CLEARBROOK

INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

U.S. equity markets were mixed last week and for the month, as equity prices were buffeted by the sharp decline in technology and healthcare sectors. Several of the major equity indexes though ended June with the best first half yearly gains since 2009.

a) **Dow Jones -0.21% MTD +1.74% YTD +9.35%** b) **S&P 500 -0.58% MTD +0.62% YTD +9.34%**
c) **Russell 2000 +0.10% MTD +3.46% YTD +4.99%**

Drivers: I) The **Dow Jones Industrial Average and the S&P 500 index** posted the **best performances** in the first half **since 2013.** The Dow climbed 9.35%, while the S&P 500 rang up a 9.34% return, powered primarily by the Consumer Discretionary (21.29%) and Tech sectors (14.2%), two of the best performing groups among the S&P 500's 11 sectors. The NASDAQ marked its best first half since 2009 returning 14.1%.

II) Following a weak first quarter, a large rebound in **consumer spending** was the consensus call for the second quarter. April and May are now in and the **results were disappointing. May**, in yet another month hit by car sales, could manage only a **0.1% monthly gain**, eroding the benefit of April's respectable 0.4% improvement.

III) The **core PCE for May came in at 1.4%, down 0.1%** for the third decline in a row and the weakest showing over the past year. Average hourly earnings are moving the same way, at 2.5% in May, the weakest showing in a year. The risk that our low-wage economy will slip into disinflation may only be small, but it is not completely discounted.

IV) **Home purchase contract signings declined** again in May, another sign of the headwinds working against momentum in the housing market. The pending home sales index from the National Association of Realtors fell 0.8%, marking the **third-straight monthly decline**. The index hit 108.5 in May and its April level was revised lower. It was lower compared to a year ago for the second month in a row in May, this time by 1.7%. The Realtors trade group continues to blame **supply constraints** for the uneven progress of the housing market.

V) **Equity prices in June are higher with Small-Cap, Value, Financials and Healthcare leading equity price performance. The laggards for the month are Large-Cap, Growth and Telecommunication.**

Capitalization: Large Caps +0.70% (YTD +9.27%), Mid-Caps +0.99% (YTD +7.99%) and **Small Caps +3.46%** (YTD +4.99%). Style: **Value** +**2.42%** (YTD +2.50%) and **Growth +1.68%** (YTD +7.33%). Industry Groups (Leaders): Consumer Discretionary -1.30% (YTD +21.29%), Information Technology -2.58% **(**YTD +16.62%), Technology - 2.72% (YTD +14.21%), Consumer Staples -0.85% (YTD +12.48%), **Healthcare +4.70%** (YTD +16.47%), Utilities - 2.72% (YTD +8.66%), Materials +1.82% (YTD +9.14%), REITs +1.91% (YTD +6.31%), and **Financials +6.40%** (YTD +6.84%). (Laggards): **Telecommunication -2.82%** (YTD -10.77%) and Energy -0.21% (YTD -12.74%).

EUROPEAN EQUITIES

The MSCI Europe index was down -0.29% last week, as investors worried that a strong Euro could reduce revenue made overseas by international companies across Europe and on the U.K.'s FTSE 100.

Drivers: I) The **eurozone's annual rate of inflation fell for the second straight month** in June to its lowest level in 2017, in a setback for the ECB as its stimulus programs enter a fourth year. The European Union's statistics agency said Friday that consumer prices in the currency area were 1.3% higher than a year earlier, compared with 1.4% in May. June's inflation reading was the lowest so far in 2017 due to lower energy prices.

II) **German unemployment surprisingly rose in June**, data from the country's labor agency showed Friday. In adjusted terms, joblessness increased by 7,000, compared with expectations in a Wall Street Journal survey of analysts of a drop of 10,000. The unemployment rate stood, however, at 5.7%, matching expectations. When seasonal adjustments were not considered, however, the labor market data looked stronger.

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III) **Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was lower by -0.29% for the week (MTD -1.09% YTD +15.36%).**

ASIAN EQUITIES

Asian markets were mixed as investors were concerned about the potential rise in global interest rates given the hawkish comments from the ECB, the Bank of England and the Bank of Canada during the week. The Dow Jones Asia Pacific Index was lower by -0.34% for the week, (MTD +1.17% YTD +14.42%).

Drivers: I) **May retail sales in Japan were up 2.0%** on the year after increasing 3.2%in April. This was the seventh consecutive annual increase in retail sales. Food and beverage sales edged up only 0.1% on the year compared with an increase of 1.3% in April. Annual sales also slowed for apparel, fuel, and general merchandise. This was partly offset by stronger growth in auto sales, up from 6.3% to 7.0%.

II) **China's factory activity rose in June**, signaling renewed momentum in the world's second-largest economy. China's official manufacturing purchasing managers' index increased to 51.7 from 51.2 in May, government data showed Friday. The index has remained above the 50 mark that separates an expansion in activity from a contraction for 11 straight months. The June reading beat a median forecast of 51.1 by economists.

III) **Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was lower by -0.32% (MTD +2.14% YTD +5.82%), the Hang Seng Index rose by +0.28% (MTD +0.17% YTD +16.35%) and the Shanghai Composite advanced by +1.09% (MTD +2.41% YTD +2.86%).**

FIXED INCOME

Treasury prices fell for a fourth session in a row on Friday as markets had renewed concerns about the policy posture of global central banks.

Performance: I) **The 10-year Treasury yield was higher last week ending at 2.301%% up from 2.142%. The 30-year yield climbed higher last week rising from 2.714% to 2.836%.**

II) **Performance for the week, month-to-date and year-to-date. The Barclays US Aggregate Bond dropped -0.57% last week, MTD -0.10% and YTD +2.27%. The Barclays US MBS TR was down by -0.44% last week, MTD -0.40% and YTD +1.35%. The Barclay's US Corporate HY Index rose +0.28%, MTD +0.14% and YTD +4.93%.**

COMMODITIES

The DJ Commodity Index was up +3.78% last week and is lower month to date -0.11% (YTD -5.40%) with oil rallying as U.S. production declined, and industrial metals copper and zinc rose in price as their inventory levels dropped.

Performance: I) **Oil prices were higher last week** rising +7.32% up to $46.33 and is down month to date -4.11% (YTD -14.02%). Oil rallied Friday posting a seventh-straight session gain, as data showing the first decline in the number of active U.S. oil rigs in 24 weeks fed expectations for further reductions in crude production.

II) The **ICE USD Index**, a gauge of the U.S dollar's movement against six other major currencies, **fell -1.70%** from 97.30 to 95.64 for the week (MTD -1.38% YTD -6.58%). The U.S. dollar index continued to fall over doubts that the pro-growth Trump agenda will move forward and expectations of tightening from global central banks.

III) **Gold was lower last week by -1.30%.** Gold suffering from their first monthly decline since March, with a fourth straight weekly fall driven by a rise in global bond yields, which diminished appetite for precious metals. Gold dropped by -1.30% falling from $1257.8 to $1241.4 (MTD -2.66% YTD +7.76%).

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HEDGE FUNDS

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

Performance:

I) The HFRX Global Hedge Fund Index is higher at +0.35% MTD and +2.69% YTD.
II) Equity Hedge has risen +0.77% MTD and is up +3.64% YTD.
III) Event Driven has declined MTD -0.01% and is higher YTD +4.63%.
IV) Distressed Debt is higher at +0.59% MTD and is positive YTD +2.58%
V) Macro/CTA is higher by +0.52% MTD and is up +0.17% YTD.
VI) Relative Value Arbitrage is up +0.13% and is up +1.63% YTD.

ECONOMIC DATA WATCH AND MARKET OUTLOOK

In looking forward to a holiday shortened week, markets will have plenty of **catalysts to move equity prices**. We have the continued **political intrigue in Washington** regarding healthcare and taxes, a slew of **economic data** that will be released and concerns over the **recent tech wreck**. Washington watchers are waiting to see if the Senate can make progress on the new heath care proposal, with the July 28th summer recess date starring straight at them. Recent hard economic data has been weak, and markets will try to discern whether the drop-in technology stock prices has been more of a seasonal rather than secular trend.

As to **technology**, the tech laden NASDAQ experienced an outsized **decline of over 2.0% in June**, but still achieved a double-digit gain for the first half of 2017. The pull back in the technology stocks raises concerns over valuations for a sector that has **accounted for about 23.0% of the S&P 500's gain for the year**. Investors will grapple with the dilemma of whether this is a buying opportunity or is there more downside risk. From a historical perspective, typically a strong first half of the year for equities, tends to be followed up with a positive second half as well.

In turning to next week's economic calendar, a shortened 4th of July week starts off on Tuesday with the **ISM's** assessment of the **factory sector** and the latest on construction spending which has been uneven, but is moving higher. The ISM manufacturing index has slowed from the 57 reading early in the year to a 54 reading in April and May. But key details of the report have remained **very strong including new orders** and backlog orders where gains point to future strength for the sample's general activity. Forecasters are calling for **55.1 in June vs May's 54.9.**

Following Tuesday's holiday, the news revs up again on **Wednesday** with factory orders in the morning, where weakness is forecast, and **FOMC minutes** in the afternoon where the state of inflation and the outlook for tapering will be the focus. The **discussion on the economy and its outlook** will be closely watched in the minutes from the June FOMC that, despite unexpected weakness in core inflation, produced both a 0.25% rate hike and the **first details on tapering** of the Fed's $4.5 trillion balance sheet. Closely watched will be the committee's confidence that inflation will essentially regain traction as well as any specifics as to when policy makers expect tapering to begin.

Thursday will offer updates on the service sector and more importantly, with trade data for May, key inputs into second-quarter GDP. Forecasters see the **international trade gap** for goods and services **narrowing by $1.4 billion** to a consensus $46.2 billion in May from $47.6 billion in April in what would be a **positive for second-quarter GDP.**

The first major sign whether June proved a solid or soft end to the quarter will be the **monthly employment report** where payroll growth is expected to climb higher with average hourly earnings estimated to rise. Non-farm payroll growth in June is expected to **jump up to 170,000 after slowing to 138,000 in May** in what would be a solid showing. There is no improvement needed for the **unemployment rate** which fell in May to **4.3%** where it is expected to remain unchanged in June.

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