CLEARBROOK

INVESTMENT COMMITTEE MARKET COMMENTARY

MAY 8, 2017 www.clearbrookglobal.com

U.S. EQUITIES

U.S. equity markets finished higher for the week with the Nasdaq and the S&P 500 closing at records as investors weighed a stronger-than-expected April employment report against uncertainty of the outcome of the French presidential election on Sunday.

a) **Dow Jones +0.33% MTD +0.33% YTD +7.06%** b) **S&P 500 +0.66 MTD +0.66% YTD +7.86%**
c) **Russell 2000 -0.22% MTD -0.22% YTD +3.36%**

Drivers: I) In April, **211,000 people found new jobs** as hiring rebounded from a weak showing in early spring, providing new evidence the economy is still growing at healthy rate and paving the way for the Federal Reserve to raise interest rates soon. **Unemployment dropped to 4.4%** from 4.5% to match the lowest level since May 2007, shortly before the beginning of the Great Recession.

II) **Hourly pay rose 0.3% in April** to $26.19 an hour, the government reported. Over the past 12 months, hourly wages have climbed 2.5%, a sharp upturn compared to less than 2% a few years ago. But pay growth has slowed since hitting a recent 2.9% peak in December. Wage growth is also running below the 3% to 4% pace that usually prevails at this stage of an economic recovery, suggesting that a breakout in inflation is unlikely.

III) **The rate of U.S. inflation slowed in March** one month after hitting a five-year high, reflecting lower prices for gasoline and other consumer goods such as new autos. In March, **the PCE index fell 0.2%** to mark the first decline in more than a year, the government reported last week. A core index that strips out the volatile food and energy categories also dropped 0.1%, reflecting the largest decline since 2001.

IV) **Consumer spending was flat in March** and the government also revised outlays in February to show no gain. Millions of Americans may have held back because tax refunds were delivered later than usual. Americans also spent less on gasoline and utilities because of falling oil prices and unseasonably warm weather.

V) **Equity prices in May are higher with Large-Cap, Growth, Information Technology and Financials leading equity price performance. The laggards for the month are Small-Cap, Value and Telecommunication.**

Capitalization: Large Caps +0.61% (YTD +7.81%), Mid-Caps +0.40% (YTD +6.38%) and **Small Caps -0.22%** (YTD +3.36%). Style: **Value -0.01%** (YTD +1.85%) and **Growth +0.33%** (YTD +6.20%). Industry Groups (Leaders): Consumer Discretionary +1.10% (YTD +18.26), **Information Technology +1.42%** (YTD +16.36%), Technology +1.14% (YTD +14.28%), Healthcare +0.63% (YTD +10.95), Consumer Staples +0.41% (YTD +10.71%), Materials +0.69% (YTD +8.04%), Utilities +0.12% (YTD +7.34%), REITs +0.37% (YTD +3.97%), and **Financial Services +1.28%** (YTD +2.93%). (Laggards): **Telecommunication -1.33%** (YTD -8.30%) and Energy -0.72% (YTD -10.01%).

EUROPEAN EQUITIES

The MSCI Europe index was up +3.05% last week, boosted by solid earnings reports and hopes that centrist Emmanuel Macron will beat far-right Marine Le Pen in Sunday's runoff race in France.

Drivers: I) **HSBC Holdings PLC** reported a **larger-than-expected first-quarter profit** last Thursday, supporting investor hopes the bank could buy back more shares this year. Net profit for the three-month period was $3.13 billion, higher than the $2.67 billion analysts had estimated. Adjusted profit, removing one-time items and taxes, rose 12% to $5.94 billion, with gains across retail banking, commercial banking and global banking and markets.

II) **April manufacturing PMI in the euro-zone was 56.7**, 0.5 points above its final March reading and indicative of the **strongest rate** of business activity **in six years.** The reading reflected very strong increases in output and new orders (both largest since April 2011) as well as faster job creation. New export business also increased at its quickest rate since 2011 while suppliers' delivery times lengthened significantly. Employment was equally robust.

III) **Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was higher by +3.05% for the week (MTD +3.05% YTD +14.63%).**

ASIAN EQUITIES

Asian markets were lower last week driven by a slump in Chinese metals prices and weakness in crude oil. Asian trading sentiment was already weak due to fears that Beijing's crackdown on speculation and borrowing could hurt metals demand. The Dow Jones Asia Pacific Index was down -0.18% for the week, (MTD -0.18% YTD +10.19%).

Drivers: I) Investor worries over **China's regulatory crackdown** on speculative trading sent **commodity futures prices sharply** lower last week. The most actively traded iron-ore futures contract was down 7.7% on the Dalian Commodity Exchange, after tumbling by the 8% daily limit on Thursday. Meanwhile, in Shanghai, hot-rolled coil futures prices fell 4.2% with steel-rebar futures off 3.1%. Rubber prices were down 4.7%.

II) April **manufacturing PMIs** were mixed with **China's weakening from 51.2 to** a barely over the 50-breakeven point at **50.3**. The CFLP measure of manufacturing PMI also was lower but at a higher level (51.2). This set off **worries** that the **Chinese economy was weakening**. In Japan, the manufacturing PMI edged higher to a reading of 52.7 from 52.4 in March. And in Australia, the April reading climbed to 59.2 from 57.5, indicating strong manufacturing growth.

III) **Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was higher by +1.30% (MTD +1.30% YTD +2.52%), the Hang Seng Index fell by -0.60% (MTD -0.60% YTD +10.84%) and the Shanghai Composite declined by -1.64% (MTD -1.64% YTD -0.02%).**

FIXED INCOME

Treasury yields rose as markets perceived less risk for Europe from the French election meant less safe-haven demand for Treasuries in lieu of an increased appetite for risk assets.

Performance: I) **The 10-year Treasury yield was higher last week ending at 2.351%% up from 2.231%. The 30-year yield rose last week climbing from 2.953% to 2.987%.**

II) **Performance for the week, month-to-date and year-to-date. Barclays US Aggregate Bond was down -0.23% last week, MTD -0.23% and YTD +1.36%. The Barclays US MBS TR was lower by -0.17% last week, MTD -0.17% and YTD +0.96%. The Barclay's US Corporate HY Index dropped by -0.10%, MTD -0.10% and YTD +3.78%.**

COMMODITIES

The DJ Commodity Index was lower last week by -1.83% and is down month to date -1.83% (YTD -5.39%) as industry metals including copper and iron ore crashed as China cracked down on speculative trading in these commodity markets.

Performance: I) **Oil prices dropped** last week falling -5.53% to $46.47 and is down month to date -5.53% (YTD -13.77%). Oil prices suffered a sharp decline as current production cuts from OPEC have yet to prompt a drop in robust global inventories, partly because they **incentivized U.S. shale producers to produce more.**

II) The **ICE USD Index**, a gauge of the U.S dollar's movement against six other major currencies, **weakened** falling -0.47% from 99.04 to 98.57 for the week (MTD -0.47% YTD -3.72%). The U.S. dollar index declined reflecting the **mixed tone of U.S. economic data** and strength in the euro as the outlook dimmed for Marine Le Pen.

III) **Gold prices declined** last week by -3.24% as April's strong U.S. jobs report was seen as keeping the Federal Reserve on a path of higher interest rates, with another hike increasingly likely as soon as June. Gold was lower by -3.24% dropping from $1269.5 to $1228.4 (MTD -3.24% YTD +6.63%).

HEDGE FUNDS

Hedge fund returns in May are mixed with the core strategies Equity Hedge, Event Driven, Distressed in positive territory, while Macro and Relative Value are down for the month.

Performance:

I) The HFRX Global Hedge Fund Index is higher at +0.01% MTD and +2.10% YTD.
II) Equity Hedge rose +0.09% MTD and is up +3.53% YTD.
III) Event Driven advanced MTD +0.18% and is higher YTD +3.86%.
IV) Distressed Debt is higher at +0.03% MTD and is positive YTD +2.22%
V) Macro/CTA is lower by -0.12% MTD and is down -0.94% YTD.
VI) Relative Value Arbitrage is down at -0.17% and is up +1.06% YTD.

ECONOMIC DATA WATCH AND MARKET OUTLOOK

As head into the middle of May, **investors will be reminded of the old-adage "sell in May and go away".** The question is, do returns during the six months from May to October lag those seen from November to April. According to the Center for Financial Research and Analysis (CFRA), **since April 1945** the **S&P 500 has only gained 1.6% from May to October versus an average of 6.7% from November to April.**

But according to **LPL, the past does not necessarily represent recent market returns.** The **last November-to-April period was up more than 10%**; when that has happened, the **next six months of the year have been up 2.3%** on average. Not to be overlooked, in reviewing the **four-year presidential cycle**, **the May-to-October period has been strongest during a postelection year** (which we happen to be in now), up 2% on average. It will be interesting to see what 2017 and 2018 brings to investors.

U.S. corporations are continuing to deliver **strong first-quarter results** as anticipated. Roughly 80% of **S&P 500** companies that have reported so far are beating earnings estimates and posting **earnings per share growth of more than 10% year on year** while revenue is up 6% year on year according to J.P. Morgan.

In looking forward to next week's **economic calendar**, March was the month for unexpectedly low inflation readings and the second week of May looks to be when April's price data, boosted by both food and gas, see a rebound.

Producer prices come out on Thursday along with consumer prices, where both the headline and core declined in March, out on Friday. The producer price report in March, like import and export prices before it and consumer and PCE prices after, was unexpectedly weak, the result at least in part of the month's decline in oil prices. Lack of price pressure does point to lack of demand though April's better showing for oil is pointing to a rebound for the **PPI-FD headline, at a consensus gain of 0.2%** vs March's 0.1% decline.

Consumer prices fell unexpectedly in March as gasoline prices came down as did cellphone plans due to a provider price war**. Forecasters are calling for an April rebound** with the consensus at **a 0.2% gain** on the month for, however, a 2.3% year-on-year rate that would be down slightly from March. A rebound in this report would help boost confidence that inflation, despite lack of wage traction, is still stable and near the Federal Reserve's 2.0% target zone.

The highlight of the week will be **Friday** as **retail sales for April** are **expected** to open the quarter with a **solid bounce**. Consumer spending has emerged as a major concern for the 2017 economy, having slowed abruptly during the first quarter. But adjustment issues with the data may be at play given the winter's uneven weather and the Easter shift into April, two factors that may have specifically held down March's totals. The Street consensus is calling for a significant rebound in April retail sales, at **a 0.6% gain** with the ex-auto reading very positive at 0.5%.