CLEARBROOK

WEEKLY MARKET COMMENTARY

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U.S. EQUITIES

U.S. stocks achieved their first weekly gain of the new year last Friday as oil futures rebounded for a second day and rumors of potential central-bank stimulus in Europe and Japan helped comfort nervous investors.

a) ***Dow Jones +0.69% MTD -7.53% YTD -7.53%*** b) ***S&P 500 +1.43% MTD -6.61% YTD -6.61%***
c) ***Russell 2000 +1.29% MTD -10.10% YTD -10.10%***

Drivers: I) ***Sales of existing homes soared 14.7% in December, the biggest monthly increase ever recorded, reflecting some makeup from a depressed sale pace in November. Home resales ran at a seasonally-adjusted annual rate of 5.46 million***, the National Association of Realtors reported last week. Economists had forecast a 5.21 million pace. December's number was 7.7% higher compared to the same period a year ago. ***Sales in 2015 totaled 5.26 million, the best since 2006's 6.48 million.***

II) ***Housing inventory is being squeezed as demand for homes remains robust. Sales have been bolstered by a strong job market and more people, particularly young adults, finally forming households after the great recession and weak recovery.*** There were 3.9 months' worth of homes available in December, the lowest since January 2005. This is also continuing to drive prices higher. The median price rose to $224,100, up 7.6% compared to a year ago.

III) ***Consumer prices fell again in December owing mostly to falling costs of food and gasoline. The consumer price index declined by seasonally adjusted 0.1% last month***, the Bureau of Labor Statistics reported last Wednesday. For all of 2015 inflation rose just 0.7%, ***the second slowest rate in 50 years.***

IV) ***The leading economic index fell in December*** in a reflection of the choppy growth that characterized the U.S. late in the year. ***The index dropped 0.2% to 123.7 after 0.5% gains in the prior two months***, according to the Conference Board. ***The decline was led by a drop in housing permits and weak new orders for manufacturers.***

V) ***Equity prices in January are solidly down, with Large-Cap, Growth, and Communications leading equity price performance. The laggards for the month are Small-Cap and Value Stocks along with Materials and Financials.***

Capitalization: ***Large Caps -6.96%*** (YTD -6.96%), Mid-Caps -8.06% (YTD -8.06%) and ***Small Caps -10.10%*** (YTD -10.10%). Style: ***Value -8.70%*** (YTD -8.70%) and ***Growth -7.39%*** (YTD -7.39%). Industry Groups (Leaders): ***Communication +2.14%*** (YTD +2.14%), Utilities +1.18% (YTD +1.18%), and Consumer Staples -2.43% (YTD -2.43%). (Laggards): Technology -5.76% (YTD -5.76%), Healthcare -5.85% (YTD -5.85%), Consumer Discretionary -6.26% (YTD -6.26%), Energy -7.57% (YTD -7.57%), Industrials -8.25% (YTD -8.25%), ***Financial Services -10.66%*** (YTD -10.66%) and ***Basic Materials -11.36%*** (YTD -11.36%).

EUROPEAN EQUITIES

The Stoxx Europe 600 Index rose last week from 329.84 to 338.36 gaining +2.58%. European stocks broke a weekly string of losses, as oil prices rebounded and as investors looked toward the possibility the ECB will enact more stimulus measures for the euro-zone. Year to date the Stoxx Europe 600 is down -7.50% (MTD -7.50%).

Drivers: I) ***ECB President Mario Draghi last week, said the recent global market turmoil raises downside risks for euro-zone inflation and the economy. In light of that, the central bank may "possibly reconsider" its stance on monetary policy at its March meeting***, he said during a news conference in Frankfurt, igniting a rally in European stocks. ***An ECB survey of economists showed they have reduced their inflation forecasts for 2016 and 2017, in part as "oil price movements will exert a strong dampening impact on inflation and counteract favorable base effects arising from past developments."***

II) ***Eurozone economic activity slowed in the first weeks of 2016, according to surveys of purchasing managers, a development that adds to mounting concerns about the weakness of the global economy amid sharp declines in the prices of commodities and financial assets.*** Markit's survey of 5,000 companies around the euro-zone, known as the composite purchasing managers index, fell to 53.5 in January from 54.3 in December.

III) ***Performance of European Indexes for the week, month-to-date and year-to-date. The EuroStoxx 600 Index rose by +2.58% for the week (MTD -7.50% YTD -7.50%).***

ASIAN EQUITIES

Asian equity markets rallied last Friday, though were down for the week, as investors put their hopes in more stimulus from the major central banks. The Dow Jones Asia Pacific Index was down -1.42% for the week, (MTD -10.03), (YTD -10.03%).

Drivers: I) ***China's GDP growth rate moderated to 6.8% for the fourth quarter and 6.9% for 2015. The annual pace was the weakest in a quarter century, and the quarterly level undershot market expectations, posting its lowest reading since the financial crisis and signaling weakening economic momentum.*** Fears over slowing momentum in China and Beijing's handling of the economy have combined with concerns over plunging oil and commodity prices to pull down nervous global stock markets since the start of 2016.

II) ***Debt in China, which economists said has continued to rise even as the economy slows, is limiting Beijing's room to maneuver. State-owned enterprises saw profits fall 9.5% year over year during the first 11 months of 2015***, while their debt increased 18.2%. ***Total debt equals almost 260% of annual economic output, up from less than 160% in 2007.*** While the official ratio of nonperforming loans in China's banks remained low at 1.6% by the end of the third quarter, analysts and economists said the pace is picking up and many debts are hidden in the books of nonbank lenders while banks roll over many loans.

II) Performance of Asian Indexes for the week, month-to-date and year-to-date. ***The Nikkei was lower by -1.10% (MTD -10.90% YTD -10.90%), the Hang Seng Index declined by -2.26% (MTD -12.93% YTD -12.93%) and the Shanghai Composite rose by +0.54% (MTD -17.59% YTD -17.59%).***

FIXED INCOME

Treasury yields pushed to their highest levels in a week, following sharp gains in oil, which fueled a rally in stocks and led investors to sell U.S. Treasuries in favor of riskier assets.

Performance: I) ***The 10-year Treasury yield was higher last week ending at 2.055% up from 2.038%. The 30-year yield rose last week advancing from 2.815% to 2.824%.***

II) ***Performance for the week, month-to-date and year-to-date. Barclays US Aggregate Bond was down -0.12% last week, MTD +0.86% and YTD +0.86%. The Barclays US MBS TR rose by +0.03% last week, MTD +0.84% and YTD +0.84%. The BofAML US HY Master II rose last week by +0.11%, MTD -2.68% and YTD -2.68%.***

COMMODITIES

The DJ Commodity Index was higher last week rising from 225.39 to 231.04 and is down month to date -4.42% (YTD -4.42%) as oil found a bottom and rallied strongly at week's end.

Performance: I) ***The price of oil jumped 9% on Friday to settle at their highest level in two weeks, rebounding from oversold conditions as traders bet that major central banks will announce fresh stimulus measures that may improve sentiment for the battered commodity.*** For the week the price of oil climbed higher from $29.42 to $32.25 per barrel.

II) ***The ICE USD Index, a gauge of the greenback's movement against six other major currencies, was higher advancing from 98.94 to 99.53 for the week.*** The USD strengthened against the euro and the yen last week, as investors shed caution following signs that the ECB may provide more stimulus, and as Japanese stocks rallied. For the week the Yen weakened falling from ¥117.02 to ¥118.77 and the Euro fell from 1.0916 to 1.0798 against the USD

III) ***Gold prices ended the week higher, with investors expecting no surprises from the Federal Reserve's upcoming monetary policy meeting.*** For the week gold was higher rising from $1088.6 to $1098.2.

HEDGE FUNDS

Hedge funds returns in January are primarily lower, as Macro/CTA is higher, while core strategies Equity Hedge, Distressed, Event Driven and Relative Value are in negative territory.

Performance:

I) ***The HFRX Global Hedge Fund Index is lower at -3.17% MTD and -3.17% YTD.***
II) ***Equity Hedge is negative at -5.55% MTD and has fallen -5.55% YTD.***
III) ***Event Driven is down MTD -4.42% and is down YTD -4.42%.***
IV) ***Distressed Debt is lower at -3.94% MTD and is negative*** YTD ***-3.94%***
V) ***Macro/CTA has risen by +1.20% MTD and is up +1.20% YTD.***
VI) ***Relative Value Arbitrage is negative at -2.53% and is down -2.53% YTD.***

ECONOMIC DATA WATCH AND MARKET OUTLOOK

Heading into next week, a series of quarterly results from the tech giants of Silicon Valley are scheduled to be released. Apple Inc. and Microsoft Corp., along with 10 other Dow industrials components, are some of the highlights of the coming week's action as earnings season shifts into high gear. In addition, the Federal Reserve, will convene for a highly anticipated, two-day meeting, ending with a statement on monetary policy. Markets are not expecting the Fed to raise rates next week, after lifting benchmark rates for the first time in nearly a decade mid-December. Fed-futures reflect a 12% probability of a hike, according to the CME's FedWatch report last Friday.

On the economic data front, the consumer confidence index (expected to drop from 96.5 to 96.3), due Tuesday from the Conference Board, will show if U.S. consumers are worried by recent gyrations in financial markets and overseas turmoil. For the U.S. economy to continue to outperform much of the rest of the world, consumers will need to keep spending. Also watch Friday's consumer sentiment reading from the University of Michigan (projected to decline from 92.6 to 92.5).

Sales of new homes accelerated last year, a positive sign for the domestic economy despite overseas headwinds. The Commerce Department releases the December report Wednesday (estimated to rise from 490,000 to 503,000). While sales remain well below prerecession levels, a strong December could allow the 2015 figure to approach 2008's level of 485,000.

The Federal Reserve issues its latest policy statement Wednesday afternoon. Watch to see if officials use it as an opportunity to reevaluate the state of the economy. If policy makers indicate they see momentum slowing, it could be a sign they'll move more slowly than previously expected on interest-rate increases. ***No change in interest rates is expected at the January meeting.***

The Commerce Department releases the December reading on durable-goods orders (expected to fall from 0.0% to -1.2%) Thursday, an important gauge of manufacturing. ***A stronger dollar and weakening domestic energy industry has slowed U.S. factory output.*** New orders declined 3.7% in through November, compared with a year earlier. That sets up 2015 to be the first year demand for long-lasting goods fell since 2009.

The first read on fourth-quarter gross domestic product (expected to fall from 2.0% to 0.7%) will be released Friday by the Commerce Department. Many economists expect to see that economic growth slowed to near zero in the final three months of the year. ***That could be worrisome sign that global economic struggles are starting to drag on U.S. output.***