WEEKLY MARKET COMMENTARY

MAY 23, 2016 www.clearbrookglobal.com

EXECUTIVE SUMMARY

- Last week's release of the Fed minutes highlighted the possibility of a June rate hike, and as earnings season ends, investors will now turn their full attention to economic data and how Fed members are interpreting that data in their decision to raise rates. A number of reports will be released this week as well as speaking appearances from members of the FOMC, which are expected to be hawkish and may further influence investors' outlook. Some market strategists, however, believe the Fed will wait for several upcoming events (such as the UK referendum on E.U. membership and the U.S. election) before raising rates.

- Last week, The consumer price index rose to a seasonally adjusted 0.4% last month, the largest gain since February 2013. More than half of the rise in consumer inflation stemmed from a recent bump in the cost of gasoline. Rent was another major contributor, accounting for about one-fourth of the increase.

- Equity markets in the U.S. showed weekly gains in the S&P 500 and the Nasdaq, but the Dow Jones Industrial Average extended its losing streak for a fourth week. In Europe, stocks rallied as investors' appetite for risk returned after a selloff prompted by concerns over the next interest-rate hike. Asian equities rose slightly, driven in part by a continued rise in housing prices in China for the fourth straight month after a turnaround in December.

- In Fixed Income, Treasury yields saw their largest weekly gain since November, as investors sold U.S. government bonds preparing for an increased probability that the Federal Reserve may raise interest rates in June. In the commodities sector, crude oil prices jumped on expected declines in supply, while Gold experienced a second straight weekly loss due to as growing expectations for an interest rate hike. Hedge fund strategy returns were mixed.

- Reports to watch out for this week: the Commerce Department releases their advance report on international trade on Wednesday, and on Thursday, will release the durable goods report. In Thursday's release, investors will be watching the number for non-defense capital goods excluding aircraft. This proxy for business investment fell in March, despite a gain in the headline figure. Friday's Consumer Sentiment report from the University of Michigan is an indicator of whether Americans are more optimistic about the economy.

U.S. EQUITIES

U.S. stocks closed higher last Friday as fears of an interest-rate hike abated with the S&P 500 and the Nasdaq posting weekly gains, but the Dow Jones Industrial Average extended its losing streak for a fourth week.

a) ***Dow Jones -0.04% MTD -1.17% YTD +1.62%*** b) ***S&P 500 +0.35% MTD -0.42% YTD +1.31%***
c) ***Russell 2000 +0.92% MTD -1.55% YTD -1.52%***

Drivers: I) ***The minutes of the April 26-27 FOMC meeting appear to highlight concerns of Fed officials, that the market is too complacent over the interest-rate-hike desires at the central bank.*** "Most participants judged that if incoming data were consistent with economic growth picking up in the second quarter, labor market conditions continuing to strengthen, and inflation making progress toward the Committee's 2% objective, then it likely would be appropriate for the Committee to increase the target range for the federal-funds rate in June," the minutes read.

II) ***Some market strategists remain skeptical of an imminent hike, arguing that the Fed will instead wait for several upcoming events, most notably the U.K. referendum on European Union membership in June, and possibly the U.S. election this fall to pass***. The U.K. vote takes place about a week after the June Fed meeting. If any one of those becomes a problem, you have significant risk to the downside.

III) ***The consumer price index rose to a seasonally adjusted 0.4% last month, the largest gain since February 2013.*** More than half of the rise in consumer inflation stemmed from a recent bump in the cost of gasoline. Rent was another major contributor, accounting for about one-fourth of the increase. The CPI has risen just 1.1% in the past 12 months, up from 0.9% in March.

IV) ***Construction on new houses rebounded in April*** after a sharp dip in the prior month, but a slowdown in building permits suggest work on new properties could slow from last year's double-digit pace. ***Housing starts climbed 6.6% last month to an annual pace of 1.17 million***, the Commerce Department reported last week. In March, starts were revised to a 1.1 million rate.

V) ***Equity prices in May are mixed, with Large-Cap, Growth, Information Technology and Technology leading equity price performance. The laggards for the month are Small-Cap and Value Stocks along with Consumer Discretionary.***

Capitalization: ***Large Caps -0.50%*** (YTD +1.22%), Mid-Caps -0.86% (YTD +2.43%) and ***Small Caps -1.55%*** (YTD -1.52%). Style: ***Value -2.11%*** (YTD +5.68%) and ***Growth +0.09%*** (YTD +1.65%). Industry Groups (Leaders): ***Utilities -0.28%*** (YTD +12.38%), Telecommunication -2.09% (YTD +11.61%), Energy -1.89% (YTD +10.47%), Consumer Staples -0.27% (YTD +3.89%), Industrials -2.02% (YTD +4.33%) and ***Technology +1.30%*** (YTD +0.12%). (Laggards): ***Information Technology +1.64%*** (YTD -1.04%), Financial Services -0.27% (YTD -2.15%), Healthcare -0.13% (YTD -2.72%) and ***Consumer Discretionary -6.59%*** (YTD -4.63%).

EUROPEAN EQUITIES

The MSCI Europe index was up last week rising +0.30%. European equities rallied last Friday, recording their second consecutive weekly gain, as investors' appetite for risk returned after a selloff prompted by concerns over the next U.S. interest-rate hike.

Drivers: I) ***In the U.K., the number of people in work rose by 44,000 to 31.6 million in the three months to March compared with the previous three months***, with increases in both full- and part-time work and the number of self-employed. Unemployment fell by 2,000, to 1.7 million, the Office for National Statistics reported last week, with ***the unemployment rate holding steady at 5.1%. The jobless rate was last lower in 2005.***

II) ***The British Pound Sterling rose to its highest level against the euro in more than three months last Thursday after U.K. retail sales for April suggested concerns over the upcoming Brexit referendum may be fading.*** Sterling climbed to an intraday high of €1.3073, trading at the highest level since early February. Against the dollar, the pound rose to as high as $1.4663, the strongest it has been in two weeks
III) ***Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index rose +0.30% for the week (MTD -2.72% YTD -2.87%).***

ASIAN EQUITIES

Asian equity markets were mostly higher, as data earlier last week showed China's home prices continuing to rise in April, supporting the property sector. Energy stocks gained alongside a continued recovery in crude oil prices. The Dow Jones Asia Pacific Index was up +0.06% for the week, (MTD -3.91), (YTD -4.11%).

Drivers: I) ***The first-quarter growth that Japan reported last week was bad news for policy makers seeking looser fiscal policy.*** It decreased the political imperative for a big stimulus package while not signaling any sustained recovery. ***While GDP rose 1.7% on an annualized basis, economists cautioned against concluding that a recovery was under way***. They said ***the result was helped by a downward revision on the previous quarter and an extra leap year day in February that inflated consumer spending.***

II) ***Average housing prices in China continued to rise in April on an annual basis for the fourth straight month after a turnaround in December, as more cities show a boost in home prices following looser lending policies outside the top tier cities.*** From the same month a year earlier, the average price of new homes in 70 Chinese cities rose 4.1% in April, following a 2.9% gain in March and a 1.9% rise in February.

III) Performance of Asian Indexes for the week, month-to-date and year-to-date. ***The Nikkei was higher by +1.97% (MTD +0.42% YTD -12.07%), the Hang Seng Index advanced by +0.67% (MTD -5.85% YTD -9.41%) and the Shanghai Composite fell by -0.06% (MTD -3.84% YTD -20.17%).***

FIXED INCOME

Treasury yields saw their largest weekly gain since November, as investors sold U.S. government bonds preparing for an increased probability that the Federal Reserve may raise interest rates in June.

Performance: I) ***The 10-year Treasury yield was higher last week ending at 1.843% up from 1.700%. The 30-year yield rose last week rising from 2.551% to 2.631%.***

II) ***Performance for the week, month-to-date and year-to-date. Barclays US Aggregate Bond was down -0.62% last week, MTD -0.18% and YTD +3.24%. The Barclays US MBS TR fell by -0.25% last week, MTD +0.03% and YTD +2.17%. The Barclay's US Corporate HY Index climbed by +0.24%, MTD -0.29% and YTD +7.16%.***

COMMODITIES

The DJ Commodity Index was higher last week climbing from 261.63 to 262.93 and is down month to date -0.91% (YTD +8.77%) as crude oil prices jumped on expected declines in supply.

Performance: I) ***The price of oil finished the week with a more than a 4% gain, with recent production outages feeding expectations for a decline in the global glut of crude supplies.*** For the week oil advanced 4.55% from $46.37 to $48.48 per barrel (MTD 5.57% YTD +19.09%).

II) ***The ICE USD Index***, a gauge of the greenback's movement against six other major currencies, ***was positive rising 0.73% from 94.58 to 95.27 for the week*** (MTD 2.35% YTD -3.47%). The USD the dollar rose against both Euro and Yen as ***market's expect a rise in US rates in June or July.*** For the week the Yen weakened falling from ¥108.64 to ¥ 110.12 and the Euro fell from 1.1308 to 1.1225 against the USD.

III) ***Gold suffered a second straight weekly loss, as growing expectations for an increase of U.S. interest rates as soon as next month pushed prices to lowest level since late April.*** For the week gold was lower by -1.68% dropping from $1274.3 to $1252.9 (MTD -2.91% YTD 18.03%).

HEDGE FUNDS

Hedge funds returns in May are mixed, with core strategies Equity Hedge, Macro and Relative Value are in negative territory, while Distressed and Event Driven are positive.

Performance:

I) ***The HFRX Global Hedge Fund Index is lower at -0.54% MTD and -2.01% YTD.***
II) ***Equity Hedge is negative at -1.21% MTD and has fallen -4.09% YTD.***
III) ***Event Driven is up MTD +1.04% and is up YTD +0.24%.***
IV) ***Distressed Debt is higher at +1.14% MTD and is positive YTD +3.88%***
V) ***Macro/CTA has fallen by -1.89% MTD and is down -1.48% YTD.***
VI) ***Relative Value Arbitrage is negative at -0.41% and is down -2.30% YTD.***

ECONOMIC DATA WATCH AND MARKET OUTLOOK

Heading into next week with earnings season ending, investors will turn their full attention to economic data and how Fed members are interpreting that data in their decision to raise rates. With last week's release of the Fed minutes that raised the possibility of a June rate hike, ***a number of Fed speakers this week will have a particular influence on markets. The belief is the Fed is aiming to raise rates and do not be surprised by the hawkish tone from the Fed representatives.***

On Monday, nonvoting San Francisco Fed President John Williams will speak about monetary policy in New York, and St. Louis Fed President James Bullard, a hawkish-leaning voting member, will deliver a speech in Beijing. Philadelphia Fed President Patrick Harker, a hawkish-leaning but nonvoting member, is also scheduled to speak on Monday and Wednesday. On Wednesday, nonvoting members Minneapolis Fed President Neel Kashkari and Dallas Fed President Robert Kaplan also are scheduled to speak. Bullard speaks again on Thursday in Singapore, and Fed Gov. Jerome Powell is set to speak about the economy in Washington, D.C., on Thursday.

Finally, on Friday, Fed Chairwoman Janet Yellen is scheduled to appear at Harvard University on Friday, along with former chairman Ben Bernanke.

On the economic data front, the highlight of next Friday's report on gross domestic product from the Commerce Department will be current corporate-profit data. After-tax profits fell 8.1% in the final three months of the year from the third quarter, economists and analysts will watch this broad measure of balance sheets closely to see if businesses suffered alongside an economic slowdown. ***Data on overall output, which slowed a 0.5% annualized advance, will also be updated (projected to improve to 0.7%).***

Friday's consumer-sentiment report (estimated to fall from 95.8 to 95.0) from the University of Michigan will tell whether Americans are more optimistic about the economy. The initial report earlier this month showed a solid bounce back in early May. That matched with consumer-spending reports showing buyers increased outlays this spring after a soft start to the year.

The advance report on international trade comes out on Wednesday from the Commerce Department. While dedicated to goods, it provides an initial view at the trade picture for the second quarter. ***If the trade gap shows signs of narrowing (estimated to drop from -$59.6 to-$56.9 billion) that could reinforce the view that the economy is expanding at a stronger pace this spring.***

The Commerce Department's durable-goods report will provide the latest insight on the health of manufacturers (estimated to fall from 0.8% to 0.3%). Other measures show the sector has returned to expansion mode recently. In Thursday's report, watch the number for non-defense capital goods excluding aircraft. This proxy for business investment fell in March, despite a gain in the headline figure.