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U.S. EQUITIES

U.S. stocks finished lower Friday as weak oil prices pressured energy shares, while anxiety ahead of next week's central-bank meetings weighed on sentiment. However, for the week, major stock-index gauges posted small gains much of which was attributed to Apple Inc.'s stellar climb.

a) **Dow Jones +0.25%** MTD -1.41% YTD +6.13% b) **S&P 500 +0.59%** MTD -1.37% YTD +6.34%
 c) **Russell 2000 +0.51%** MTD -1.14% YTD +8.97%

Drivers: I) **The consumer price index rose 0.2% in August**, according to a government index that tracks the cost of living. **Economists had expected a 0.1% advance.** More expensive housing, especially rent, and medical care was behind the increase. Medical care rose 1%, the fastest rate since 1984, the Labor Department reported last Friday. **The cost of prescription drugs also soared 1.3%, bringing the increase in prices over the past year to 6.3%.**

II) **Over the past year, overall consumer inflation has risen at a 1.1% rate**, up from 0.8% in the prior month. **The Federal Reserve would like to see inflation rise near the 2% level** using a different price measure known as the personal consumption expenditure price index. Inflation-adjusted wages, meanwhile, fell 0.1% in August. They are up only 1.3% over the past 12 months.

III) **Consumer sentiment was unchanged in September**, as expectations about an economy that continues to add jobs engendered moderate optimism. **The University of Michigan said its consumer sentiment index stayed at 89.5, missing economist expectations for an improvement to 90.5.** The consumer assessment of the present got a bit worse while the expectation for the future improved slightly.

IV) **Sales at U.S. retailers fell in August for the first time in five months as traffic dropped off for most stores, a sign that third-quarter growth might not be as strong as previously estimated.** Retail sales declined a seasonally adjusted 0.3%, the government reported. Economists had forecast a 0.1% decline. Some segments such as online shopping have been doing well, while more traditional sellers such as department stores have fared poorly.

V) **Equity prices in September are lower with Small-Cap, Growth, Information Technology and Utilities leading equity price performance. The laggards for the month are Mid-Cap and Value Stocks along with Materials.**

Capitalization: Large Caps -1.37% (YTD +6.35%), **Mid-Caps -2.02%** (YTD +7.81%) and **Small Caps -1.14%** (YTD +8.97%). Style: **Value -2.73%** (YTD +12.20%) and **Growth -2.00%** (YTD +8.84%). Industry Groups (Leaders): Telecommunication -1.40% (YTD +16.99%), **Utilities +0.91%** (YTD +16.56%), Energy -0.96% (YTD +14.07%), Technology +0.89% (YTD +11.76%), **Information Technology +0.98%** (YTD +11.24%), Consumer Staples -1.36% (YTD +10.29%), **Materials -3.32%** (YTD 9.06%), Consumer Discretionary +0.55% (YTD +8.71%), Industrials -2.85% (YTD +8.53%), Healthcare -0.40% (YTD +1.86) and Financial Services -3.26% (YTD +0.72%). (Laggards):

EUROPEAN EQUITIES

The MSCI Europe index was lower last week falling -2.70%. European equities declined last week, prompted by news that the U.S. Department of Justice asked Deutsche Bank to pay \$14 billion to settle civil claims related to mortgage-backed securities.

Drivers: I) **Deutsche Bank AB is pushing back against the U.S. Justice Department's demand that it pays \$14 billion to settle high-profile probes into its packaging of mortgages** in the run-up to the financial crisis. The German bank confirmed last Thursday it has started negotiations with the U.S. agency over the proposed charges. The Justice Department's investigations are connected with the bank's issuance and underwriting of residential mortgage-backed securities between 2005 and 2007.

II) **The Bank of England, which foresees slowing in the economy, will update its assessment in November.** If "the outlook at that time is judged to be broadly consistent with the August Inflation Report projections, **a majority of members expect to support a further cut in bank rate to its effective lower bound** at one of the MPC's forthcoming meetings during the course of this year," the BOE said.

III) *Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index fell -2.70% for the week (MTD -1.52% YTD -2.37%).*

ASIAN EQUITIES

Asian equity markets were mostly down last week, as some uncertainty remained over the outcomes from central-bank policy meetings in Japan and the U.S. next week. The Dow Jones Asia Pacific Index was down -2.06% for the week, (MTD -0.59), (YTD +3.94%).

Drivers: I) *The Bank of Japan will consider taking interest rates farther into negative territory, according to a Nikkei report. The central bank, which is holding a two-day meeting starting Sept. 20, intends to make rate policy the centerpiece of future monetary easing as asset-buying increases near their limits, the report said. It also will reaffirm its commitment to keeping track of the unfavorable effects of negative rates, Nikkei reported.*

II) *Industrial output in China rose 6.3% in August from a year earlier, accelerating from 6.0% growth in July, data from the National Bureau of Statistics showed last week. The increase in value-added industrial output, a close proxy for economic growth, slightly exceeded a median forecast of 6.2% growth by 15 economists surveyed by The Wall Street Journal. Fixed-asset investment outside China's rural households climbed 8.1% from a year earlier in the January-August period, unchanged from the increase in the first seven months of the year.*

III) *Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was lower by -2.63% (MTD -2.18% YTD -13.21%), the Hang Seng Index fell by -2.44% (MTD +1.53% YTD +6.49%) and the Shanghai Composite declined by -2.88% (MTD -2.68% YTD -15.15%).*

FIXED INCOME

Treasury prices fell last week, as short-term Treasury yields on Friday jumped by the most in three weeks after official data showed a stronger-than expected rise in consumer prices last month. This supported the case for the Federal Reserve to raise interest-rates at least once before the end of 2016.

Performance: I) *The 10-year Treasury was higher last week ending at 1.692% up from 1.674%. The 30-year yield rose last week rising from 2.397% to 2.445%.*

II) *Performance for the week, month-to-date and year-to-date. Barclays US Aggregate Bond was down -0.11% last week, MTD -0.64% and YTD +5.18%. The Barclays US MBS TR rose by +0.15% last week, MTD +0.09% and YTD +3.53%. The Barclay's US Corporate HY Index was down by -0.64%, MTD -0.55% and YTD +13.82%.*

COMMODITIES

The DJ Commodity Index

Performance: I) *The price of oil was lower last week by -0.94% declining from 259.53 to 257.09 and is up month to date +0.78% (YTD +6.36%) as oil dropped on news of potential increased production out of Libya and Nigeria.*

II) *The ICE USD Index, a gauge of the U.S dollar's movement against six other major currencies, was positive rising +0.72% from 95.35 to 96.04 for the week (MTD +0.05% YTD -2.68%). The USD rose last week building on strength that came on data showing a sharper than expected increase in consumer prices. For the week the Yen strengthened rising from ¥102.70 to ¥102.27 and the Euro fell from 1.1233 to 1.1156 against the USD.*

III) *Gold finished at its lowest level in almost three months on Friday, suffering a seventh drop in eight sessions as the U.S. dollar climbed sharply in the run up to key central bank policy meetings next week. For the week gold was lower by -1.40% declining from \$1331.8 to \$1313.2 (MTD +0.14% YTD 23.71%).*

HEDGE FUNDS

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

Performance:

- I) *The HFRX Global Hedge Fund Index is lower at -0.02% MTD and +0.76% YTD.*
- II) *Equity Hedge has risen +0.45% MTD and has fallen -1.74% YTD.*
- III) *Event Driven is up MTD +0.14% and is up YTD +7.26%.*
- IV) *Distressed Debt is lower at -0.34% MTD and is positive YTD +12.92%*
- V) *Macro/CTA has fallen by -0.87% MTD and is down -1.87% YTD.*
- VI) *Relative Value Arbitrage is negative at -0.08% and is down -0.83% YTD.*

ECONOMIC DATA WATCH AND MARKET OUTLOOK

As we head into next week, U.S. stocks will be affected more by central bankers more than usual as investors await pronouncements from the Federal Reserve and clarification on the Bank of Japan's easing efforts. In the U.S., mixed economic data gives both Fed hawks and doves support for their arguments on whether to start raising rates as soon as possible or to keep delaying the inevitable. *The probability of a Fed rate hike at the September meeting is only 15%*, according to the CME Group's FedWatch Tool.

Just as the Fed begins their two-day policy meeting, *the Bank of Japan will be announcing its policy decision affecting the current easing program. This review was effectively ordered by the government due to continued frustration over the inability to raise inflation levels.* Given the policy review, there is even more uncertainty than usual surrounding the outcome and potential for policy changes. There looks to be a majority support for action, but certainly a *lack of consensus on the best way forward.*

There is the possibility that the program of bond purchases will be expanded, although there are already substantial concerns over the amount of securities held by the central bank. *There is also the potential for a further cut in interest rates*, although this would also be very controversial given criticism of January's move to introduce negative rates. *There has also been a move by the bank to steepen the yield curve in order to alleviate pressures within the financial sector and support the banks.* Further commentary on the yield curve will also be very important for sentiment and global bonds.

On the economic data front other events to watch out for, *the latest Eurozone flash PMI data will be released on Friday September 23rd at 04.00 EST.* The individual data for France and Germany will be released at 03.00 EST and 03.30 EST respectively. *The August Eurozone PMI data was generally disappointing with a small retreat in the manufacturing index and only a marginal advance in the services sector.* Given the very supportive monetary policy, there will be *further fears over disappointing data amid fears that structural weakness and political stresses are continuing to undermine activity.*

The latest Canadian CPI inflation data will be released on Friday September 23rd at 08.30 EST. In the latest Bank of Canada monetary policy statement, the bank stated that *"on balance, the risks to the profile for inflation have tilted somewhat to the downside since July."* The latest inflation data will, therefore, be watched closely to assess whether the downside risks are evident in the latest data. There will be data on headline and core consumer prices with the Bank of Canada core inflation reading significant.