INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

U.S. equity markets saw the DJIA and S&P 500 close at record highs, as the markets shrugged off the latest North Korean missile launch and weaker than expected U.S. data for retail sales and industrial production which should have been no surprise given the negative impact of hurricane Harvey.

a) **Dow Jones +2.19%, MTD +1.54%, YTD +14.75%** b) **S&P 500 +1.63%, MTD +1.25%, YTD +13.33%**
c) **Russell 2000 +2.35%, MTD +1.95%, YTD +6.46%**

Drivers: I) **Hurricane Harvey hit** the **consumption** side of the economy as **retail sales fell 0.2%** in August due to a steep 1.6% drop in vehicle sales, one tied at least in part to Houston flooding. Excluding autos, retail sales managed a limited 0.2% gain, but when excluding both autos and gas, where sales jumped on higher gas pump prices, retail sales fell 0.1%.

II) **Industrial production plunged 0.9% in August** which showed wide **effects of Hurricane Harvey** despite its late month landing on August 25. All three components dipped: utilities down 5.5% on Harvey outages; mining down 0.8% on lower energy output; and manufacturing down 0.3% on declines in machinery and nondurables despite a rare rise for vehicles that followed three straight declines.

III) The **gain for vehicle production last month** is hopefully the **start of a trend.** Vehicle sales took a hit after Harvey, **but replacement demand in the wake of the hurricanes**, along with pent-up demand following this year's weakness in sales, could begin to rev production back up. Vehicle production fell 7.1% from April to July before jumping 2.2% higher in August.

IV) **Jobless claims actually fell back 14,000** in the September 9 week following the prior week's 62,000 post-Harvey spike. Texas was responsible for the prior week as claims rose 50,000 above normal to nearly 64,000. Yet in the subsequent September 9 week, Texas claims came in at 52,000 which perhaps indicates that the worst has passed, at least for Harvey. Irma's impact on Puerto Rico, Georgia and Florida are pending.

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

Capitalization: **Large Caps +1.23%** (YTD +13.16%), Mid-Caps +1.35% (YTD +10.20%) and **Small Caps +1.95%** (YTD +6.46). **Style: Value -0.52%** (YTD +0.52%) and **Growth -0.48%** (YTD +6.26%). **Industry Groups (Leaders):** Info. Tech +0.33% (YTD +25.84%), **Tech +0.22%** (YTD +23.02%), Healthcare +1.95% (YTD +21.22%), Utilities +0.36% (YTD +15.32%), **Materials +2.26%** (YTD +14.29%), Industrials +1.84% (YTD +13.13%), Consumer Discretionary +0.36% (YTD +11.27%), REITs +0.98% (YTD +9.84%), Consumer Staples +1.57% (YTD +8.89%) and Financials +0.86% (YTD +7.83%). **(Laggards): Telecom -2.53%** (YTD -7.31%) and **Energy +5.84%** (YTD -10.27%).

EUROPEAN EQUITIES

The MSCI Europe index was higher by +0.88% last week, as markets enjoyed a relief rally after geopolitical concerns eased and reports that the damage caused by Hurricane Irma was less than anticipated.

Drivers: I) **The Bank of England**'s monetary policy committee made **no changes to its Bank Rate** which remained at 0.25% or to its quantitative easing purchases of gilts and corporate bonds which stayed at £435 billion and £10 billion respectively. However, committee **minutes suggested** that **a tightening** may not be too far off with most members leaning towards a rate increase in coming months if the economy evolves as expected.

II) **August consumer prices in the UK increased** a monthly 0.6% and were up **2.9% on the year** matching their highest level since April 2012. The main upward pressure on the change in the annual rate came from clothing and footwear where prices rose a partly seasonal 2.4% on the month compared with just 1.0% in the same period in 2016. The **core CPI also increased** 0.6% from July which saw its yearly rate climb from 2.4% to 2.7%.

III) **Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was higher by +0.88% for the week (MTD +2.45% YTD +21.78%).**

ASIAN EQUITIES

Asian markets were mixed after beginning the week with a strong rally, as equities faded along with the feelings of relief that Hurricane Irma was not as catastrophic as feared. Markets declined on Friday's after **North Korea's latest missile launch** over Japan earlier in the day engendered new worries. The **Dow Jones Asia Index fell by -0.51% for the week, (MTD -0.53% YTD +19.07%).**

Drivers: I) **In Japan**, **July private sector machinery orders** (excluding volatile items) **increased 8.0%** on the month (seasonally adjusted) after falling 1.9% in June. The monthly increase reflects stronger orders in manufacturing and non-manufacturing sectors. Manufacturing orders rose 2.9% after a fall of 5.4% in June, while non-manufacturing orders (excluding volatile items) increased by 4.8%, up from 0.8% in June.

II) **In China**, **August industrial production slowed** to an increase of 6.0% when compared with the same month a year ago after increasing 6.4% in July. The decline in industrial production growth was driven by non-manufacturing output. Utilities output were up an annual 8.7% after climbing 9.8% in June, while mining output fell by 3.4% on the year after a drop of 1.3% in July.

III) **Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was up by +3.30% (MTD +1.34% YTD +5.24%), the Hang Seng Index rose by +0.44% (MTD -0.43% YTD +25.44%) and the Shanghai Composite fell by -0.35% (MTD -0.21% YTD +8.05%).**

FIXED INCOME

Treasury yields jumped higher last week after it was reported that core CPI had risen last month, and on expectations that the FOMC would initiate a more aggressive withdrawal to its monetary stimulus.

Performance: I) **The 10-year Treasury yield was higher last week ending at 2.203% up from 2.054%. The 30-year yield jumped higher last week rising from 2.672% to 2.771%.**

II) **Performance for the week, month-to-date and year-to-date. The Bloomberg Barclays US Aggregate Bond Index fell -0.50% last week, MTD -0.23% and YTD +3.40%. The Bloomberg Barclays US MBS TR was down -0.28% last week, MTD -0.10% and YTD +2.45%. The Bloomberg Barclay's US Corporate HY Index rose +0.22%, MTD +0.39% and YTD +6.47%.**

COMMODITIES

The DJ Commodity Index was up +0.90 last week but is higher month to date +0.94% (YTD -0.50%) as industrial metals such as copper experienced profit taking after its recent sharp price rise.

Performance: I) **Oil prices experienced a steep rise** climbing +4.77% up to $49.83 and is higher month to date for September +5.50% (YTD -7.53%). Oil marked its biggest weekly gain since late July on expectations of stronger global demand and a decline in world-wide supplies of crude last month.

II) The **ICE USD Index**, a gauge of the U.S dollar's movement against six other major currencies, **rose +0.57%** from 91.32 to 91.84 for the week (MTD -0.89% YTD -10.29%). The U.S. dollar scored its best weekly gain since June on revived expectations for another rate increase by the Federal Reserve this year.

III) **Gold ended down last week** as record highs for key U.S. stock market indexes lured investors away from the precious metal, contributing to a weekly loss of over 2.0%. Gold was lower by -2.03 last week, dropping from $1351.0 to $1323.5 (MTD +0.10% YTD +14.89%).

HEDGE FUNDS

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

Performance:

I) The HFRX Global Hedge Fund Index is higher at +0.25% MTD and +4.08% YTD.
II) Equity Hedge has risen +0.96% MTD and is up +6.16% YTD.
III) Event Driven has advanced MTD +0.06% and is higher YTD +5.81%.
IV) Distressed Debt is higher at +0.29% MTD and is positive YTD +2.55%
V) Macro/CTA has declined by -0.28% MTD and is up +0.67% YTD.
VI) Relative Value Arbitrage has risen +0.06% and is higher by +2.65% YTD.

ECONOMIC DATA WATCH AND MARKET OUTLOOK

As we look forward to the **new trading week**, investors will continue to **wonder whether the end is near for the bull market** run we have enjoyed since March 9, 2009. According to Standard & Poor's data, **this is the second oldest bull run (8 ½ years)** without a 20% correction in history. But when you compare trailing 10 year returns versus previous bull markets, the return of the current bull move has been less than excessive. Historically **at market peaks the trailing 10-year average annual return has peaked above 15%.** The **current bull market's trailing 10-year average return is 7.6%.**

In looking at **common conditions that trigger a bear market**, a review of Robert Shiller's S&P 500 monthly return data provides some interesting clues. **Since 1929 there have been 19 bear markets** experiencing losses of 20% and above. The **common themes** for the majority are as follows: **inflation rate above an average annual 3.0% rate, a quick rise in interest rates, credit spread widening and a decline in bank lending.**

Today we are in an environment of 1.0% Fed short-term rates, 2.0% 10-year Treasury yields, a 2.0% S&P 500 dividend yield, 3.0% corporate bond yields, 4.5% "free cash flow" yield on stocks and 5.5% junk-bond yields. These levels are not excessive, and as we are still in a "goldilocks" scenario the bull run may moderate, but it still seems to have some tailwind behind it.

In turning to **next week's economic calendar**, the news cycle will be dominated by **Wednesday's FOMC announcement**, quarterly forecasts and Yellen press conference. **No rate hike is expected** (fed funds target to remain at 1.00% to 1.25% range) at this month's Federal Open Market Committee meeting but **the beginning of balance-sheet unwinding is a distinct possibility**. Debate at the meeting will also center on **the path of inflation**, which **has been soft** and possible **economic risks due to Hurricanes Harvey and Irma.**

Housing will be the week's data theme with the **housing market index on Monday** expected to show September hurricane effects though **starts and permits on Tuesday** are not expected to show significant August effects. Cooling in multi-family starts and permits has been behind the weakness seen three out of the last four months. Forecasters are calling for an **August rise in housing starts** to a 1.173 million annualized rate versus July's 1.155 million**. Housing permits** are seen **dropping slightly** to a 1.220 million rate vs 1.223 million.

Existing home sales for August starts off Wednesday and **effects from Harvey** are possible while home prices, where strength has supported consumer confidence, will get attention on Thursday with the FHFA housing price index where strength is expected. Existing home sales have been disappointing, falling 1.3% in July to a 5.440 million annualized rate that is still near expansion highs. Condo and single-family home sales weakened in July. Forecasters see some **gains for August with the consensus at 5.480 million** despite Hurricane Harvey.

Also, out on **Thursday will be initial jobless claims** and **Hurricane Irma's hit on Florida is expected to inflate the number**. Hurricane volatility makes the initial jobless claims call difficult, but the consensus for the September 16 is 303,000 versus 284,000 and 298,000 in the prior two weeks. Claims in Texas dropped back in the September 9 week but remain elevated while those in Florida had to be estimated. Hurricane Harvey and Hurricane Irma will be skewing claims data for at least the next several weeks