INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

U.S. equity markets were supported by comments from Gary Cohn, the head of the White House's National Economic Council who said that President Trump will begin his push for tax reform, outlining his agenda in a speech next week.

a) **Dow Jones +0.71% MTD -0.05% YTD +12.22%** b) **S&P 500 +0.75% MTD -0.90% YTD +10.58%**
c) **Russell 2000 +1.46% MTD -3.26% YTD +2.32%**

Drivers: I) **In speeches** at the Kansas City Federal Reserve Bank's symposium in Jackson Hole, Wyoming, **neither** Fed Chairwoman **Janet Yellen** nor ECB President **Mario Draghi offered clues about future monetary policy** moves. Instead, Yellen focused on banking regulations and economic improvements in the U.S., while Draghi raised concerns about protectionism.

II) **Sales** of **newly-constructed homes fell** to a seasonally adjusted annual rate of 571,000, the Commerce Department reported. That was **9.4% lower** than an upwardly-adjusted June rate of 630,000, and 8.9% below the year-ago level. The median sales price in July was $313,700, 6.3% higher than a year ago. A low supply of both new and previously-owned homes amid strong demand is pushing prices higher and higher.

III) The Commerce Department reported that orders for **durable goods fell 6.8% in July,** led by a **sharp drop in volatile aircraft**. It was the biggest decline since August 2014. This followed a 6.4% gain in June. Economists had forecast overall durable-goods orders to drop 6.9% in July. The up and down pattern in orders was due to the volatile civilian aircraft sector. Boeing reported 22 new plane orders in July versus 184 in the June report.

IV) The service and manufacturing sectors went in different directions in August, according to data released last Wednesday. The IHS Markit flash **manufacturing purchasing managers index fell to a two-month low** of 52.5 from 53.3 in July, while the **services PMI rose to a 28-month high** of 56.9, up from 54.7 in July. Any reading above 50 indicates improving conditions.

V) **Equity prices in August are lower with Large-Cap, Growth, Technology and Utilities leading equity price performance. The laggards for the month are Small-Cap, Value, Energy and Consumer Discretionary.**

Capitalization: Large Caps -0.94% (YTD +10.39%), Mid-Caps -1.83% (YTD +7.57%) and **Small Caps -3.26%** (YTD +2.32%). Style: **Value -3.37%** (YTD -0.08%) and **Growth -3.05%** (YTD +5.04%). Industry Groups (Leaders): Info. Tech +0.81% (YTD +22.60%), **Tech +0.89%** (YTD +20.35%), Healthcare -1.21% (YTD +15.38%), **Utilities +3.52%** (YTD +15.22%), Materials -0.39% (YTD +10.38%), **Consumer Discretionary -2.99%** (YTD +9.57%), Industrials -1.21% (YTD +9.47%), REITs +0.63% (YTD +8.24%), Financials -1.17% (YTD +7.39%) and Consumer Staples -1.22% (YTD +7.03%). (Laggards): Telecom +0.01% (YTD -4.65%) and **Energy -5.39%** (YTD -15.23%).

EUROPEAN EQUITIES

The MSCI Europe index was up +1.05% last week, with markets vacillating between small gains and losses all week as traders waited for the Kansas City Fed symposium to begin on Thursday. The markets were looking for hints from ECB President Draghi on when interest rates would rise in Europe.

Drivers: I) In **Germany**, the **August Ifo survey business climate index was down** from 116.00 to 115.9. The small decrease ends an uninterrupted string of monthly increases in the index since January. Companies were slightly less satisfied with their current business situation, though it remained highly satisfying, while optimism grew.

II) The **Euro-zone August flash composite PMI edged up** to 55.8 from July's final of 55.7. In manufacturing, both production and new orders rose at a faster rate in August than in July, boosted by the **fastest rise in exports in six and a half years.** Strong inflows of new work increased the backlog of orders at the strongest pace in 11 years.

III) **Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was higher by +1.05% for the week (MTD -0.03% YTD +18.77%).**

ASIAN EQUITIES

Asian markets were mostly up last week, led by China as investors welcomed robust earnings from blue-chip firms, as well as signs that state-owned enterprise restructuring is picking up pace. The Dow Jones Asia Index rose by +1.03% for the week, (MTD -0.75% YTD +19.09%).

Drivers: I) In **Japan, July consumer prices were up 0.4%** on the year, unchanged from the increase recorded in both May and June. The seasonally adjusted CPI was flat on the month in July, also matching the May and June result. The annual change in food prices eased from 0.8% in June to 0.6%, while prices for clothes and footwear were flat on the year after increasing by 0.2% in June.

II) **Singapore's manufacturing output accelerated** in July to grow at its fastest pace thus far this year, mainly due to a low base of comparison. Industrial output grew 21% compared with the same period last year, accelerating from a 12.7% gain in June, according to data from the Singapore Economic Development Board released Friday. A 3.3% on year contraction in July last year set a low base of comparison for the data this year.

III) **Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was down by -0.09% (MTD -2.37% YTD +2.76%), the Hang Seng Index rose by +2.94% (MTD +1.72% YTD +25.45%) and the Shanghai Composite advanced by +1.92% (MTD +1.79% YTD +7.34%).**

FIXED INCOME

Treasury yields were lower in the wake of Federal Reserve Chairwoman Janet Yellen's remarks after she made no mention of the Federal Reserve's current policy path. Earlier in the week, traders said they were setting up shorts, that is, betting on yields to head higher, on Yellen's comments.

Performance: I) **The 10-year Treasury yield was lower last week ending at 2.169% down from 2.196%. The 30-year yield dropped last week falling from 2.789% to 2.747%.**

II) **Performance for the week, month-to-date and year-to-date. The Bloomberg Barclays US Aggregate Bond Index rose +0.16% last week, MTD +0.65% and YTD +3.38%. The Bloomberg Barclays US MBS TR was up +0.14% last week, MTD +0.53% and YTD +2.34%. The Bloomberg Barclay's US Corporate HY Index rose +0.32%, MTD -0.37% and YTD +5.70%.**

COMMODITIES

The DJ Commodity Index was up +0.17% last week and is lower month to date -1.17% (YTD -3.20%) prompted by a drop in the US dollar and the rise in industrial metals copper and zinc, which rallied on expectations of increased industrial demand.

Performance: I) **Oil prices declined** last week falling **-1.84%** down to $47.83 and is lower month to date -4.66% (YTD -11.24%). Oil fell last week, but settled higher on Friday, paring a loss for the week as Hurricane Harvey threatened to disrupt refinery activity, as well as energy production and demand.

II) The **ICE USD Index**, a gauge of the U.S dollar's movement against six other major currencies, **fell -0.95%** from 93.42 to 92.53 for the week (MTD -0.35% YTD -9.62%). The U.S. dollar ended lower last week, after Federal Reserve Chairwoman Janet Yellen failed to comment specifically on monetary policy at a highly anticipated meeting of central bankers in Jackson Hole, Wyoming.

III) **Gold** closed on Friday at its **highest level since early June**, buoyed by drop in the dollar to a three-week low. Gold was higher by +0.48 last week, rising from $1290.3 to $1296.5 (MTD +1.81% YTD +12.54%).

HEDGE FUNDS

Hedge fund returns in August are lower, as all the core strategies Equity Hedge, Event Driven, Distressed, Macro and Relative Value are in negative territory.

Performance:

I) The HFRX Global Hedge Fund Index is lower at -0.30% MTD and +3.20% YTD.
II) Equity Hedge has fallen -0.33% MTD and is up +4.29% YTD.
III) Event Driven has declined MTD -0.49% and is higher YTD +5.14%.
IV) Distressed Debt is lower at -0.90% MTD and is positive YTD +2.15%
V) Macro/CTA has dropped by -0.07% MTD and is up +0.11% YTD.
VI) Relative Value Arbitrage has fallen -0.23% and is higher by +2.40% YTD.

ECONOMIC DATA WATCH AND MARKET OUTLOOK

Heading into the **new trading week**, with many market participants on vacation, expect **seasonal light volumes** to **prompt market volatility** during a heavy economic data week post the Jackson Hole conference. At Jackson Hole on Friday, European Central Bank President Mario Draghi warned that trade protectionism posed a serious risk to the global economy, while Fed Chairwoman Janet Yellen defended financial regulations put into effect during the Obama administration, which have been criticized by President Trump and congressional Republicans.

Total composite **trading volume on Friday** finished at the **second lightest session of the year** at 4.81 billion shares traded, well under the August average of 5.88 billion shares, according to Dow Jones data. Similarly, trading on the New York Stock Exchange finished at 2.57 billion shares, it's second lightest session of the year, well below the August average of 3.09 billion. Trading on the Nasdaq was at its third lightest volume of the year at 1.42 billion shares, below the August average of 1.79 billion.

In turning to **next week's economic calendar**, whether the **Federal Reserve begins to unwind its balance sheet** at the September FOMC may very well **depend on the August employment report** on Friday. Nonfarm payroll growth has been on a 2-month surge, rising 209,000 in July following a 231,000 gain in June. Forecasters are looking for cooling in August where **Street consensus is 180,000**. The unemployment rate is seen steady at 4.3% while average hourly earnings are not expected to hit July's 0.3% showing, calling instead for a 0.2% gain.

There will also be important **inflation data** in the week. **PCE price indexes as part of Thursday's personal income report** will offer a final look at July's inflation pressures. **Weakness in inflation**, in contrast to strength in employment, **could lower the chances for September unwinding**. The PCE price index is seen inching up 0.1% versus no change in June with the **year-on-year rate unchanged at 1.4%.** Core PCE (less food and energy) came in at 0.1% in June and a yearly 1.5% with forecasters looking in July for another monthly 0.1% gain for a year-on-year rate, however, of only 1.4%.

Consumer confidence will be released on Tuesday and consumer sentiment on Friday, consumer psychology will also be a focus as attention turns to the effects, if any, from violence in Virginia and tension with North Korea. The **consumer confidence index** has been easily beating the consensus in recent months, coming in at an **unusually strong 121.1 in July** with forecasters once again **calling for a fall back, to 120.0** in August. The current job assessments, including the closely watched jobs-hard-to-get, have been very strong and consistent with high levels of employment. Inflation readings, in contrast, have been very soft.

The **consumer sentiment index jumped sharply** in the preliminary **August** report, up 4.3 points **to 97.6** for the best showing since January. But the report warned that the month's preliminary sampling did not include the full impact of the violence in Virginia. The consensus for the final August reading is for **some pull back** from the flash, to **97.2.**