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INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

U.S. equity markets closed lower for a second straight week, as investors remained leery as to whether Republicans will have any success in passing their proposed tax legislation through Congress.

a) **Dow Jones -0.19%, MTD +0.14%, YTD +20.76%** b) **S&P 500 -0.06%, MTD +0.31%, YTD +17.27%**
c) **Russell 2000 +1.24%, MTD -0.58%, YTD +11.23%**

Drivers: I) **US Congressional House** lawmakers voted 227 to 205 to **approve the bill**, known as the **Tax Cuts and Jobs Act.** The bill would cut the corporate tax rate to 20% next year from 35%; collapse the seven existing tax brackets to four; eventually repeal the estate tax; and switch the U.S. to a territorial tax system in which companies are taxed where income is earned.

II) **House passage of the tax bill is a short-term victory** for Trump and the GOP as the Republicans' overhaul has **several steps to go**, and likely faces immediate hurdles. A revised bill moving through the Senate Finance Committee differs in key respects from the House measure, most notably a delay of the corporate-rate cut until 2019 and individual tax cuts contained in that bill would expire at the end of 2025.

III) The year over year overall **CPI rate**, which declined by 0.20% in October, has been struggling to hold the 2.0% target set by the Fed. The overall rate was held down in October by a post-hurricane reversal in energy prices and another flat month for food, where prices are **up only 1.3% on the year**. On the plus side, an increase in wireless service costs and the pass-through from isolated instances of **wage strength have begun to add to inflation**.

IV) **Retail Sales in October** understandably slowed, but did **remained positive at 0.2%.** Vehicle sales remained positive in October. Sales for building materials, a hurricane-sensitive component, fell after rising in September. Looking at less volatile components, electronics and appliance stores rose 0.7% in October with health and personal care stores also up 0.8% in what are very solid results.

V) **Equity prices in November are mixed with Large-Cap, Growth, REITs and Consumer Staples leading equity price performance. The laggards for the month are Small-Cap, Value, Telecom and Financials.**

Capitalization: **Large Caps +0.34%** (YTD +17.19%), Mid-Caps +0.82% (YTD +14.54%) and **Small Caps -0.58%** (YTD +11.23). **Style: Value +0.03%** (YTD +7.78%) and **Growth +0.36%** (YTD +15.07%). **Industry Groups (Leaders):** Info. Tech +0.79% (YTD +37.01%), Tech +0.65% (YTD +32.70%), Healthcare +0.15% (YTD +19.25%), Materials -1.16% (YTD +18.90%), Utilities +1.28% (YTD +17.57%), Con. Discretionary +1.72% (YTD +16.10%), Industrials -1.43% (YTD +14.92%), **Financials -1.65%** (YTD +13.77%), **REITs +3.31%** (YTD +11.62%) and **Con. Staples +3.10%** (YTD +7.90%). **(Laggards):** Energy -0.77% (YTD -8.12%) and **Telecom -2.29%** (YTD -13.90%).

EUROPEAN EQUITIES

The MSCI Europe index was lower last week by -0.27% as equities were under pressure as the euro rose against the U.S. dollar. Investors have been shrugging off continued strength in economic data as euro zone earnings growth slowed this quarters and there is concern whether a stock market rally could continue.

Drivers: I) **Euro-zone third quarter flash GDP** was **up a quarterly 0.6%,** and when compared with **a year ago**, total output was **up 2.5%.** This confirmed a generally good period for the four largest countries. Growth in France was 0.5%, down a bit from the second quarter rate, while Germany climbed from an already respectable 0.6% to 0.8%. Spain (0.8% after 0.9%) was among the best performers and Italy (0.5% after 0.3%) also fared well.

II) In **Germany**, following an unrevised 0.6% gain in the second quarter, real **GDP grew** at a surprisingly **strong 0.8% quarterly rate**, its second fastest pace since the fourth quarter of 2012. The Federal Statistics Office indicated that the expansion was led by net exports and investment in machinery and equipment. By comparison, household and government consumption were relatively stable.

III) **Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was down by -0.27% for the week (MTD -1.70% YTD +21.27%).**

ASIAN EQUITIES

Asian markets were down for the week, due to data releases which indicated that China's economy cooled further in October. Specifically, industrial output, fixed asset investment and retail sales missed expectations as the government continued its policy to reduce debt risks. The Dow Jones Asia Index fell by -1.66% for the week, (MTD +0.07% YTD +21.14%).

Drivers: I) In **Japan**, the preliminary **estimate of third quarter GDP** was up a **quarterly 0.3%**. On the **year, GDP was up 1.6%** or at an annualized 1.4%, down from 2.6% in the previous quarter. Private consumption contracted 0.5% on the quarter, largely reversing an increase of 0.7% in the previous quarter. The weakness in domestic sources of growth was partly offset by a rebound in external demand, with exports up 1.5% on the quarter after falling by 0.2% in the three months to June.

II) **China's October industrial production was up 6.2%** on the year after increasing 6.6% in September. **Weaker headline industrial production growth** was driven by the manufacturing sector, where annual growth slowed to 6.7% from 8.1% in September. Growth weakened in several major industries in the sector, including automobiles, communication equipment, and electric machinery.

III) **Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was lower by -1.25% (MTD +1.77%, YTD +19.20%), the Hang Seng Index rose by +0.13% (MTD +3.24%, YTD +31.76%) and the Shanghai Composite was down by -1.45% (MTD -0.31%, YTD +9.00%).**

FIXED INCOME

Treasury yields moved lower last week as the yield curve on the long end continued to flatten. The persistent rise in short rates versus a muted increase on the long end, belies a lack of optimism among bond holders for long-term economic growth and may also reflect demand for safety.

Performance: I) **The 10-year Treasury yield was lower last week ending at 2.344% down from 2.397%. The 30-year yield fell last week declining from 2.877% to 2.779%.**

II) **Performance for the week, month-to-date and year-to-date. The Bloomberg Barclays US Aggregate Bond Index rose +0.24% last week, MTD +0.00% and YTD +3.20%. The Bloomberg Barclays US MBS TR was up +0.16% last week, MTD -0.01% and YTD +2.28%. The Bloomberg Barclay's US Corporate HY Index rose by +0.01%, MTD -0.77% and YTD +6.63%.**

COMMODITIES

The DJ Commodity Index was lower by -0.67 last week but is up month to date +1.06% (YTD +2.33%) as oil declined and industry metals fell due to disappointing economic data out of China.

Performance: I) **Oil prices fell last week** by -0.39%, down to $56.68, but higher month to date for October +4.23% (YTD +5.17%). Falling prices were driven by concerns over a surprise **climb in U.S. inventories**, a lower global demand forecast and an increase in U.S. domestic production to a record weekly level.

II) The **ICE USD Index**, a gauge of the U.S dollar's movement against six other major currencies, **fell -0.76%** from 94.39 to 93.67 for the week (MTD -0.93% YTD -8.50%). The U.S. dollar dropped against several of its major counterparts as political **developments in Washington clouded** the outlook for the **delivery of tax reform** proposals that already looked to be priced into the currency and equity markets.

III) Gold was higher last week, as the latest developments in the investigation into Russia's interference in the U.S. presidential election moved the US dollar lower. Gold was higher by +1.47% last week, climbing from $1275.6 to $1294.4 (MTD +1.88% YTD +12.36%).

HEDGE FUNDS

Hedge fund returns in November are lower, as all core strategies Equity Hedge, Event Driven, Distressed, Relative Value and Macro are in negative territory.

Performance:

I) The HFRX Global Hedge Fund Index is lower at -0.55% MTD and +4.58% YTD.
II) Equity Hedge is down -0.41% MTD and is up +7.46% YTD.
III) Event Driven has declined MTD -0.91% and is higher YTD +5.47%.
IV) Distressed Debt is lower by -0.19% MTD and is positive YTD +1.53%
V) Macro/CTA has dropped by -0.49% MTD and is up +1.33% YTD.
VI) Relative Value Arbitrage has declined by -0.38% and is higher by +2.99% YTD.

ECONOMIC DATA WATCH AND MARKET OUTLOOK

In a look forward to a **Thanksgiving shorten trading week**, investors will note that **odds for a December Fed rate hike** is exactly where it has been for weeks, so everything appears to be **on track** for a third rate hike this year. However, a **point of contention** that might influence future Fed policy is the **flattening yield curve**. Shorter-term yields have been rising due to Fed guidance while longer-term yields have been muted due to lower inflation expectations. If the Fed is too aggressive in their rate hike projections this could push short-end yields even higher which hurts profits within the financial sector and could slow economic growth.

The **last thing the Fed wants** is an unintentional **inverted yield curve** (short-term yields higher than longer-term) as this has **historically signaled an economic recession**. The Fed is aware of this and December's policy statement will likely need to convey a slow-and-steady pace in 2018 as a result. Equity investors will certainly keep a close eye on yields. As a backdrop, the 2-year/10-year spread started 2017 at 125 basis points and is currently 72 basis points.

In turning to next week's **economic calendar**, **Wednesday** will be the focus of Thanksgiving week, led off by **durable goods and FOMC minutes**. While durable goods have been moving higher and another gain is expected for the October report, inflation, or rather its absence of, will be a key topic in the minutes.

The week opens on **Monday,** where **outsized strength** is the call for the index of **leading economic indicators**. **Hurricane factors,** including higher jobless claims and a shorter workweek, pulled down the index by 0.2% in September. While those claims have since fallen back, the workweek has climbed; these together with a jump in building permits point to strength for October's LEI. Forecasters see the **LEI rising 0.6%.**

Durable goods orders have been mixed this year, but **broke out to the upside in August and September** with respective monthly jumps of 2.2 and 2.0%. Aircraft orders have been rising as have capital goods orders, the latter pointing to extending gains for business investment. **Street consensus** for durable goods orders is a **0.5% gain** with ex-transportation also seen up 0.5%. Core capital goods orders are expected to rise 0.6%. These are all **very healthy rates of growth.**

The **FOMC left rates unchanged** at their last meeting, though members did upgrade economic activity from moderate to solid. Strength was the description for both the labor market and business investment with household spending described as moderate. **Inflation**, outside of a post-hurricane spike in gasoline, was still **described as soft**. Any **comments on wage growth** would be **closely watched** as would an early assessment of balance-sheet sheet unwinding.

Existing home sales on **Tuesday** where **strength is also the call**. Existing home sales have been modestly positive and rose 0.7% in September to a 5.390 million annualized rate. Hurricane effects have been hard to assess with Florida a negative for September, but the Houston area has been turning around quickly and proving to be a positive. Forecasters see October's results showing another month of **solid growth to 5.425 million**.