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INVESTMENT COMMITTEE MARKET COMMENTARY

JANUARY 2, 2017 www.clearbrookglobal.com

U.S. EQUITIES

U.S. equity markets finished lower for the last week of 2016, as investors took profits from sectors that had rallied strongly since the November 8th U.S. presidential election, but this did not detract from the strong annual performance posted by the major market equity indexes.

a) ***Dow Jones -0.86% MTD +3.44% YTD +16.50%*** b) ***S&P 500 -1.08% MTD +1.98% YTD +11.96%***
c) ***Russell 2000 -0.97% MTD +2.80% YTD +21.31%***

Drivers: I) ***The strong annual gains seen in U.S. equities largely reflect a second-half rally, which accelerated after Donald Trump's presidential election victory on Nov. 8.*** The Dow was up 7.8% since Nov. 8, its best Election Day-to-end-of-year performance since Dwight D. Eisenhower was elected president in 1952. ***All four indexes achieved record highs, while the Dow repeatedly came within 0.1% of the milestone level of 20,000.***

II) ***The major U.S. equity indexes overcame first quarter worries over a potential global recession and the severe drop in energy prices to post solid gains. The S&P 500 gained 11.96% in 2016***, boosted by a positive return of 3.3% during the fourth quarter. ***The Russell 2000 led by the strong rally in small caps, gained 21.31% for the year***, after seeing a solid gain in the fourth quarter of 8.3%.

III) ***The price of homes in the U.S. stayed near all-time highs in October and showed no sign of abating, as the S&P Case-Shiller index climbed 0.6% in October and was up 5.1% in the past year***, unchanged from the prior month. ***The cost of housing has surged in part because of rising demand triggered by an improved economy as well as a shortage of homes available for sale.***

IV) ***Consumer confidence jumped in December to the highest level since 2001, reflecting an improved U.S. economy and anticipation of the incoming Trump administration, especially among older Americans***. The ***consumer confidence index jumped to 113.7 from a revised 109.4*** in November, the Conference Board reported last week. The post-election surge in optimism for the economy, jobs and income prospects, as well as for stock prices which reached a 13-year high, was most pronounced among older consumers.

V) ***Equity prices in December are higher with Small-Cap, Value, Telecom and Utilities leading equity price performance. The laggards for the month are Mid-Cap and Growth Stocks and Consumer Staples.***

Capitalization: Large Caps +1.88% (YTD +12.05%), ***Mid-Caps +1.14%*** (YTD +13.80%) and ***Small Caps +2.80%*** (YTD +21.31%). Style: ***Value +2.32%*** (YTD +27.89%) and ***Growth +2.76%*** (YTD +17.11%). Industry Groups (Leaders): Energy +1.64% (YTD +27.95%), ***Telecommunication +8.09%*** (YTD +23.41%), Financial Services +3.88% (YTD +22.55%), Materials +0.14% (YTD +16.63%), ***Utilities +4.90%*** (YTD +16.06%), Technology +2.19% (YTD +14.81%) Information Technology +1.65% (YTD +14.78%), ***Consumer Staples -0.29%*** (YTD +2.52%) and Consumer Discretionary +0.01% (YTD +0.03%). (Laggards): Healthcare +0.89% (YTD -2.05)

EUROPEAN EQUITIES

The MSCI Europe index closed on a positive note on Friday which helped the pan-European benchmark trim its year-to-date loss in recent months, but not enough to send it into positive for 2016. It closed the year -0.4% lower, its first yearly loss since 2011. For December, however, the benchmark jumped 5.24%.

Drivers: I) ***In the U.K. the FTSE gained 14.4% in 2016, its biggest advance since 2013. Aiding the index's return was the near doubling of commodity and energy stocks which hit their lows in February***, and the dramatic drop in the GBP prompted by the U.K.'s "Brexit" vote which helped many FTSE companies who are large exporters.

II) ***Italy's government of Prime Minister Paolo Gentiloni approved the creation of a €20 billion ($20.9 billion) fund to help troubled banks last week.*** Shortly afterward, ***Monte dei Paschi said it will apply to tap this fund for new equity*** to strengthen its balance sheet. The government's decision comes just hours after ***the bank declared that their effort to raise capital from private investors had failed***. The bank, Italy's No. 3 lender, attempted to raise €5 billion to remain solvent and avert a government bailout.

III) ***Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was up +1.23% for the week (MTD +5.24% YTD -0.40%).***

ASIAN EQUITIES

Asian equity markets ended mostly higher for the year as the Nikkei and Hang Seng Indexes posted positive returns. In contrast, the Shanghai Composite Index dropped 12.3% for the year, as regulators there cracked down on leveraged purchases of stocks by insurance companies and as the yuan fell about 6.5% against the U.S. dollar for the year. The Dow Jones Asia Pacific Index was higher by +0.34% for the week, (MTD -0.44%), (YTD +2.18%).

Drivers: I) The ***South Korean government cut the 2017 GDP growth estimate*** for South Korea was lowered ***to 2.6% from an earlier projection of 3%. Weakening domestic demand*** will likely be a major drag on Korea's economy in 2017, South Korea's Ministry of Strategy and Finance reported, with growing household debt, continuing corporate restructuring and slowing home construction expected to weigh on consumer spending and growth.

II) In China, anxiety has been growing as ***the yuan moved closer to the psychologically crucial 7.0000 level against the dollar. A breach of that threshold would further hit investor confidence in the yuan and trigger even greater capital outflows from the world's second-largest economy.***

III) ***Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was lower by -1.61% (MTD +4.55% YTD +0.42%), the Hang Seng Index rose by +1.97% (MTD -3.45% YTD +0.39%) and the Shanghai Composite declined by -0.21% (MTD -4.50% YTD -12.31%).***

FIXED INCOME

Treasury yields fell in a holiday-shortened session last Friday, but posted a second straight annual rise in a volatile year that saw investors sell government bonds aggressively in the final quarter.

Performance: I) ***The 10-year Treasury was lower last week ending at 2.445% down from 2.541%. The 30-year yield fell last week falling from 3.117% to 3.068%.***

II) ***Performance for the week, month-to-date and year-to-date. Barclays US Aggregate Bond was up +0.66% last week, MTD +0.14% and YTD +2.65%. The Barclays US MBS TR was up +0.81% last week, MTD +0.00% and YTD +1.67%. The Barclay's US Corporate HY Index rose by +0.30%, MTD +1.85% and YTD +17.49%.***

COMMODITIES

The DJ Commodity Index was higher last week by +1.28% and is up month to date +1.31% (YTD +13.27%), led by the rise in energy prices and livestock.

Performance: I) ***The price of oil was higher last week by +1.20%,*** rising from $53.25 to $53.89 and is up month to date +9.00% (YTD +32.38%). ***Oil rose for the week, with traders encouraged by signs that major oil producers will adhere to the pledge to curb output*** but still concerned about potential production increases in the U.S. and Libya.

II) ***The ICE USD Index***, a gauge of the U.S dollar's movement against six other major currencies, ***was negative falling -0.52%*** from 102.92 to 102.38 for the week (MTD +0.84% YTD +3.74%). ***The U.S. dollar index finished near its 14-year high after the Federal Reserve earlier in the week boosted the currency by signaling more interest-rate increases are likely in 2017.***

III) ***Gold stopped what had been the longest weekly losing streak in more than 12 years with a 1.48% weekly gain. Gold posted an 8.53% gain for all of 2016, owed to its early-year move. Gold is off more than 15% from its 2016 high, which was $1,364.90 seen on July 6.*** For the week gold was higher by +1.48% climbing from $1135.2 to $1152.0 (MTD -1.87% YTD +8.53%).

HEDGE FUNDS

Hedge funds returns in December were higher with the core strategies Equity Hedge, Event Driven, Distressed, Relative Value and Macro all in positive territory.

Performance:

I) ***The HFRX Global Hedge Fund Index is higher at +0.84% MTD and +2.48% YTD.***
II) ***Equity Hedge has risen +0.13% MTD and is up +0.05% YTD.***
III) ***Event Driven is up MTD +1.96% and is higher YTD +11.12%.***
IV) ***Distressed Debt is higher at +2.65% MTD and is positive YTD +20.64%***
V) ***Macro/CTA has risen by +0.33% MTD and is down -3.07% YTD.***
VI) ***Relative Value Arbitrage is higher at +0.87% and is up +1.07% YTD.***

ECONOMIC DATA WATCH AND MARKET OUTLOOK

As we head into the first trading week of the new year, investors will be watching to see if ***euphoria that took the U.S. stock market to all-time highs in December will continue***. Markets rallied strongly on expectations of more fiscal spending and tax reforms following Donald Trump's surprise presidential election victory, but will the upward move stall as expectations become more of a reality as Trump takes office on January 20th.

Some impediments to a continued rally include taxable investors who wanted to sell their stocks, have been waiting to do so in January to take advantage of possibly lower taxes. This type of selling could prompt a pullback. ***Investors will also find out how much the Republican-controlled Congress can get Trump's proposed reforms done. But any policy mistakes such as a trade war with China can create further concern, further putting a ceiling on stock prices.***

Some analysts view the end of the year pullback as a case of reversion to the mean. ***It seems investors finally realized that some assets had moved up in value too quickly, and that some unwinding of the election trade was due***. ***Strategists believe the sectors that were the best performers*** over the past few months are the ones ***most likely to see a correction over the near term: small-cap stocks, financials and industrials***. ***Once this mean reversion ends, it is very possible that financials and industrials will take the market higher in 2017.***

On the economic data front, the latest US employment report is due for release on Friday January 6th at 08:30 EST. The US employment report will set the immediate tone surrounding sentiment towards the US economy at the start of 2017 and will also have a significant impact on Federal Reserve expectations.

A positive reading for payrolls growth would increase expectations that the labor market remains very solid, while a disappointing reading would raise some doubts surrounding the outlook. The unemployment rate will be important after the decline to 4.6% in the December report***. Any further decline would increase speculation that the US economy is moving beyond full employment, which will tend to increase pressure for a tighter monetary policy to prevent overheating.***

The average earnings data will also be important following the 0.1% decline last month. Another subpar report would dampen expectations that a tight labor market is putting upward pressure on earnings and this would also suggest a relatively limited risk of higher inflation.

The Federal Reserve minutes will be released on January 4th at 14:00 EST. Although there were no surprises with the interest rate decision, these minutes from December's FOMC meeting will be very important for underlying market sentiment surrounding Federal Reserve policy. ***The main market moving aspect of the Fed release was the increase in interest rate projections by the individual FOMC members with three rate increases expected for 2017 compared with the two expected at September's meeting.***