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INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

U.S. equity markets continued their upward march as Republicans made progress in the House to push through tax reform by year's end, changes that would sharply cut corporate taxes as well as lower individual taxes.

a) **Dow Jones +1.70%, MTD +1.70%, YTD +17.42%** b) **S&P 500 +1.25%, MTD +1.25%, YTD +15.67%,**
c) **Russell 2000 +1.32%, MTD +1.32%, YTD +12.40%**

Drivers: I) The **economy "lost" 33,000 jobs in September**, marking the first decline since 2010 as U.S. began to dig itself out from the Great Recession. Yet the decline was entirely due to **widespread workplace disruptions caused by hurricanes Irma and Harvey**. The unemployment rate, meanwhile, fell to 4.2% from 4.4% and hit the lowest level since December 2000. The jobless rate was not affected by the storms, the government reported.

II) **Average hourly earnings** are a central measure of wage pressure and had been, to everyone's confusion, trending lower before September's report. But now wages are suddenly and clearly rising. **September's 0.5% jump** matches July (which in another shocker was revised 0.2% higher) as the hottest wage month since the boom days of 2007. This is confirmation employers are squeezed for talent and finally paying higher wages.

III) Like the monthly surge, the year-on-year rate for **average hourly earnings** has also **came to life**. September's **2.9%** matches December last year as the expansion high. Revisions are key here also as August was revised two tenths higher to 2.7% and now carries the upward run to four months in a row. Wages are up **based on supply and demand**: employers facing a shrinking supply of workers will have to bid up wages to fill posts.

IV) **Unit vehicle sales provided an upside surprise**, as it shot up in September to an 18.6 million annualized rate for the strongest showing in 12 years. The surge, no doubt tied to **hurricane replacement demand**, may be a one-time event, taking sales from future months as motorists without cars crowded into dealerships. Unit sales do not always track with dollar sales yet the results are nearly certain to **boost September consumer spending.**

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

Capitalization: Large Caps +1.27% (YTD +15.62%), **Mid-Caps +1.17%** (YTD +13.05%) and **Small Caps +1.32%** (YTD +12.40). **Style: Value +0.98%** (YTD +7.85%) and **Growth +1.54%** (YTD +13.26%). **Industry Groups (Leaders):** Info. Tech +1.63% (YTD +28.46%), Tech +1.42% (YTD +25.57%), Healthcare +1.41% (YTD +21.70%), **Materials +1.95%** (YTD +18.13%), Industrials +1.33% (YTD +17.25%), **Financials +1.98%** (YTD +14.61%), Con. Discretionary +1.84% (YTD +13.85%), Utilities +0.71% (YTD +12.55%), REITs +0.51% (YTD +7.81%) and **Con. Staples -0.29%** (YTD +6.11%). **(Laggards):** Telecom +1.89% (YTD -3.61%) and **Energy -0.59%** (YTD -7.23%).

EUROPEAN EQUITIES

The MSCI Europe index was lower by -0.38% last week due to the negative effect of the defiant election in Spain's Catalonia region, and the continuing pressure on the UK's prime minister.

Drivers: I) The **ECB'**s published **minutes from September** shows the members debated the possibility of scaling back its massive stimulus, given the stronger economy along with various scenarios regarding the pace and duration of asset purchases. There was broad **agreement** for the **continued need of monetary policy** support to **return inflation to its target of 2%,** and they are confident the target would be achieved with improved growth.

II) The **Euro-zone's September manufacturing PMI was 58.1, hitting a 79-month high**. Output grew at its fastest rate in nearly six-and-a-half years, backlogs rose again and job creation posted a new survey record. Business optimism registered its second most optimistic reading since the data were first compiled in July 2012. At the same time, input cost inflation picked up to a 5-month high.

III) **Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was lower by -0.38% for the week (MTD -0.38% YTD +22.33%).**

ASIAN EQUITIES

Asian markets were mostly positive last week as markets in China and South Korea were closed for public holidays. Asia was led by the Nikkei, which advanced each day and 1.6% for the week. Japan rallied as the Tankan indicated positive sentiment for manufacturers and non-manufacturers pointing to continued economic expansion. The Dow Jones Asia Index rose by +1.18% for the week, (MTD +1.18% YTD +18.53%).

Drivers: I) **Japan's third quarter Tankan survey** for large manufacturers **improved** to a reading of 22, up from 17 in the second quarter. Aggregating manufacturers of all sizes, the index rose from 11 to 15. Capex across all firms in both the manufacturing and non-manufacturing sectors is forecast to increase by 4.6% in the fiscal year ended March 2018, well up from the previous forecast for an increase of 2.9%.

II) In Japan, **Prime Minister Shinzo Abe last week dissolved the parliament's lower house and called a snap election for October 22**. Abe called the general election hoping to keep his conservative Liberal Democratic Party-led coalition's majority in the lower house. This bet now looks somewhat uncertain, given growing support for a new party formed by the popular governor of Tokyo, which is drawing candidates from other opposition parties.

III) **Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was up by +1.64% (MTD +1.64%, YTD +10.07%), the Hang Seng Index advanced by +3.34% (MTD +3.34%, YTD +28.50%) and the Shanghai Composite was flat at +0.00% (MTD +0.00%, YTD +7.90%).**

FIXED INCOME

Treasury yields were higher last week, amid a selloff fueled by data that showed a pickup in U.S. wage growth, suggesting tight labor markets may finally drive inflation higher and strengthen the Federal Reserve's intent to hike rates in December.

Performance: I) **The 10-year Treasury yield was higher last week ending at 2.359% up from 2.335%. The 30-year yield jumped higher last week rising from 2.863% to 2.893%.**

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 -0.15% and YTD +2.98%. The Bloomberg Barclays US MBS TR was down -0.17% last week, MTD -0.17% and YTD +2.15%. The Bloomberg Barclay's US Corporate HY Index rose +0.16%, MTD +0.16% and YTD +7.17%.**

COMMODITIES

The DJ Commodity Index was down -0.88 last week and is higher month to date -0.88% (YTD -1.64%) as the rise in the USD and higher than expected harvests for wheat sent commodity prices lower.

Performance: I) **Oil prices fell** last week by -4.63% down to $49.25 and is lower month to date for October -4.63% (YTD -8.61%) as traders tracked Tropical Storm Nate's path into the Gulf of Mexico and its potential impact on the region's energy infrastructure.

II) The **ICE USD Index**, a gauge of the U.S dollar's movement against six other major currencies, **rose +0.77%** from 93.07 to 93.79 for the week (MTD +0.77% YTD -8.39%). The U.S. dollar was higher last week amid growing uncertainty over Prime Minister Theresa May's control of leadership and strong U.S. earnings data.

III) **Gold was lower last week** as the precious metal has been on the defensive as the dollar hit its highest level on a trade-weighted basis since mid-August. Gold was **lower by -0.28**% last week, dropping from $1282.5 to $1278.9 (MTD -0.28% YTD +11.01%).

HEDGE FUNDS

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

Performance:

- **I) The HFRX Global Hedge Fund Index is higher at +0.43% MTD and +4.88% YTD.**
- **II) Equity Hedge has risen +0.68% MTD and is up +7.79% YTD.**
- **III) Event Driven has advanced MTD +0.29% and is higher YTD +6.89%.**
- **IV) Distressed Debt is lower by -0.16% MTD and is positive YTD +2.27%**
- **V) Macro/CTA has advanced by +0.49% MTD and is up +0.40% YTD.**
- **VI) Relative Value Arbitrage has risen +0.26% and is higher by +3.11% YTD.**

ECONOMIC DATA WATCH AND MARKET OUTLOOK

In a look towards **next week's market action**, the majority **investors** continue to **speculate** as to when the inexorable rise in **equity markets** will hit a wall and suffer the **price correction** everyone has been expecting. But market skeptics have been confronted with **stronger-than-expected economic data**, including upgraded gross-domestic-product readings and the fastest manufacturing pace in 13 years. Also, aiding positive market sentiment has been **revived optimism over potential corporate tax cuts** as the White House and congressional Republicans revive a push for a wide-ranging tax bill. Lastly, market tops have typically seen a spike in speculative trading volume, but last Thursday's composite volume was only 5.81 billion shares versus a year-to-date average of 6.45 billion.

In turning to **next week's economic calendar**, **minutes** from last month's **FOMC meeting will be Wednesday's highlight**. September's FOMC meeting was one for history, marking the decision to **begin balance-sheet unwinding**. Special details on the unwinding, especially its possible duration and how much policy makers plan to reduce their $4.5 trillion balance sheet, will be closely watched in the minutes. **Lack of inflation** was a serious topic at the meeting but market interest here may be limited by the September employment report that has since shown a major increase in wages.

The **JOLTS data out Wednesday** morning may show that **tight conditions in the labor market**. There are the signals from the labor market's 4.2% unemployment rate and are consistent with the JOLTS report. Job openings in the report rose to 6.170 million in July and were far ahead of hiring's at 5.501 million. This separation indicates that employers are having a hard time filling slots. Street consensus **for August job openings is a steady reading** at **6.160 million**.

On **Thursday producer prices** will be reported for September. Producer prices have been **unusually soft** at only a **0.2% gain in August** despite a jump for energy prices. Excluding food and energy, the core rate was even weaker, up only 0.1% in August to miss Street's consensus for the fourth month in a row. **Weakness** here has been tied to **lack of price pressures in trade services**.

The big news comes out on **Friday with consumer prices**, where limited but constructive pressure for the core is being projected, and retail sales where a large spike in the headline may mask only moderate trends below. Forecasters **do not see a major gain for September's core CPI**, at a **consensus 0.2%**, but they do see energy-related strength for the overall CPI where the consensus is 0.6% in what would follow a 0.4% gain in August that also was boosted by higher fuel costs. **Year-on-year rates** are expected to **rise, to 2.3% overall** in what would be a 0.4% increase and **1.8% for the core** in what would be a 0.1% improvement.

On Friday, replacement demand made for one-time strength in **unit auto sales** during September and together with a major lift from **higher gasoline prices** are expected to drive **a 1.9% gain** for **total retail sales**. When excluding autos, the expected gain remains robust at 0.8% though when excluding autos and gas, expectations fall to 0.4%.