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INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

U.S. equity markets finished the quarter with the S&P 500, Nasdaq Composite and Russell 2000 hitting all-time highs, during a week marked by hawkish comments from Fed Chairwoman Janet Yellen and the long-awaited announcement on tax reform from President Donald Trump's administration.

a) **Dow Jones +0.25%, MTD +2.16%, YTD +15.45%** b) **S&P 500 +0.72%, MTD +2.06%, YTD +14.24%,**
c) **Russell 2000 +2.83%, MTD +6.24%, YTD +10.94%**

Drivers: I) While recent **soft inflation readings justify a gradual pace for interest-rate hikes**, there is also **a danger of moving too slowly**, **Fed Chairwoman Janet Yellen** said Tuesday. "We should also be wary of moving too gradually," Yellen said in a speech to the National Association for Business Economics in Cleveland. "There is a risk that the labor market could become overheated, causing an inflation problem down the road," she said.

II) The **Trump administration** released its **outline of the proposed tax plan**. The main points are a reduction in individual tax brackets from seven to three (15%, 25% and 35%), a drop in corporate tax rates from 35% to 20% and the reduction in the pass-through rate for small companies from 39.6% to 25%. Itemized deductions would be limited to mortgage interest and the charitable deduction, with the standard deduction upped to $24,000.

III) **Inflation remains subdued.** The Federal Reserve's preferred inflation gauge, known as **PCE**, increased 0.1% in August. The closely followed "core" rate that strips out food and energy edged up 0.1**%. August's 1.3% annual rate is a 2-year low**. Wage growth has been stuck at 2.5% since April in their worst run since early last year. FOMC members historically have said wages had to be over 3% to pull core inflation higher.

IV) **Consumer spending rose just 0.1% in August** after a strong gain in the prior month. If adjusted for inflation, however, spending fell for the first time since January. Consumer spending slowed in August largely because of fewer sales of new cars and trucks. Auto sales dropped 1.8% last month. Hurricane Harvey may have also been a drag on the economy.

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

Capitalization: **Large Caps +2.13%** (YTD +14.17%), Mid-Caps +2.77% (YTD +11.74%) and **Small Caps +6.24%** (YTD +10.94). **Style: Value +5.70%** (YTD +6.80%) and **Growth +4.47%** (YTD +11.55%). **Industry Groups (Leaders):** Info. Tech +0.78% **(**YTD +26.40%), Tech +0.87% (YTD +23.81%), Healthcare +0.93% (YTD +20.01%), Materials +3.67% (YTD +15.86%), Industrials +4.15% (YTD +15.71%), **Financials +5.12%** (YTD +12.39%), Con. Discretionary +0.83% **(**YTD +11.79%), **Utilities -2.74%** (YTD +11.76%), **REITs -1.39%** (YTD +7.26%) and Con. Staples -0.74% (YTD +6.41%). **(Laggards):** Telecom -0.52% (YTD -5.39%) and **Energy +10.08%** (YTD -6.69%).

EUROPEAN EQUITIES

The MSCI Europe index was higher by +0.07% last week as equities advanced across the board. The rally sent European equity indexes to their highest levels in two months, aided by a weakening euro.

Drivers: I) The **euro-zone** September flash harmonized **index of consumer prices was unchanged** at an annual **increase of 1.5%.** The headline would have been weaker but for a boost from some of the more volatile subsectors. The annual rate for food, alcohol and tobacco jumped 0.5% to 1.9%. The narrowest core measure which excludes both these categories slipped from 1.2% in August to 1.1%, equaling its lowest reading since May.

II) The September **EU Commission's** measure of **economic sentiment** (ESI) **increased for the fourth month in a row**. At 113.0, the end of quarter reading was up more than a full point from its unrevised August reading and at a new post-Great Recession high. Morale improved in all its main sectors. Industry recorded a 1.6 point increase to 6.6 while the consumer sector was up 0.3 points at minus 1.2 and services 0.2 points firmer at 15.3.

III) **Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was higher by +0.07% for the week (MTD +3.30% YTD +22.79%).**

ASIAN EQUITIES

Asian markets were mostly lower last week thanks to **continuing geopolitical concerns** as the dialogue between North Korea and the U.S. escalated yet again. In Japan, Prime Minister Abe announced a snap election, as the lower house of the Diet (Japan's parliament) was dissolved and October 22 was announced as the day of the election. **The Dow Jones Asia Index fell** by -0.82% for the week, (MTD -2.13% YTD +17.15%).

Drivers: I) **Japan's Prime Minister Shinzo Abe called a snap general election** as he seeks to secure power to the 2020 Tokyo Olympics and beyond. Mr. Abe dissolved the lower house of the Japanese Diet (Parliament) on September 28th and will hold the election on October 22. The election will decide whether Japan continues with simulative economic policies and whether Mr. Abe has the political strength to revise Japan's pacifist constitution.

II) In **Japan**, August **household spending was up 0.6%** when compared with August from a year ago. The slower than expected growth was attributable to a 12.5 % drop in education. That decline combined with a 7.4% drop in annual medical care spending led to the less than anticipated increase. On the plus side, furniture and household utensils were 3.8% higher while transportation and communication spending bounced an annual 7.1% higher.

III) **Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was up by +0.94% (MTD +4.28% YTD +8.29%), the Hang Seng Index declined by -1.20% (MTD -1.30% YTD +24.35%) and the Shanghai Composite fell by -0.11% (MTD -0.35% YTD +7.90%).**

FIXED INCOME

Treasury yields were higher last week, capping a sharp September selloff fueled by heightened expectations the Federal Reserve will deliver another rate increase by the end of the year and a Republican tax overhaul that could significantly increase government borrowing.

Performance: I) **The 10-year Treasury yield was higher last week ending at 2.335% up from 2.254%. The 30-year yield jumped higher last week rising from 2.781% to 2.863%.**

II) **Performance for the week, month-to-date and year-to-date. The Bloomberg Barclays US Aggregate Bond Index fell -0.10% last week, MTD -0.48% and YTD +3.14%. The Bloomberg Barclays US MBS TR was down -0.00% last week, MTD -0.22% and YTD +2.32%. The Bloomberg Barclay's US Corporate HY Index rose +0.30%, MTD +0.90% and YTD +7.00%.**

COMMODITIES

The DJ Commodity Index was up +1.25 last week and is higher month to date +0.66% (YTD -0.77%) as the S&P GSCI Industrial Metals index and oil both rose 10.5% for the quarter. Industrial metals aluminum, copper and zinc were boosted by supply/demand imbalances, China growth and weaker USD.

Performance: I) **Oil prices advanced** last week by +1.93% up to $51.64 and is higher month to date for September +9.34% (YTD -4.17%). Oil marked its first quarterly gain of 2017, as investors considered the potential fallout from the independence referendum in the oil-rich Kurdish region of Iraq.

II) The **ICE USD Index**, a gauge of the U.S dollar's movement against six other major currencies, **rose +1.01%** from 92.14 to 93.07 for the week (MTD +0.43% YTD -9.09%). The U.S. dollar advanced last week based on **expectations** of **another interest rate increase** before the end of the year. This combined with the administration's tax-cut plan, dominated markets for most of the week.

III) **Gold was lower last week** as traders weighted the rise of the USD, the likelihood of success for Republican tax-cut proposals as well as expectations for another rate increase by the Federal Reserve before year-end. Gold was **lower by -1.38**% last week, dropping from $1300.5 to $1282.5 (MTD -3.00% YTD +11.33%).

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 +1.60% MTD and is up +6.84% YTD.
III) Event Driven has advanced MTD +0.68% and is higher YTD +6.46%.
IV) Distressed Debt is higher at +0.03% MTD and is positive YTD +2.28%
V) Macro/CTA has declined by -0.99% MTD and is down -0.05% YTD.
VI) Relative Value Arbitrage has risen +0.12% and is higher by +2.78% YTD.

ECONOMIC DATA WATCH AND MARKET OUTLOOK

In a look towards **next week's market action**, investors will look forward to **entering the fourth quarter**, a period that **historically has seen the strongest performance of the year**. Markets have tended to see **strong upside** performance during the holiday months of November and December, and this would **come after an unseasonably strong September**. **Since 1950**, the **S&P 500 has gained 3.9% on average in the fourth quarter,** .advancing 79.1% of the time, the data shows. According to LPL Financial Research, when the S&P 500 is up more than 10% year-to-date heading into the fourth quarter and makes a new high in September, the returns have been even better than the average, up 5.9% and boating positive returns in 11 out of 12 years.

In turning to **next week's economic calendar**, expanding **indications on Hurricane Harvey and initial indications on Irma's effects** will fill a very busy week that starts off with **ISM manufacturing on Monday.** Only slightly easing strength is the call for September's ISM which has been unusually strong while construction spending in August, despite Hurricane Harvey, is expected to move into positive ground. The Street consensus for **September's headline is 58.0 vs August's 58.8.**

Vehicle sales are Tuesday's key data and are, despite Hurricane Irma, expected to **show some bounce** from August's unusual weakness. Motor vehicle sales are coming off their **worst showing in 3-1/2 years due to initial disruptions from Hurricane Harvey**. Sales of domestic-made models are expected to come in at 12.6 million versus the prior month's 12.7 million.

Attention turns to the service sector on **Wednesday** where both **PMI services and ISM non-manufacturing** are expected to **hold at solid levels**. ISM non-manufacturing had been surging earlier in the year but began to moderate through most of the summer. But readings were still very strong with new orders, business activity and employment all in the upper 50s. Street consensus **calls for September to come in at 55.4 versus August's 55.3**.

Factory orders to be released Thursday **expects a solid gain**, in line with the prior week's durable goods report. Factory orders are expected to rise 0.9 percent in August in what would be an aircraft-related bounce following July's 3.3% decline. Aircraft swings aside, **underlying data have been mostly solid** especially orders and shipments for core capital goods which point to strength in business investment.

Street **consensus for September nonfarm payrolls is 95,000** in what would be a major **hurricane-related move lower**. But there is **improvement expected for average hourly earnings** which are expected to jump higher. Average hourly earnings were very weak in August, at only a 0.1% gain, but improvement is seen for September at a **consensus 0.3%. Year-on-year** hourly earnings are expected to come in at **2.6%** versus August's 2.5%.

The **labor force participation** rate to is estimated **to fall 0.10% to 62.8%**, and the 34.4 hours for the workweek would be unchanged.