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INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

U.S. stocks were trading higher to end the week, supported by a strong GDP reading, but news of the F.B.I. reopening its investigation into Hillary Clinton's emails prompted a turnaround and extended the week to date declines of the S&P 500 and Russell 2000.

a) ***Dow Jones -1.80% MTD -1.49% YTD +4.75%*** b) ***S&P 500 -0.67% MTD -1.81% YTD +5.88%***
c) ***Russell 2000 -2.49% MTD -5.06% YTD +5.83%***

Drivers: I) ***FBI Director James Comey said he had learned of emails that "appear to be pertinent" to its investigation, though he added that the FBI "cannot yet assess whether this material may be significant."*** In July, Comey had said that charges against Clinton, who controversially used a private email server while secretary of state, weren't "appropriate." ***Polls have strongly indicated that Hillary Clinton will win out over Republican Donald Trump in next month's election, an outcome that analysts said markets had priced in.***

II) ***The economy grew in the third quarter at the fastest pace in two years, helped by a rise in soybean and other U.S. exports and a rebound in the size of inventories companies keep on hand for sale. The government said gross domestic product grew at a 2.9% annual rate*** from July through September. This is a marked improvement from the first half of the year when the U.S. grew just over 1%. Economists had predicted a 2.9% rise.

III) ***The confidence of Americans in the U.S. economy fell in October to a three month low just ahead of the presidential election***, with more consumers saying ***that jobs are a bit harder to find. Consumer confidence fell to 98.6 this month from 103.5 in September***, a number that was revised lower, the Conference Board reported last Tuesday. ***The decline was well below Wall Street expectations of 101.0.***

IV) ***The cost for businesses to employ workers rose 0.6% in the third quarter, as benefits advanced at the fastest pace in two years***. Economists had expected a seasonally adjusted 0.6% increase in the so-called employment cost index. The index has grown somewhat faster in the past two years as the unemployment rate dropped to an eight-year low and the pool of available labor shrank, making it costlier for companies to attract or retain employees. ***The ECI has increased 2.2% in the past 12 months, down slightly from the prior quarter.***

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

Capitalization: ***Large Caps -1.99%*** (YTD +5.77%), Mid-Caps -3.50% (YTD +6.40%) and ***Small Caps -5.06%*** (YTD +5.83%). Style: ***Value -3.19%*** (YTD +11.94%) and ***Growth -4.48%*** (YTD +5.24%). Industry Groups (Leaders): ***Energy -1.80%*** (YTD +17.24%), Utilities -1.10% (YTD +14.67%), Information Technology -0.32% (YTD +12.43%), Technology -0.73% (YTD +12.24%), Consumer Staples -1.27% (YTD +11.49%), ***Telecommunication -6.34%*** (YTD +10.13%), Materials -2.19% (YTD +8.94%), Consumer Discretionary -1.45% (YTD +8.63%) and ***Financial Services +2.38%*** (YTD +3.69%). (Laggards): ***Healthcare -6.21%*** (YTD -4.52).

EUROPEAN EQUITIES

The MSCI Europe index was lower last week falling -1.44%. European equities declined last week as markets were influenced by disappointing economic data out of France and downbeat financial updates, with brewing giant Anheuser-Busch InBev NV among companies disappointing.

Drivers: I) ***The French economy grew less than had been expected in the third quarter of the year***, weighed down by prolonged weakness in consumer spending, declining business investment and a drag on tourism from terror attacks. ***The euro-zone's second-largest economy grew 0.2% in the third quarter from the second, when it contracted 0.1%. Economists had forecast a 0.3% rise quarter over quarter.***

II) ***Germany's annual inflation rate accelerated further in October, as expected, hitting its highest level since October 2014***. ***Consumer prices measured per harmonized European Union standards rose 0.2% on the month and were 0.7% higher than in October last year***, the Federal Statistical Office reported last Friday.

III) ***Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was down -0.38% for the week (MTD -3.01% YTD -3.02%).***

ASIAN EQUITIES

Asian equity markets were lower for the week, as shares in Hong Kong and China declined as investors took note of Thursday's data that showed China's industrial profit growth slowing sharply in September. The Dow Jones Asia Pacific Index was lower by -0.63% for the week, (MTD -0.74), (YTD +5.30%).

Drivers: I) ***The Bank of Japan reported last Friday that its preferred inflation gauge rose 0.2% from a year earlier*** in September. The data followed a string of figures released earlier in the day by the government. ***The government's core CPI, seen as Japan's primary price gauge, fell 0.5% in September.*** The BOJ uses government data to come up with its own consumer price figures.

II) ***Growth in China's industrial profits slowed in September. China recorded 7.7% on-year growth in industrial profits for the month, sharply down from the 19.5% growth the previous month***, per the National Bureau of Statistics.

III) Performance of Asian Indexes for the week, month-to-date and year-to-date. ***The Nikkei was higher by +1.52% (MTD +6.05% YTD -8.34%), the Hang Seng Index fell by -1.80% (MTD -1.49% YTD +4.75%) and the Shanghai Composite advanced by +0.43% (MTD +3.31% YTD -12.29%).***

FIXED INCOME

Treasury yields rose last week as a global bond-market selloff sent rates around the world higher, reflecting the potential for a pickup in inflation as well as growing suspicions that major central banks may be less aggressive about boosting monetary stimulus.

Performance: I) ***The 10-year Treasury was higher last week ending at 1.849% up from 1.738%. The 30-year yield rose last week advancing from 2.488% to 2.618%.***

II) ***Performance for the week, month-to-date and year-to-date. Barclays US Aggregate Bond was down -0.50% last week, MTD -0.84% and YTD +4.90%. The Barclays US MBS TR was lower at -0.16% last week, MTD - 0.29% and YTD +3.42%. The Barclay's US Corporate HY Index rose by -0.52%, MTD +0.65% and YTD +16.02%.***

COMMODITIES

The DJ Commodity Index was higher last week by +0.11% and is up month to date +1.18% (YTD +10.46%) as commodities were supported by a rise in gold and positive supply/demand dynamics in agriculture.

Performance: I) ***The price of oil was lower last week by -4.59% falling from $51.00 to $48.66*** and is up month to date +1.27% (YTD +19.53%). ***Oil finished lower Friday and suffered its first weekly loss since the middle of September, as uncertainty surrounded a weekend meeting of major oil producers who are expected to discuss a proposal to curb crude production.***

II) ***The ICE USD Index, a gauge of the U.S dollar's movement against six other major currencies, was negative falling -0.29% from 98.63 to 98.34 for the week*** (MTD +3.06% YTD -0.35%). The USD though down for the week, rallied on Friday as a rise in U.S. bond yields to five-month highs and the release of economic data, including the GDP report that supported the case for an increase in U.S interest rates.

III) ***Gold finished higher on Friday, capping a third consecutive weekly gain and their highest close in nearly four weeks as weakness in the U.S. dollar and a new probe into Hillary Clinton's emails raised the metal's appeal as a safe-haven investment.*** For the week gold was higher by +0.73% climbing from $1266.7 to $1276.6 (MTD -3.24% YTD 20.21%).

HEDGE FUNDS

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

Performance:

I) ***The HFRX Global Hedge Fund Index is lower at -0.40% MTD and +0.93% YTD.***
II) ***Equity Hedge has fallen -0.64% MTD and is down -1.32% YTD.***
III) ***Event Driven is down MTD -0.20% and is higher YTD +6.96%.***
IV) ***Distressed Debt is higher at +1.91% MTD and is positive YTD +15.72%***
V) ***Macro/CTA has fallen by -1.00% MTD and is down -2.15% YTD.***
VI) ***Relative Value Arbitrage is higher at +0.07% and is down -0.18% YTD.***

ECONOMIC DATA WATCH AND MARKET OUTLOOK

As we head into next week, investors who were used to seeing the markets in stupor got awakened by an unexpected source when the Federal Bureau of Investigation revealed it would review newly discovered emails related to its probe of Democratic presidential candidate Hillary Clinton's private email server. FBI Director James Comey told Congress that Clinton's use of a private server was getting a fresh look after finding emails the agency believes are pertinent to the case. The emails were found in devices that belong to Anthony Weiner, a former congressman who is separated from top Clinton aide Huma Abedin, the New York Times reported.

It is uncertain how the latest developments will affect the race, which polls show Clinton leading. But the news alone was enough to increase volatility in the financial markets and dampen investor appetite for stocks.

In turning to the equity market, earnings will continue to play a main role as 134 S&P 500 components are scheduled to announce financial results next week. With slightly more than half of S&P 500 companies having announced earnings, 76% have beaten estimates by an average of 12%, while 58% have posted better-than-expected sales by an average of 3% according to Fundstrat data. To date, third-quarter overall earnings growth for the S&P 500 is 1.6%, which puts the index on track to record the first year-over-year earnings growth since the first quarter of 2015.

On the economic data front, the latest Federal Reserve Open Market Committee (FOMC) rate decision and statement will be released on Wednesday November 2nd at 14:00 EST. The November Fed meeting will be the second to last meeting of 2016 and will have a slightly unusual feel given that most market attention is likely to be focused on the December meeting given the political environment. ***Given that the US Presidential election is due the following week, it will be extremely difficult for the FOMC to sanction an interest rate increase at this meeting*** as such a move would inevitably drag the Fed deeper into the political sphere. ***The focus should, therefore, be on hints surrounding the December meeting and how clear a signal the Fed wants to send that there is likely to be a hike at the next policy meeting.***

The latest US employment report will be released on Friday November 4th at 08:30 EST. The US employment report will inevitably trigger a substantial amount of short-term volatility. If the Fed does not increase rates at the November FOMC meeting, there will also be important implications for interest rate expectations. ***Although there will be another employment report ahead of the December meeting, the data will still have an important impact in shaping expectations both for this year and next.***

The latest Bank of Japan monetary policy announcement will be on Tuesday November 2nd (around 22:00 EST Monday). There is no fixed time for the announcement and ***Bank of Japan Governor Kuroda will hold a press conference following the decision, also with no scheduled time.***

Following the shift to yield-curve targeting at the previous meeting, ***the latest decision from the Bank of Japan will be important to gain a greater perspective on the bank's policy and medium-term focus. Overall rhetoric surrounding bond purchases and yields will be crucial for medium-term expectations.***