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INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

U.S. equity markets saw three main benchmarks hit record highs last week, with the S&P 500 and DJIA rising for a fifth consecutive week, and the NASDAQ climbing for a third week in a row. Earnings season kicked off with the large banks reporting solid earnings, setting a positive tone for markets.

a) **Dow Jones +0.43%, MTD +2.14%, YTD +17.92%** b) **S&P 500 +0.17%, MTD +1.42%, YTD +15.86%**
c) **Russell 2000 -0.49%, MTD +0.82%, YTD +11.85%**

Drivers: I) According to FactSet, as of Thursday **6% of the S&P 500 companies reported earnings**, and about **80% of these beat expectations** on revenues and profit. Analysts expect 2.8% earnings growth for the S&P 500 in the third quarter, and if companies exceed expectation at the typical rate of about 3%, it is possible to anticipate **mid-single-digit profit growth**.

II) The year over year **CPI rose at a 2.2% rate**, and managed to breach the Fed target of 2.0% for the first time in 5 months. But **without energy effects**, which may prove one-time events tied to Harvey's strike on Texas, prices would not have crossed over 2.0%. In fact, the core rate did not accelerate at all, **holding at the 1.7%** level for the fifth month in a row.

III) **Retail sales were strong in September**, jumping 1.6% for the largest gain in 2-1/2 years. The primary reason though is hurricane effects: replacement demand for autos and price-inflated sales at gasoline stations. Though even with September's jump, growth in total retail sales has been no better than flat over the past year, trending at the 0.4% monthly level. But a **0.4% rise over 12 months** brings it to nearly a **5% annual rate**.

IV) The **consumer sentiment index rose 6 points** in mid-October to 101.1 for the **best score in 13 years**. But the trend for sentiment has been running well behind another reading, the consumer confidence index which has been at a 16-year high all year. Confidence in income is behind all the strength reflecting full employment, low inflation, stock gains, and now perhaps even wage acceleration.

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

Capitalization: **Large Caps +1.41%** (YTD +15.78%), Mid-Caps +1.37% (YTD +13.27%) and **Small Caps +0.82%** (YTD +11.85). **Style: Value +0.73%** (YTD +7.58%) and **Growth +1.38%** (YTD +13.09%). **Industry Groups (Leaders): Info. Tech +2.92% (**YTD +30.10%), Tech +2.29% (YTD +26.64%), Healthcare +0.76% (YTD +20.92%), **Materials +2.72%** (YTD +19.01%), Industrials +1.45% (YTD +17.39%), Utilities +2.03% (YTD +14.02%), Financials +1.10% (YTD +13.63%), Con. Discretionary +1.21% **(**YTD +13.14%), REITs +2.32% (YTD +9.75%) and Con. Staples +1.04% (YTD +7.52%). **(Laggards): Telecom -0.75%** (YTD -6.10%) and **Energy -0.49%** (YTD -7.14%).

EUROPEAN EQUITIES

The MSCI Europe index was up +1.40% last week as Bayer AG shares rallied on news they had reached a multibillion-euro deal to sell parts of its business, helping the DAX to hit another record all-time high.

Drivers: I) **Germany's August industrial production** excluding construction was up 3.0% on the month and 4.6% from a year ago. August's monthly surge was the **best performance in more than six years** and reflected impressive gains in output across all the main subsectors. Capital goods led the way with a 4.8% jump while consumer goods increased 2.1% and intermediates 1.8%.

II) European Central Bank President **Mario Draghi** said last Thursday the central bank's negative interest-rate policies haven't hurt bank profitability as critics suggested they would. Mr. Draghi also reiterated the ECB's guidance that **asset purchases would continue** until officials see a **sustained improvement** in the outlook for **inflation**, and that interest rates would remain at current levels "well past" the time it stops buying assets.

III) **Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was higher by +1.40% for the week (MTD +1.01% YTD +24.04%).**

ASIAN EQUITIES

Asian markets were higher last week as China's Shanghai Composite rallied ahead of its 19th national congress of the Communist Party of China beginning on October 18. In addition, the Nikkei hit a 21 year high on optimism Prime Minister Abe would solidify his party's majority at the October 22nd snap election. The Dow Jones Asia Index rose by +1.53% for the week, (MTD +2.73% YTD +20.34%).

Drivers: I) **China's congress** is held every five years and this year's meeting is likely to **see president Xi Jinping further bolster his position** as one of the most powerful leaders in modern Chinese history. The official task of the delegates selected to attend this year's event is to study and approve new policies and elect the people who will lead China for the next five years. Since taking power at the last such gathering in November 2012, Xi has established himself as one of China's most dominant leaders since Mao.

II) **In Japan**, markets have risen on optimism that **Prime Minister Shinzo Abe's ruling party will win the general elections** on October 22. Media forecasts showed Prime Minister Shinzo Abe's ruling bloc heading for a big win in a snap election, assuring investors that his "Abenomics" program of easy monetary policy, fiscal spending and promised structural reforms would continue.

III) **Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was up by +2.24% (MTD +3.92% YTD +12.54%), the Hang Seng Index advanced by +0.05% (MTD +3.39% YTD +28.57%) and the Shanghai Composite was higher by +1.24% (MTD +1.24% YTD +9.24%).**

FIXED INCOME

Treasury yields declined last week as the market digested the news that the core CPI level remained below the Federal Reserve target of 2.0% per annum.

Performance: I) **The 10-year Treasury yield was lower last week ending at 2.275% down from 2.359%. The 30-year yield fell last week declining from 2.893% to 2.805%.**

II) **Performance for the week, month-to-date and year-to-date. The Bloomberg Barclays US Aggregate Bond Index rose +0.48% last week, MTD +0.33% and YTD +3.48%. The Bloomberg Barclays US MBS TR was up +0.39% last week, MTD +0.22% and YTD +2.55%. The Bloomberg Barclay's US Corporate HY Index rose +0.03%, MTD +0.19% and YTD +7.20%.**

COMMODITIES

The DJ Commodity Index was up +1.66 last week and is higher month to date +1.66% (YTD +0.88%) driven by the decline in USD, uncertainty over US rates after a tepid CPI report and declining oil supplies.

Performance: I) **Oil prices rose** last week by +4.40% up to $51.42 and is lower month to date for October -0.43% (YTD -4.58%). Oil jumped higher, boosted by several factors including bullish Chinese data and geopolitical risks from oil-rich regions in the Middle East, particularly in the wake of President Donald Trump's refusal to certify Iran's compliance with the nuclear deal.

II) The **ICE USD Index**, a gauge of the U.S dollar's movement against six other major currencies, **fell -0.79%** from 93.79 to 93.05 for the week (MTD -0.02% YTD -9.11%). The U.S. dollar fell as Friday's consumer price index report disappointed because of the modest 0.1% monthly increase in core prices (excluding food and energy).

III) **Gold was higher last week** as a reading on U.S. inflation came in cooler than expected, raising uncertainty about the pace of U.S. interest-rate hikes by the Federal Reserve. Gold was **up by +2.12%** last week, rising from $1278.9 to $1306.1 (MTD +1.84% YTD +13.37%).

HEDGE FUNDS

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

Performance:

I) The HFRX Global Hedge Fund Index is higher at +0.31% MTD and +4.76% YTD.
II) Equity Hedge has risen +0.75% MTD and is up +7.87% YTD.
III) Event Driven has declined MTD -0.12% and is higher YTD +6.45%.
IV) Distressed Debt is lower by -0.57% MTD and is positive YTD +1.84%
V) Macro/CTA has advanced by +0.22% MTD and is up +0.12% YTD.
VI) Relative Value Arbitrage has risen +0.33% and is higher by +3.18% YTD.

ECONOMIC DATA WATCH AND MARKET OUTLOOK

In a look towards next week's market action, **investors** who are professionals and novices alike, are being **confounded by the continued price rally** seen **across virtually every asset class**. Global equity indexes have reached multi-year and in some cases, multi-decade highs. Government bond yields that typically run in the opposite direction of equity prices, remain historically low while corporate credit seems expensive. For example, the excess yield investors normally demand for non-investment grade bonds over Treasuries hover near historical lows, while the global high yield index continues to reach new highs.

Market pundits say the **rise in global asset prices** is **due to** the massive amounts of **liquidity pumped into the global economy by major central banks** in the aftermath of the financial crisis. While the **Fed** this month begins to ever so **slowly unwind** the more-than-$4 trillion portfolio of securities it accumulated via its asset-buying program, the **European Central Bank and Bank of Japan continue to add to their balance sheets**. Overall, it is estimated that central banks are still providing around $1.5 to $2 trillion in liquidity a year. Though the global rate normalization process is beginning, central bankers and market strategists believe the **greatest risk** we face is a **major policy mis-step** from the global **central banks**. As such, it is believed that the central banks will pursue a **gradual withdrawal of stimulus** over several years, so as not to cause an adverse shock to a highly leveraged and financed global economy.

In turning to next week's **economic calendar**, **manufacturing is a major theme** of the week with Empire State on Monday and Philly Fed on Thursday, a couple of reports running at record strength and which will offer early assessments of October's activity. The **Empire State'**s respondents have been reporting **sharply accelerating activity** from already highly elevated levels. New orders are at eight-year highs while delivery delays are at record levels and consistent, aside from possible hurricane-related delivery delays that may be hitting the Northeast, with unsustainable activity that is creating backlogs in the supply chain. The **index has far exceeded expectations** at 24.4 and 25.2 the last two reports with strategists seeing the October index coming in at 20.0.

On **Tuesday**, the Federal Reserve will release the **industrial production** report which will offer definitive data on manufacturing activity during the **hurricane-stricken month of September**. The **outlook** for the total industrial production, the result of uncertainties over hurricane effects on mining and utility demand, is **very wide**, from minus 0.9% to plus 0.8% with the **consensus at plus 0.1%.**

Housing is front and center with the housing market index on **Wednesday**, which slowed in the prior report, preceding Thursday's housing starts report that generally has been slowing. Clearly **slowing** has been **existing home sales** which will finish up the week on Friday. Weakness in the **Harvey-hit region** of the South **pulled down existing home sales by 1.7%** to a 5.350 million annualized rate though sales in the West were also weak. **Price strength** has been **slowing** though supply of **available homes** on the market has remained **very tight**. The National Association of Realtors warned in its last report that hurricane effects could slow resales through the remainder of the year. Forecasters see **September's results**, a month hit by Hurricane Irma's strike on Florida, coming in **a bit lower at 5.300 million**.