery in the manufacturing sector data last month as manufacturing returned to growth after the sharp decline seen immediately after the UK referendum. This will be particularly important as it will tend to shape expectations surrounding the November Bank of England inflation report and rate decision.