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INVESTMENT COMMITTEE MARKET COMMENTARY

FEBRUARY 6, 2017 www.clearbrookglobal.com

U.S. EQUITIES

U.S. equity markets saw the Dow industrials vault back above 20,000 and the Nasdaq reached a record. Steps by President Donald Trump to roll back bank regulations and a stronger-than-expected January jobs report contributed to the positive sentiment. The rally was led by a sharply higher financial sector.

a) ***Dow Jones -0.09% MTD +1.06% YTD +1.69%*** b) ***S&P 500 +0.16% MTD +0.85% YTD +2.76%***
c) ***Russell 2000 +0.54% MTD +1.19% YTD +1.59%***

Drivers: I) ***President Trump signed an executive order directing the Treasury secretary to review the Dodd-Frank legislation, implemented after the 2008-09 financial crisis***. The president signed a separate order that will delay the implementation of the "fiduciary rule," which requires that the financial advisers and brokers who handle individual retirement and 401(k) accounts act in the best interest of their clients. ***Deregulation, could improve the sector's profitability, especially in an environment with rising interest rates, which is typically good for banks.***

II) ***The U.S. economy added 227,000 jobs last month***, the most since September, and ***well above the forecast of 175,000*** as well as last year's average monthly gain of 187,000 jobs. The 0.1% increase in the unemployment rate (to 4.8%) signaled increased optimism as more people came back into the work force to look for a job.

III) ***Wage growth was weaker-than-expected*** following last month's strong gains; average hourly earnings were ***up just 0.1%*** from a month earlier; ***January's year-over-year wage growth declined to 2.5%*** compared to last month's year-over-year wage growth of 2.8%. The jobs report, in the absence of unexpected increases in wages and inflation, will likely keep the Federal Reserve on its anticipated path of interest rates increases this year.

IV) ***Factory orders rose 1.3% in December***, crushing the 0.5% increase forecast by economists. In December, total shipments rose 2.2%, the biggest increase in any month since December 2010. Orders for non-defense capital goods, excluding aircraft, were up 0.7%. The more volatile transportation category, excluding factory orders, was up 2.1% in December.

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

Capitalization: ***Large Caps +0.78%*** (YTD +2.73%), Mid-Caps +0.98% (YTD +3.62%) and ***Small Caps +1.13%*** (YTD +2.63%). Style: ***Value +0.91%*** (YTD +0.46%) and ***Growth +0.67%*** (YTD +4.41%). Industry Groups (Leaders): Technology +1.18% (YTD +4.93%), Materials +0.21% (YTD +4.81%), Consumer Cyclical -0.35% (YTD +3.84), ***Healthcare +1.50%*** (YTD +3.75), Consumer Defensive +0.74% (YTD +2.40%), ***Financial Services +1.69%*** (YTD +1.93%) and Utilities -0.62% (YTD +0.67%). (Laggards): Energy +0.80% (YTD -2.46%) and ***Telecommunication -1.88%*** (YTD -1.36%).

EUROPEAN EQUITIES

The MSCI Europe index rose for the week, led by banks rising on the prospect that President Donald Trump will loosen U.S. regulations on the financial industry.

Drivers: I) ***Eurozone output kept up its growth rate in January.*** Markit's final composite sector purchasing managers' index came in at 54.4, the same as in December and slightly above a preliminary reading of 54.3. The final reading on the euro-zone services sector PMI for January was 53.7, identical to December and slightly above the preliminary reading of 53.6.

II) Buoyed by the ECB's stimulus programs and a weaker currency that appears to have aided exports, Eurosat reported the ***euro-zone's gross domestic product in the fourth quarter was 0.5% higher*** than in the three months to September, and 1.8% higher than in the final three months of 2015. On an annualized basis, growth picked up 0.2% to 2.0% in the third quarter. ***The 2016 U.S. economy expanded by 1.7%, compared with 1.6 in 2015, marking a slowdown from the previous year.***

III) ***Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was up +0.12% for the week (MTD +0.91% YTD +3.01%).***

ASIAN EQUITIES

Asian markets were mostly lower, as encouraging economic data was counterbalanced by concern over political risk surrounding the administration of U.S. President Donald Trump. The Dow Jones Asia Pacific Index was higher by +0.46% for the week, (MTD +0.63%), (YTD +5.31%).

Drivers: I) ***Japanese retail sales rose 0.6% in December*** from a year earlier, gaining for a second straight month, a sign that consumer spending may be picking up in the world's third-largest economy. Retail sales fell 0.6% in the calendar year 2016. Economists say that ***consumers have been reluctant to spend as wage growth remains sluggish.*** Prime Minister Shinzo Abe has called for companies to pay workers more to fuel consumption and an economic recovery.

II) ***An official measure of China's factory activity was lower in January***, though it stayed in expansionary territory, official data showed last Wednesday. China's official manufacturing purchasing managers' index fell to 51.3 in January from 51.4 in the previous month, pointing to a slight slowing of momentum. The sub-index measuring new orders dropped to 52.8 from 53.2 in December, while the production sub-index also decreased to 53.1 from 53.3.

III) ***Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was lower by -2.82% (MTD -0.65% YTD -1.03%), the Hang Seng Index fell by -0.69% (MTD -1.00% YTD +5.44%) and the Shanghai Composite declined by -0.60% (MTD -0.60% YTD +1.18%).***

FIXED INCOME

Treasury yields were mostly higher last week as investors grew eager to sell the perceived safety of bonds in favor of riskier stocks amid the best one-day rally for U.S. equities in 2017, led by a surge in financials.

Performance: I) ***The 10-year Treasury was lower last week ending at 2.470% up from 2.484%. The 30-year yield rose last week rising from 3.061% to 3.093%.***

II) ***Performance for the week, month-to-date and year-to-date. Barclays US Aggregate Bond was down -0.04% last week, MTD -0.17% and YTD +0.02%. The Barclays US MBS TR was higher by +0.04% last week, MTD -0.14% and YTD -0.17%. The Barclay's US Corporate HY Index rose by +0.36%, MTD +0.35% and YTD +1.79%.***

COMMODITIES

The DJ Commodity Index was lower last week by -0.04%, but up month to date +0.32% (YTD +0.99%) as agricultural commodities such as cotton, wheat and corn pulled back on international trade concerns.

Performance: I) ***The price of oil was higher last week by +1.22%*** jumping from $53.20 to $53.85 and is up month to date +1.22% (YTD -0.07%). Oil was supported by ***more data backing up production cuts by major oil producers***, but prices showed little reaction to news that the U.S. has imposed sanctions on Iran, one of the world's top 10 crude-oil producers.

II) ***The ICE USD Index***, a gauge of the U.S dollar's movement against six other major currencies, was negative falling -0.83% from 100.56 to 99.73 for the week (MTD +0.21% YTD -2.59%). The U.S. dollar index turned negative last week as the January jobs report's lackluster wage-growth component stole focus from stronger overall payroll additions.

III) ***Gold*** had its ***best weekly gain in seven months*** after the U.S. dollar lost some ground following the most recent review of the closely watched jobs report. For the week, gold was higher by +2.34%, declining from $1193.7 to $1221.6 (MTD +0.81% YTD +6.04%).

HEDGE FUNDS

Hedge fund returns in February are higher with the core strategies Equity Hedge, Event Driven, Distressed, Macro and Relative Value all in positive territory.

Performance:

I) ***The HFRX Global Hedge Fund Index is higher at +0.15% MTD and +0.65% YTD.***
II) ***Equity Hedge has risen +0.15% MTD and is up +1.00% YTD.***
III) ***Event Driven is up MTD +0.27% and is higher YTD +1.32%.***
IV) ***Distressed Debt is higher at +0.47% MTD and is positive YTD +0.81%***
V) ***Macro/CTA has risen by +0.20% MTD and is down -0.76% YTD.***
VI) ***Relative Value Arbitrage is flat at +0.00% and is up +0.63% YTD.***

ECONOMIC DATA WATCH AND MARKET OUTLOOK

Looking ahead to next week, even though we are in peak earnings season, ***the financial markets are obsessed by President Donald Trump***. ***Financial markets will surely be driven by politics***, as investors try to read every tweak and decipher what the new administration's policies may mean for the economy. The primary concerns from corporate America will be how Trump's policies will affect growth, trade and corporate earnings. This sense of uncertainty has hamstrung the markets, as the S&P 500 moved less than 0.1% for three consecutive days this week.

Market pundits are blaming much of the market's recent malaise on the lack of policy clarity coming from ***the new Administration.*** Though executive orders have been signed regarding Dodd-Frank and a temporary immigration ban is in effect, a solid clue of where we may be headed may not come until the federal budget is released in April. Despite the uncertainty, the first two weeks of ***the Trump administration is showing the new President is proceeding in trying to deliver on his campaign promises.***

Fourth quarter earnings season continues. Thus far, 278 companies in the S&P 500® Index have reported results; ***52.5% have exceeded analysts' sales estimates while 67.6% have exceeded estimates for earnings per share (EPS)***. The expected 4.5% quarterly EPS growth rate marks the first time the Index has delivered two consecutive quarters of growth since 2015. ***Early estimates for the first quarter of 2017 show EPS growing 10.6%,*** which would be the grow rate since the fourth quarter of 2011. Positive earnings momentum combined with prospects for further business-friendly initiatives, ***should support the market's bullish trend*** over the near-to-medium-term.

On the economic data front: the first highlight of what looks to be a light week is ***Tuesday's trade report***. The big December jump in exports of capital was disappointedly offset by the increase in auto imports. Adding in the nation's surplus in services trade, forecasters see December's ***international trade deficit*** coming in little changed at ***$44.9 billion*** vs $45.2 billion in November.

With a number that may begin to approach 6 million job openings, JOLTS will follow later Tuesday morning offering the latest on the total number of job openings waiting to be filled.

Also reporting on Tuesday, ***Consumer credit is expected to rise $20.0 billion*** in December, following November's outsized gain of $24.5 billion. Consumers are increasingly running up their credit cards based on the revolving credit component of this report which rose $11.0 billion November.

Friday, c***onsumer sentiment*** is expected to ***remain steady at post-election highs***, with little pressure seen for import prices. Consumer sentiment has been holding its post-election highs and forecasters see little change for the preliminary February report. Consensus is at ***98.0* vs. 98.5** for January's final reading. ***Confidence in future income is the strongest it has been in a decade,*** but the sample is deeply partisan, split between optimism among Republicans and the lack of among Democrats.