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INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

U.S. equity markets were lower last week as investors traded cautiously ahead of a potential missile test by North Korea and Hurricane Irma's arrival on the Florida coast over the weekend. Markets avoided a potential head wind as the Congress passed legislation to increase the debt limit though December 8th.

a) **Dow Jones -0.82%, MTD -0.64%, YTD +12.29%** b) **S&P 500 -0.58%, MTD -0.38%, YTD +11.51%**
c) **Russell 2000 -0.98%, MTD -0.39%, YTD +4.01%**

Drivers: I) The **House of Representatives passed legislation Friday extending the U.S. debt limit** and government funding **through Dec. 8.** The bill, already approved by the Senate, now goes to President Donald Trump for signature. It also contains $15.25 billion in disaster aid to assist with recovery efforts after Hurricane Harvey, and anticipated damage from Hurricane Irma, which is now closing in on Florida.

II) **North Korea** is preparing for the **possible launch of another intercontinental ballistic missile**, South Korea's Defense Ministry said Monday, just one day after Pyongyang detonated a nuclear device far more powerful than any that it has previously tested. Experts have been **preparing** for a weapons test around **Sept. 9**, when **North Korea** marks the **anniversary of its founding in 1948.**

III) **Factory orders for July dropped** after being propelled in the previous month by a surge **of orders for Boeing aircraft**. **Orders fell 3.3%** in July, after an upwardly revised 3.2% gain in June, the Commerce Department reported. This is the biggest monthly drop in nearly three years, and was close to the economist forecast for a 3.4% decline. Orders for non-defense capital goods excluding aircraft jumped 1%.

IV) The large majority of **U.S. companies** such as retail, medical care and food service **expanded in August,** keeping the economy on a course path for second half growth. The Institute for Supply Management said its non-manufacturing index rose to 55.3% last month from 53.9% in July, which was the lowest reading in the past year.

V) **Equity prices in September are lower with Mid-Cap, Growth, Energy and Healthcare leading equity price performance. The laggards for the month are Large-Cap, Value, Telecom and Technology.**

Capitalization: **Large Caps -0.42%** (YTD +11.32%), **Mid-Caps -0.23%** (YTD +8.47%) and Small Caps -0.39% (YTD +4.01). **Style: Value -0.52%** (YTD +0.52%) and **Growth -0.48%** (YTD +6.26%). **Industry Groups (Leaders):** Info. Tech -1.15% (YTD +23.98%), **Tech -1.36%** (YTD +21.08%), **Healthcare +1.47%** (YTD +20.65%), Utilities +0.70% (YTD +15.72%), Materials -0.17% (YTD +11.57%), Industrials -0.31% (YTD +10.75%), Consumer Discretionary -0.57% (YTD +10.24%), REITs +0.74% (YTD +9.57%), Consumer Staples +0.61% (YTD +7.86%) and Financials -2.40% (YTD +4.35%). **(Laggards): Telecom -4.60%** (YTD -9.27%) and **Energy +2.16%** (YTD -13.40%).

EUROPEAN EQUITIES

The MSCI Europe index was up +1.03% last week, but local indexes were mixed due to geopolitical uncertainties, natural disasters in the US and Asia, and anxiety tied to Thursday's European Central Bank's announcement.

Drivers: I) At its latest governing council meeting (September 7), the **ECB concluded that no change** would be made in **key interest rates.** There was also no change to forward guidance which continues to anticipate interest rates remaining at their present levels for an extended period, and well past the horizon of the net asset purchases. The ECB also signaled that they would not be reducing its quantitative easing program.

II) The **Euro-zone's real GDP growth** has been **revised up** a bit this year **(2.2% from 1.9%)** but is unchanged in both 2018 (1.8%) and 2019 (1.7%). Risks are still seen to be broadly balanced. However, the inflation projection has been shaded lower in 2018 (1.2% from 1.3%) and 2019 (1.5% from 1.6%). Sub-par wages continue to be a concern but the strong exchange rate also had a significant impact.

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III) **Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was higher by +1.03% for the week (MTD +1.56% YTD +20.72%).**

ASIAN EQUITIES

Asian markets declined last week, as geopolitical concerns surrounding North Korea's test of a hydrogen bomb ranks prompted a risk off mood. Numerous economic indicators from Japan and Australia painted a mixed picture. The Dow Jones Asia Index fell by -0.09% for the week, (MTD -0.01% YTD +19.69%).

Drivers: I) In **Japan**, **second quarter gross domestic product estimates were revised lower** to an annualized rate to 2.5% from the original estimate of 4.0%. On the year, GDP was up 1.6%. The downward revision to the headline growth estimate reflects revised estimates for household consumption, which is now estimated to have grown 0.8% on the quarter (previous estimate was 0.9%).

II) In **China, exports slowed** from an increase of 7.2% in July to 5.5% in August when compared with a year ago. The decline in exports reflected weaker external demand from major trading partners. Exports to Japan, in particular, slowed from an increase of 6.6% on the year in July to 1.1% in August, the weakest growth since February. Exports to the European Union also slowed from 9.5% to 5.2%.

III) **Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was lower by -2.12% (MTD -1.89% YTD +1.88%), the Hang Seng Index dropped by -0.80% (MTD -0.87% YTD +24.89%) and the Shanghai Composite fell by -0.06% (MTD +0.13% YTD +8.43%).**

FIXED INCOME

Treasury yields declined last week as markets are speculating the effects of Hurricane Harvey and Irma could stunt economic growth, and worries over North Korea caused a flight to less risky assets.

Performance: I) **The 10-year Treasury yield was lower last week ending at 2.054% down from 2.168%. The 30-year yield declined last week falling from 2.779% to 2.672%.**

II) **Performance for the week, month-to-date and year-to-date. The Bloomberg Barclays US Aggregate Bond Index rose +0.46% last week, MTD +0.27% and YTD +3.92%. The Bloomberg Barclays US MBS TR was up +0.29% last week, MTD +0.18% and YTD +2.74%. The Bloomberg Barclay's US Corporate HY Index rose +0.11%, MTD +0.17% and YTD +6.23%.**

COMMODITIES

The DJ Commodity Index was down -0.28% last week but is higher month to date +0.04% (YTD -1.37%) as industrial metals such as copper experienced profit taking after its recent sharp price rise.

Performance: I) **Oil prices rose last week** climbing +0.44% up to $47.56 and is higher month to date for September +0.70% (YTD -11.75%). Oil was higher for the week, despite dropping by more than 3% Friday as domestic refineries saw a slow recovery from flooding due to Hurricane Harvey, which made landfall on the Texas coast two weeks ago.

II) The **ICE USD Index**, a gauge of the U.S dollar's movement against six other major currencies, **fell -1.65%** from 92.85 to 91.32 for the week (MTD -1.46% YTD -10.80%). The U.S. dollar fell last week as natural disasters, geopolitical tensions and a continued pullback in Treasury yields cast a pall over the U.S. currency, with exchange rates against the Japanese yen, the euro and the pound jumping to short term highs.

III) **Gold saw its third weekly gain in a row,** settling at their highest level in a year with the dollar and U.S. Treasury yields trading lower for the week. Gold was higher by +1.59 last week, rising from $1329.9 to $1351.0 (MTD +2.18% YTD +17.27%).

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HEDGE FUNDS

Hedge fund returns in September are primarily higher, as the core strategies Equity Hedge, Event Driven, Distressed and Macro are in positive territory. Relative Value is down for the month.

Performance:

I) The HFRX Global Hedge Fund Index is higher at +0.17% MTD and +3.99% YTD.
II) Equity Hedge has risen +0.17% MTD and is up +5.34% YTD.
III) Event Driven has advanced MTD +0.01% and is higher YTD +5.76%.
IV) Distressed Debt is higher at +0.23% MTD and is positive YTD +2.48%
V) Macro/CTA has climbed by +0.68% MTD and is up +1.64% YTD.
VI) Relative Value Arbitrage has fallen -0.06% and is higher by +2.53% YTD.

ECONOMIC DATA WATCH AND MARKET OUTLOOK

As we look forward to the new trading week, investors will be fixated on the potential human and economic impact Hurricane Irma will have on the state of Florida. Anticipated to make landfall this weekend, we may know the force and impact the storm will have on the area by Monday. With families, homes and infrastructure already reeling from the effects of Hurricane Harvey, we hope everyone remains safe and Irma spares Florida from being devastated.

The short and long terms effects of Hurricanes Harvey and Irma, are beginning to emerge. We have seen a rise in gasoline prices by 5% to 10%, property and casualty insurers have seen a dramatic drop in their stock prices, while shares of car rental companies have rallied by about 50% as Texans will look to replace an estimated 500,000 vehicles lost in the storm. Over the next quarter, GDP growth may see a 0.3% drop due to economic losses seen in Texas and Florida, before seeing a revival in growth due to the rebuilding of these local economies. And for those of you who are movie fans, crops such as frozen orange juice (the main sub-plot to the Eddie Murphy movie "Trading Places") are predicted to rise due to storm damage to orange crops. In addition, other commodities produced in Florida such as cotton and timber may see a price surge as well.

In turning to **next week's economic calendar**, the week's inflation data start off on Wednesday with producer prices and the first indications of August's pre-Harvey energy effects followed on Thursday by consumer prices where strength, at least for the headline, is the forecast. Inflation readings have been very soft and **producer prices have been among the softest**, posting a **0.1% decline in July**. Energy firmed in August even before Hurricane Harvey hit at month end and forecasters see a **rebound** to a headline **0.3% gain.**

Initial jobless claims for the September 9 week will also be posted on Thursday and here **Harvey's full effect**, whether more severe or less severe, will be very clear following the prior week's initial rise. Forecasters missed badly in the September 2 week, as the forecast was for little effect from Hurricane Harvey which in fact proved severe. Initial claims in the week surged 62,000 to 298,000 and not much more is expected in the September 9 week with the consensus at 300,000. **Hurricane Harvey and Hurricane Irma will be great influences on initial claims data during the next several weeks.**

On Friday, we begin with **retail sales** where moderation is expected to be followed by industrial production where flat readings are the consensus. Unit auto sales, held down in part by Hurricane Harvey, proved very weak in August and are holding down the consensus for retail sales which **are expected to increase only 0.1%** in what would be a small portion of **July's very strong 0.6% gain.** When excluding autos, the consensus moves up sharply to a 0.5% increase to match July's gain.

Consumer sentiment finishes up on Friday and will help **measure the psychological effects of both Harvey as well as Hurricane Irma.** Despite Hurricane Harvey and the approach of Hurricane Irma, forecasters are not calling for much of a declined in the consumer sentiment index for preliminary September. The **consensus is at 96.0 vs 96.8** in final August (preliminary August was 97.6).

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