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INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

U.S. equity markets shook off the continued military threats from North Korea and digested the QE tapering guidance from the Fed to end higher last week, led by the Russell 2000 Index which marked its first record close since July 25th.

a) **Dow Jones +0.36%, MTD +1.91%, YTD +15.17%** b) **S&P 500 +0.09%, MTD +1.34%, YTD +13.43%**
c) **Russell 2000 +1.35%, MTD +3.32%, YTD +7.89%**

Drivers: I) In a long-anticipated move, **the Fed also announced it will slowly shrink its huge $4.5 trillion balance sheet starting in October**. "The basic message here is U.S. economic performance has been good," Chairwoman Janet Yellen said after Fed officials concluded a two-day meeting. The Fed still plans to raise interest rates once more before year end, but the central bank signaled its cycle of rate hikes might end sooner than planned.

II) Though **the Fed** has not dramatically reassessed its current strategy, **the central bank did scale back its estimates of how high interest rates will rise**. The Fed remains on track to raise its benchmark fed funds rate three times in 2018, but it only forecast two further rate increases in 2019 instead of three. The bank also lowered its long-run target to 2.8%, the first time it has fallen below 3%.

III) **Existing home sales slowed to a 5.350 million annualized rate** in August for the 3rd straight decline and 4th drop in 5 months. The trend is strictly flat, up only 0.2% over the last year. Harvey did hurt sales as the South saw a sharp 5.7% August drop, but the weakness is fundamental: the result of high prices, which are running at a 6% annual pace, and low supply both of which limit buyer choices.

IV) **Applications for U.S. unemployment benefits fell sharply in mid-September**, reflecting fewer new claims than expected in Florida and Texas following a pair of destructive hurricanes. Initial weekly claims in the period running from Sept. 11 to Sept. 16 fell by 23,000 to 259,000, the government reported last Thursday. Earlier in the month claims hit a two-year high after hurricane Harvey.

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

Capitalization: **Large Caps +1.39%** (YTD +13.34%), Mid-Caps +1.66% (YTD +10.53%) and **Small Caps +3.32%** (YTD +7.89). **Style: Value +3.19%** (YTD +4.26%) and **Growth +2.55%** (YTD +9.50%). **Industry Groups (Leaders):** Info. Tech -0.21% (YTD +25.17%), Tech -0.09% (YTD +22.64%), Healthcare +0.75% (YTD +19.80%), Materials +3.29% (YTD +15.44%), **Industrials +3.81%** (YTD +15.33%), **Utilities -2.34%** (YTD +12.22%), Con. Discretionary +0.23% (YTD +11.13%), Financials +3.52% (YTD +10.68%), **REITs -1.83%** (YTD +6.78%) and Consumer Staples -0.81% (YTD +6.34%). **(Laggards):** Telecom -0.24% (YTD -5.12%) and **Energy +8.08%** (YTD -8.38%).

EUROPEAN EQUITIES

The MSCI Europe index was higher by +0.75% last week, as markets reacted favorably to solid flash PMI data from both Germany and the Eurozone.

Drivers: I) September **Eurozone business activity** accelerated to the **strongest pace since May**, putting upward pressure on prices, according the flash composite PMI. The September flash climbed to a four-month high of 56.7 from 55.7 in the previous month. The accelerating eurozone recovery has put more upward pressure on inflation as services prices rose at their quickest level since May and factory prices up to the highest level since June 2011.

II) **Germany's ZEW's September survey** found analysts more **upbeat about the German economy** with stronger than expected rises in optimism about both the current situation and the outlook. The current conditions gauge gained 1.2 points to 86.7. This was its sixth increase in the last seven months and made for the best result since June. At the same time, expectations climbed 6.1 points to 17.0, the best advance since January 2015.

III) **Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was higher by +0.75% for the week (MTD +3.22% YTD +22.70%).**

ASIAN EQUITIES

Asian markets ended the week lower on Friday and **were mixed on the week.** Friday's declines were attributed to the **rising geopolitical tensions** between the United States and North Korea as well as a **downgrade to China's credit rating** that sent investors running towards safe-haven assets. The Dow Jones Asia Index fell by -0.80% for the week, (MTD -1.32%, YTD +18.12%).

Drivers: I) On Thursday, **S&P Global Ratings downgraded China's credit rating**, citing **higher economic and financial risks** after a prolonged period of **strong credit growth**. The ratings agency also lowered its sovereign rating on Hong Kong, citing spillover risks. The decision brings S&P's rating in line with those of its two big rivals, Moody's and Fitch. China criticized the decision, saying that "Moody's has overestimated the difficulties faced by China's economy and underestimated the government's ability to deepen reforms."

II) **President Donald Trump** said last Thursday he's issued an **executive order to cut off revenue North Korea** uses to fund development of "the deadliest weapons known to humankind." Speaking at the United Nations, Trump said the order strengthens the U.S. Treasury's ability to target individuals or entities that conduct trade in goods, services or technology with North Korea. He also said China's central bank has told that country's banks not to do business with North Korea.

III) **Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was up by +1.94% (MTD +3.31% YTD +7.28%), the Hang Seng Index rose by +0.34% (MTD -0.10% YTD +25.86%) and the Shanghai Composite fell by -0.03% (MTD -0.25% YTD +8.02%).**

FIXED INCOME

Treasury yields rose for the week after the Federal Reserve pressed forward with its December rate hike despite investors' concerns that softening inflation may prove more than temporary.

Performance: I) **The 10-year Treasury yield was higher last week ending at 2.254% up from 2.203%. The 30-year yield jumped higher last week rising from 2.771% to 2.781%.**

II) **Performance for the week, month-to-date and year-to-date. The Bloomberg Barclays US Aggregate Bond Index fell -0.15% last week, MTD -0.38% and YTD +3.24%. The Bloomberg Barclays US MBS TR was down -0.12% last week, MTD -0.22% and YTD +2.32%. The Bloomberg Barclay's US Corporate HY Index rose +0.21%, MTD +0.60% and YTD +6.69%.**

COMMODITIES

The DJ Commodity Index was down -0.11 last week but is higher month to date +0.83% (YTD -0.59%) as industrial metals such as copper experienced profit taking after its recent sharp price rise.

Performance: I) **Oil prices experienced a steep rise** climbing +1.66% up to $50.66 and is higher month to date for September +7.26% (YTD -5.99%). Oil extended a streak of weekly gains, as major oil producers at an **OPEC**-led committee meeting **boasted record compliance with their production-cut agreement**, but as expected, reached no decision to extend the agreement.

II) The **ICE USD Index**, a gauge of the U.S dollar's movement against six other major currencies, **rose +0.32%** from 91.84 to 92.14 for the week (MTD -0.57%, YTD -10.00%). The U.S. dollar though up for the week, rallying on news of the Fed's initiation of QE tapering, dropped at week's end due to the discord regarding North Korea.

III) **Gold ended down last week** after the **Federal Reserve** on Wednesday reiterated that it **expects to deliver another rise in interest rates** by the end of the year. Gold was lower by -1.73 last week, dropping from $1323.5 to $1300.5 (MTD -1.64% YTD +12.89%).

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 +0.48% MTD and +4.31% YTD.
II) Equity Hedge has risen +1.53% MTD and is up +6.67% YTD.
III) Event Driven has advanced MTD +0.45% and is higher YTD +6.22%.
IV) Distressed Debt is higher at +0.48% MTD and is positive YTD +2.74%
V) Macro/CTA has declined by -0.47% MTD and is up +0.47% 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 enter a new reality** as the **Federal Reserve** prepares to **drain** the nearly decade long **quantitative-easing program** and President Trump ramps up pressure on North Korea. Some Street analysts are calling this a new era where investors will have to deal with unknown risks and uncertain rewards. Last Wednesday, Chairwoman Janet Yellen announced the Fed will begin to unwind its enormous balance sheet starting in October. Now investors must traverse a stock market where easy money is no longer the norm and geopolitical uncertainties are front and center.

Against the backdrop of tighter monetary policy and growing tensions with North Korea, investors will also look to Congress for possible tax reforms, which are essential to President Trump's pro-business agenda. Senate Republicans are considering drafting a budget that would allow up to $1.5 trillion in tax cuts over the next decade, according to The Wall Street Journal this week. Budget talks are still in progress.

In turning to next week's economic calendar, one of the busiest data weeks of the year gets started on **Monday** with the **Dallas Fed manufacturing report** which will offer specifics on **Hurricane Harvey's effects**. The Dallas Fed report will be closely watched as its results will offer a direct assessment of Hurricane Harvey's impact on the state. This report had been very strong going into the hurricane with orders, production, and hiring all showing gains. Street consensus for September's general activity index is **12.0 and down from 17.0 in August**.

On Tuesday, the **Case-Shiller home prices** are expected to firm in what might, however, not be a good result for home sales and especially first-time buyers. For July, the consensus for the 20-city adjusted index is **plus 0.4% versus a 0.1% gain in June**. Year-on-year, the unadjusted index is expected to come in at 5.9% in what would be a 0.2% increase from 5.7% in June.

New home sales and consumer confidence for September are released later Tuesday, with neither expected to show significant hurricane effects. New home sales are expected to accelerate in August to a consensus **583,000 annualized rate versus** what was a disappointing **571,000 rate in July.** Existing home sales in August were held lower by significant disruption in Houston in the wake of Hurricane Harvey and a similar effect is a risk for sales on the new home side.

Wednesday begins with durable goods orders where continued strength in core capital goods will be the desired result with pending home sales to follow in a report that, just like the housing sector itself, has not shown much strength at all.

The week ends up on Friday with personal income and spending where expectations are mixed with, however, a respectable showing is the consensus for **core PCE prices**. Overall prices, boosted by higher energy prices that in part reflect gains for energy, are expected to rise 0.3% with the yearly rate seen at **1.5%.**