CLEARBROOK

INVESTMENT COMMITTEE MARKET COMMENTARY

APRIL 6, 2015 www.clearbrookglobal.com

U.S. EQUITIES

U.S. stocks saw modest gains last week, as upward momentum was supported by better-than-expected jobless claims, which pointed to continued strength in the labor market and set the tone for Friday's nonfarm payrolls.

a) ***Dow Jones +0.51% MTD -1.85% YTD +0.27%*** b) ***S&P 500 +0.58% MTD -1.58% YTD +0.92%***
c) ***Russell 2000 +1.99% MTD +1.75% YTD +4.56%***

Drivers: I) ***The number of people who applied for unemployment benefits in late March fell to the second lowest since the recession ended and touched levels last seen 15 years ago.*** Initial jobless claims fell by 20,000 to a seasonally adjusted 268,000 in the seven days stretching from March 22 to March 28, the government reported last week. Economists had expected claims to total 285,000, and the average of new jobless claims over the past month declined by 14,750 to 285,500.

II) ***The U.S. created the fewest new jobs in March in 15 months, a steep downshift in hiring that raises questions about whether the economy is suffering from a temporary setback or if a broader slowdown is underway.*** The economy generated just 126,000 new jobs last month, breaking a streak of 12 straight 200,000-plus gains and marking the smallest increase since the end of 2013. The unemployment rate was unchanged at 5.50%, the Labor Department reported last week.

III) ***The good news in the March jobs report*** was an increase in worker pay. ***Average hourly wages rose a solid +0.30% in March***, though how much employees get paid has not shown much change despite the biggest increase in hiring in 2014 in 15 years. The increase in wages over the past 12 months was +2.10%. Year-over-year increases have stuck to a tight range of +1.90% to +2.20% for the past three years. Wage gains have averaged about +2.00% since 2010, just two-thirds as fast as they normally grow.

IV) ***Consumer spending rose just +0.10% last month***, the Commerce Department reported last Monday. ***Economists were looking for a seasonally adjusted +0.30% gain.*** The small increase in spending in February and outright decline in January suggest the economy failed in early 2015 to match the pace of growth at the end of last year. Harsh winter weather that kept people indoors and steered them away from car dealers and other retailers likely contributed to a small gain in spending in February.

V) ***Equity prices for the month are mostly negative, with Small Cap and Growth along with Healthcare and Consumer Cyclicals leading equity price performance. The laggards for the month are Large Cap and Value Stocks along Technology, Basic Materials and Energy.***

Capitalization: ***Large Caps -1.52%*** (YTD +0.72%), Mid-Caps +1.27% (YTD +4.63%) and ***Small Caps +2.20%*** (YTD +4.52%). Style: ***Value -1.02%*** (YTD -0.44%) and ***Growth -0.17%*** (YTD +5.46%). Industry Groups (Leaders): ***Healthcare +1.31%*** (YTD +6.73%), ***Consumer Cyclicals +1.11%*** (YTD +5.30%), Communication -1.59% (YTD +3.59%), ***Technology -3.04%*** (YTD +0.96%), Industrials -1.61% (YTD +0.15%) and ***Basic Materials -3.51%*** (YTD +0.95%). (Laggards): Financial Services -0.43% (YTD -1.79***%), Energy -1.85% (YTD -1.41%) and*** Utilities +0.54% (YTD -4.21%).

EUROPEAN EQUITIES

The Stoxx Europe 600 Index advanced last week from 395.54 to 397.80, to close higher by +0.57%. European stocks managed to eke out modest gains in the Easter-shortened week as investors remained mostly on the sideline in front of the U.S. jobs data. Year-to-date the Stoxx Europe 600 is up +16.13% (MTD +1.40%).

Drivers: I) ***Markit***, which surveys more than 3,000 manufacturers across the Eurozone, ***reported last week that its purchasing manager's index rose to 52.20 in March from 51.00 in February. Markit had previously estimated the PMI rose to 51.90.*** Producers are benefiting from the weaker euro, which has had the dual effect of boosting competitiveness in export markets as well as making competing imports more expensive in the home markets. The rise in new orders has given manufacturers fresh confidence to hire additional workers, which they did at the fastest pace in 43 months.

II) ***Germany's DAX logged a +22.00% gain, which not only exceeds the performance of almost any other index in Europe and the U.S.***, but also marks the strongest quarter since the three months to June 2003. It is the most export-oriented index so it benefits from a weaker euro, and lower oil prices, QE tailwind and a strong economy.

III) ***Performance of European Indexes for the week, month-to-date and year-to-date. The EuroStoxx 600 Index fell by -2.10% for the week (MTD +0.95% YTD +15.47%).***

ASIAN EQUITIES

Asian equity markets rallied last week, led Japanese stocks as investors refocused on hopes that Japan's central bank and the country's pension funds will keep increasing their allocation to equities to boost their returns. The Dow Jones Asia/Pacific Index was up +1.09% for the week.

Drivers: I) ***Two separate gauges of Chinese manufacturing activity in March both came in better than markets had expected.*** HSBC's China manufacturing Purchasing Managers' Index (PMI) for March was revised upward to 49.60 from a preliminary 49.20, beating market expectations but still below the 50.00 mark dividing expansion from contraction. Earlier, China's official PMI also beat forecasts by rising to 50.10 in March from 49.90 the previous month.

II) Performance of Asian Indexes for the week, month-to-date and year-to-date. ***The Nikkei was higher by +0.77% (MTD +1.79% YTD +11.37%), the Hang Seng Index was up by +3.24% (MTD -0.38% YTD +7.08%) and the Shanghai Composite climbed higher by +4.68% (MTD +12.46% YTD +19.45%).***

FIXED INCOME

Treasury yields plunged to their lowest level since Feb. 5 on Good Friday, following a weak official jobs report that the market took as evidence that the Federal Reserve will have to delay plans to raise interest rates.

Performance: I) ***The 10-year Treasury yield was lower last week, ending at 1.843% down from 1.963%. The 30-year yield fell last week falling from 2.537% to 2.489%.***

II) Performance for the week, month-to-date and year-to-date***. Barclays US Agg Bond*** was up ***+0.57%*** last week, ***MTD +0.46% and YTD +1.75%***. The ***Barclays US MBS TR rose by +0.37%*** last week, MTD ***+0.37% and YTD +1.11%***. The ***BofAML US HY Master II was higher last week by +0.32%, MTD -0.55% and YTD +2.63%.***

COMMODITIES

The DJ Commodity Index strengthened last week climbing from 307.99 to 308.42 and is higher month-to-date at +1.41% (YTD -4.71%) as commodities rallied in recent weeks due to the decline in the USD.

Performance: I) ***Oil prices were up last week but settled sharply lower on Thursday with traders betting that a preliminary deal on Iran's nuclear program will only add to excess supplies*** that have been weighing on prices. Crude oil for the week advanced from $48.43 to $49.55 per barrel.

II) The ***ICE USD Index***, a gauge of the greenback's movement against six other major currencies, ***was lower falling from 97.38 to 96.74 for the week. The USD declined for the third straight week after a surprisingly weak nonfarm payrolls report.*** For the week the Yen was stronger rising from ¥119.14 to ¥118.97 and the Euro advanced from 1.0889 to 1.0972 against the USD.

III) ***Gold rose last week but settled with a -2.50% loss in March on the back of strength in the U.S. dollar.*** For the week gold rose from $1198.6 to $1202.5.

HEDGE FUNDS

Hedge funds returns in March are primarily higher with the core strategies Event Driven, Equity Hedge, Distressed and Macro/CTA higher for the month, while Relative Value is lower.

Performance: I) ***The HFRX Global Hedge Fund Index is higher at +0.33% MTD and +2.02% YTD.***
II) ***Equity Hedge is up at +0.60% MTD and has risen +2.20% YTD.***
III) ***Event Driven has advanced MTD +0.35% and is higher by +1.44% YTD.***
IV) ***Distressed Debt is up +0.05% MTD and is up +0.47% YTD.***
V) ***Macro/CTA is higher at +0.71% MTD and +3.40% YTD.***
VI) ***Relative Value Arbitrage has dropped by -0.22% and is up +2.04% YTD.***

ECONOMIC DATA WATCH AND MARKET OUTLOOK

Heading into next week, investors will be confronted with a market that is possibly under pressure as a less-than-stellar earnings season starts ramping up, backed by further evidence of weak job creation. The weak jobs report on Friday makes a rate hike from the Federal Reserve in June much less likely. Plus, ***this week precedes the first peak week of quarterly earnings reports, when major banks and a handful of Dow components are scheduled to report.***

Not only are earnings expected to decline year-over-year for the first quarter, mostly from plunging profits in the energy sector, but a year-over-year decline for the second quarter is also anticipated. This signals an earnings recession, or two consecutive quarters of year-over-year earnings declines. ***For Q1 2015 and Q2 2015, analysts are now predicting year-over-year earnings declines of -4.60% and -1.90%,*** respectively, according to FactSet. ***On December 31, analysts were projecting growth of +4.30% and +5.30% for these same two quarters.***

On the economic data front ***on Monday***, ***the Markit service purchasing managers index and the Institute for Supply Management's nonmanufacturing PMI will cover March activity.*** Services make up the bulk of the U.S. economy. Continued growth will depend on service producers reporting expanding new orders, employment and production.

The Labor Department will release its Job Openings and Labor Turnover survey on Tuesday. Federal Reserve officials look closely at the trend in gross hirings, layoffs and job openings. ***The number of people voluntarily leaving their jobs is another indicator of health.*** The idea is that workers usually quit when they are confident they will have no problem finding a better job quickly.

On Wednesday, the Fed will release the minutes of its March 17-18 policy meeting. The minutes allow Fed watchers to read the arguments or agreements surrounding policy moves. ***Of interest will be any discussion about the timing of a first interest rate increase and also about dropping the "patient" phrasing in the policy statement.***