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INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

U.S. equity markets finished the week higher on Friday, on expectations that a weaker-than-expected rise in August nonfarm payrolls could halt the Federal Reserve's need to raise rates again in 2017.

a) **Dow Jones +0.88%, MTD +0.18%, YTD +13.21%** b) **S&P 500 +1.43%, MTD +0.20%, YTD +12.16%,** c) **Russell 2000 +2.66%, MTD +0.59%, YTD +5.04%.**

Drivers: I) The **U.S. created 156,000 new jobs** in August, though it fell short of the 170,000 estimates of economists, it is strong enough to keep the economy expanding at a stable rate. Unemployment rose slightly to 4.4% from 4.3%, the Labor Department reported. Last month the **jobless rate fell to a 16-year low**.

II) Pay rose 0.1% in August to an average of $26.39 an hour. **Wages have risen 2.5% in the past 12 months**, unchanged from July. Wages typically rise 3% to 4% a year at this stage of an economic recovery, but a series of factors including global competition and the retirement of higher-paid baby boomers may be capping wages. The broader measure of joblessness **U-6 was flat at 8.6%**, this was below 8% shortly before the 2007-2009 recession.

III) The U.S. economic rebound in the second quarter was stronger than initially reported, as **a rise in consumer spending and business investment** led to the **strongest growth in** more than **two years**. **Gross domestic product rose at 3%** rate from April to June, up from an initial 2.6% reading, the Commerce Department reported. Economists had expected a smaller upward revision in second-quarter GDP to a 2.8% rate.

IV) Inflation as measured by the **Fed's preferred PCE price index decelerated to a 1.6% annual rate** during the quarter, down from a 2% rate in the first quarter. Soft inflation is raising questions over whether the Fed will go ahead with another interest-rate hike this year. The central bank had penciled in three hikes this year and has already approved two hikes in the first half of the year.

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, Utilities and Healthcare.**

Capitalization: **Large Caps +0.23%** (YTD +12.04%), Mid-Caps +0.42% (YTD +9.19%) and **Small Caps +0.59%** (YTD +5.04). **Style: Value** +**0.61%** (YTD +1.66%) and **Growth +0.44%** (YTD +7.25%). **Industry Groups (Leaders):** Info. Tech -0.04% **(**YTD +25.37%), Tech -0.03% (YTD +22.70%), **Healthcare -0.09%** (YTD +18.80%), **Utilities -0.30%** (YTD +14.56%), **Materials +0.91%** (YTD +12.78%), Consumer Discretionary +0.46% **(**YTD +11.38%), Industrials +0.08% (YTD +11.18%), REITs -0.08% (YTD +8.68%), Consumer Staples +0.43% (YTD +7.67%) and Financials +0.44% (YTD +7.38%). **(Laggards):** Telecom +0.71% (YTD -4.23%) and **Energy +0.93%** (YTD -14.44%).

EUROPEAN EQUITIES

The MSCI Europe index was up +0.61% last week, closing higher for a third straight session on Friday, boosted by a news report saying the European Central Bank will likely wait until December to reveal its plan to taper its asset purchases.

Drivers: I) Bloomberg reported that the **ECB is not ready to announce plans for winding down its €60-billion-a-month bond-buying program**. Analysts were expecting the central bank to reveal the future for its easing program at the September monetary policy meeting next week or in October. The policy makers could wait until December to make their decision, just a few weeks before the current program expires at the end of the year.

II) The **Euro-zone August** flash harmonized index of **consumer prices was up 1.5% on the year**. This was up 0.2% from final July to achieve its strongest reading since April. The pick-up in overall HICP inflation was largely attributable to energy where the rate climbed 1.8% to 4.0%. Elsewhere, inflation in non-energy industrial goods and services was stable at 0.5% and 1.6% respectively.

III) **Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was higher by +0.61% for the week (MTD +0.52% YTD +19.49%).**

ASIAN EQUITIES

Asian markets were mostly higher for the week boosted by tax reform talk in the U.S. and positive regional manufacturing data. Markets were troubled by the fly over of a North Korean missile on northern Japan on Tuesday. But tensions seemed to ease after Tuesday's declines and equities resumed their mostly upward course. The Dow Jones Asia Index rose by +0.59% for the week, (MTD +0.08% YTD +19.78%).

Drivers: I) **In Japan**, July **household spending was down 0.2%** on the year after increasing by 2.3% in June. The main factor driving down headline growth was **weaker spending on housing, down 4.6%** on the year and partly reversing a large increase of 25.1% in June. Officials attributed the strength in house spending in June in part to a surge in home renovation spending due to lower than usual rainfall during the month.

II) July **industrial production in Japan dropped 0.8%** on the month after increasing 2.2% in June. On the year, output was up 4.6%. The monthly decline reflected stronger output of general-purpose, production and business-oriented machinery, electrical machinery and chemicals. However, this was offset by **weaker output of electronic parts and devices**, ceramics and related products, petroleum and coal products.

III) **Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was higher by +1.29% (MTD +0.23% YTD +4.08%), the Hang Seng Index rose by +0.36% (MTD -0.07% YTD +25.90%) and the Shanghai Composite advanced by +1.07% (MTD +0.19% YTD +8.49%).**

FIXED INCOME

Treasury yields across the board returned close to where they had started on Monday. Geopolitical tensions in North Korea and another soft inflation reading for July were counteracted by investor concerns that Treasury yields were too low.

Performance: I) **The 10-year Treasury yield was lower last week ending at 2.168% down from 2.169%. The 30-year yield increased last week rising from 2.747% to 2.779%.**

II) **Performance for the week, month-to-date and year-to-date. The Bloomberg Barclays US Aggregate Bond Index rose +0.07% last week, MTD -0.18% and YTD +3.45%. The Bloomberg Barclays US MBS TR was up +0.09% last week, MTD -0.11% and YTD +2.44%. The Bloomberg Barclay's US Corporate HY Index rose +0.39%, MTD +0.06% and YTD +6.12%.**

COMMODITIES

The DJ Commodity Index was up +2.17% last week and is higher month to date +0.33% (YTD -1.10%) 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 -1.00% down to $47.35 but is higher month to date for September +0.25% (YTD -12.13%). Oil fell last week as the loss of refining capacity pressured oil prices this week, with crude supplies expected to rise as refining demand declines.

II) The **ICE USD Index**, a gauge of the U.S dollar's movement against six other major currencies, **rose +0.34%** from 92.53 to 92.85 for the week (MTD +0.19% YTD -9.30%). The U.S. dollar on Friday, saw losses immediately after the August jobs report that came in below expectations. But the dollar rebounded strongly against the euro after a news report said the ECB may not have a plan ready to reduce monetary stimulus until December.

III) **Gold rallied strongly** after the U.S. job's report came in below expectations and wage growth was tepid. Gold was higher by +2.58 last week, rising from $1296.5 to $1329.9 (MTD +0.58% YTD +15.44%).

Hedge Funds

Hedge fund returns in August rebounded to end mostly higher, as the core strategies Equity Hedge, Event Driven, and Macro are in positive territory. Distressed and Relative Value were down for the month.

Performance:

I) The HFRX Global Hedge Fund Index is higher at +0.29% MTD and +3.81% YTD.
II) Equity Hedge has risen +0.50% MTD and is up +5.15% YTD.
III) Event Driven has advanced MTD +0.08% and is higher YTD +5.75%.
IV) Distressed Debt is lower at -0.81% MTD and is positive YTD +2.25%
V) Macro/CTA has climbed by +0.76% MTD and is up +0.95% YTD.
VI) Relative Value Arbitrage has fallen -0.05% and is higher by +2.59% YTD.

Economic Data Watch and Market Outlook

As we look forward to the Labor Day shortened trading week, investors will be faced again with the specter of **September being historically the worse month of the year for stocks**. Specifically, the statistics behind September's terrible record appear to be quite impressive. The **month's average return is not only far worse than every other month** (an **average loss of 1.05%** since 1896, **versus an average gain of 0.75% across the other 11 months**), September's average can be blamed on just a few individual events. In fact, in every decade but one since the Dow Jones Industrial Average was created in 1896, September was one of the worst performers.

In the coming week, weighing on everyone's mind will be the **aftermath of Hurricane Harvey, and its potential personal and economic impact**. The personal impact is great and will be long lasting. The economic impact will take several months to assess, but the **estimated cost of $160 billion** would classify Hurricane Harvey as the most expensive natural disaster in US history.

Expectations are for an **initial drag on growth**, to be **followed by increase in personal and business spending to rebuild the Houston area**. As Houston is strongly tied to US oil and chemical exports, the **disruption of exports by Harvey could knock 0.20% from H2 GDP growth** according to Deutsche Bank. But the effects on the national economy should be **temporary**. The **labor market is healthy and economic growth** has been **solid** and is not likely to be derailed. There are some areas of the economy, however, that may very well experience ups and downs, but there may be one unexpected beneficial effect, that is an increase in consumer energy prices.

In turning to next week's **economic calendar**, a light holiday-shortened week for economic data starts off Tuesday with factory orders where **a sharp aircraft-related decline** in the headline will conceal, based on advance data for durable goods, underlying strength in ex-transportation orders. **Factory orders are expected to fall 3.1%** in July though most underlying data are likely to show strength based on the advance release of the durables side of the report.

August data on the service sector will follow on **Wednesday morning with results from PMI services**, where the month's flash was very solid, followed by ISM's non-manufacturing survey where enormous strength is the usual routine. The ISM non-manufacturing report for July did not beat all estimates, coming in instead at 53.9 to show the least strength since August last year. Growth in new orders slowed as did employment though there were still signs of strength with gains for backlog orders and slowing in delivery times. Forecasters are calling for a **bounce back in August to 55.4.**

Thursday sees jobless claims, where **forecasters do not see any initial effects from Hurricane Harvey** appearing, followed by the second estimate for productivity and costs on Thursday. The effects of Hurricane Harvey are not expected to be visible in weekly jobless claims for the September 2nd week. Forecasters sees initial claims coming in at 239,000, little changed from 236,000 in the August 26 week.