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INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

U.S. stocks advanced for the fourth week in a row, ignited by a surprise interest-rate cut from China's Central Bank and a spate of better-than-expected earnings from high profile tech companies.

a) ***Dow Jones +2.56% MTD +8.21% YTD +0.95%*** b) ***S&P 500 +2.09% MTD +8.08% YTD +2.47%***
c) ***Russell 2000 +0.33% MTD +5.98% YTD -2.20%***

Drivers: I) ***A rally in major technology stocks last week was fueled by strong earnings from heavyweight companies, Alphabet Inc. (Google) and Microsoft Corp.*** Google beat on profits and revenues, $3.98B in net income, or $5.73 a share, on revenue of $18.68B. Adjusted EPS of $7.35. Analysts had expected adjusted EPS of $7.21 on revenues of $15B. For the third quarter, Microsoft reported a profit of $4.62B, or $0.57 a share, up from $4.54B, or $0.54 a share, a year earlier. Analysts had expected earnings of $0.59 and revenue of $21.03B.

II) ***Against a backdrop of QE from the major central banks, a rate increase by Janet Yellen's Fed is becoming an increasingly unlikely prospect.*** Actually, the probability already was low. The market is betting against a rate increase this month, with ***just a 6% probability of rates being lifted when Fed policy makers convene at their Oct. 27-28 meeting***, according to the CME Group's FedWatch tool. ***Wall Street is pricing a 36% probability of a rate increase in December.***

III) ***U.S. housing starts rose to a nearly an eight-year high in September as builders ramped up construction of apartments.*** Construction of new homes increased 6.5% to a seasonally adjusted annual pace of 1.21 million units in September. Economists had forecast groundbreaking on new homes rising to a 1.14 million-unit pace last month. ***Housing starts have now been above a one million-unit pace for six straight months.***

IV) ***Existing home sales rose 4.7% to a seasonally adjusted annual rate of 5.55 million, the second-highest monthly level since Feb. 2007 and an 8.8% rise from the same month of 2014.*** Economists had expected a 5.34 million sales rate. The National Association of Realtors attributed the improvement in the housing market to low mortgage rates, an improving jobs environment and a slight thawing in credit availability.

V) ***Equity prices in October are solidly positive, with Large-Cap, Value - along with Energy and Basic Materials-leading equity price performance. The laggards for the month are Mid-Cap and Growth stocks along with Utilities and Healthcare.***

Capitalization: ***Large Caps +7.60%*** (YTD +2.16%), **Mid-Caps +5.81%** (YTD -0.35%) and Small Caps +6.29% (YTD -2.20%). Style: ***Value +6.65%*** (YTD -3.34%) and ***Growth +5.09%*** (YTD +3.92%). Industry Groups (Leaders): Consumer Discretionary +6.43% (YTD +11.42%), Consumer Staples +7.45% (YTD +6.59%), ***Healthcare +3.56%*** (YTD +2.26%), Technology +10.80% (YTD +7.36%) and Communication +7.58% (YTD +2.37%). (Laggards): ***Basic Materials +11.48%*** (YTD -6.10%), ***Energy +11.32%*** (YTD -11.91%), Industrials +9.71% (YTD -1.97%), Financial Services +6.34% (YTD -1.06%), and ***Utilities +4.27%*** (YTD -2.97%).

EUROPEAN EQUITIES

The Stoxx Europe 600 Index advanced last week from 363.13 to 377.36, to close higher by +3.92%. European stocks finished with strong gains as a surprise cut in interest rates in China added to the market's positive sentiment, prompted by the prospect of more stimulus from the European Central Bank. Year to date the Stoxx Europe 600 is up + 10.17% (MTD +9.94%).

Drivers: I) ***European Central Bank President Mario Draghi indicated the central bank is open to rolling out further stimulus measures in an effort to bolster inflation in the euro-zone.*** Economic recovery and inflation were likely to be hurt by slowing growth in emerging market, he said. "In this context, the degree of monetary policy accommodation will need to be re-examined at our December monetary policy meeting, when the new euro-system staff macroeconomic projections will be available," Draghi said at a news conference in Malta.

II) ***Data firm Markit surveyed more than 5,000 businesses across the euro-zone during October. Its composite purchasing managers index, a measure of activity in the manufacturing and services sectors, rose to 54.0 in October.*** Economists surveyed by The Wall Street Journal last week had ***forecast a decline to 53.3*** from September's reading of 53.6. However, the surveys found that ***new orders were at a six-month high***, an indication that activity is unlikely to weaken significantly in coming months.

III) ***Performance of European Indexes for the week, month-to-date and year-to-date. The EuroStoxx 600 Index rose by +3.92% for the week (MTD +9.94% YTD +10.17%).***

ASIAN EQUITIES

Asian equity markets rose last week to their highest levels in about two months based on expectations of easy money policies from global central banks. The Dow Jones Asia Pacific Index was up +0.94% for the week.

Drivers: I) ***China's central bank last Friday cut both interest rates and the reserve-requirement ratio for banks, in a bid to revive slowing economic growth.*** The People's Bank of China said in a statement that it will cut its benchmark lending and deposit rate by 0.25 percentage point. After the cuts, China's benchmark one-year lending rate will be 4.35%, down from 4.6%, and the one-year deposit rate will be 1.5%, lowered from 1.75%, effective Saturday. ***This is the sixth cut in benchmark interest rates since November last year.***

II) ***The average price of new homes in 70 Chinese cities rose for the fifth straight month in September from the month before, as the pickup in demand for homes that started in spring has largely maintained its momentum*** despite a broader economic slowdown and volatile financial markets. Home prices rose by 0.20% in September from August, following a 0.17% gain in August and a 0.15% rise in July.

II) Performance of Asian Indexes for the week, month-to-date and year-to-date. ***The Nikkei was higher by +2.92% (MTD +8.13% YTD +7.88%), the Hang Seng Index was up by +0.37% (MTD +11.03% YTD -1.92%) and the Shanghai Composite rose by +0.62% (MTD +11.72% YTD +5.50%).***

FIXED INCOME

Treasury prices fell last week pushing yields to their highest level in two weeks, after China's central bank decision to cut interest rates helped extend a global stock market rally.

Performance: I) ***The 10-year Treasury yield was higher last week, ending at 2.088% down from 2.035%. The 30-year yield rose last week, advancing from 2.885% to 2.900%.***

II) ***Barclays US Aggregate Bond was down -0.09% last week, MTD +0.34% and YTD +1.47%. The Barclays US MBS TR fell by -0.03% last week, MTD +0.29% and YTD +1.91%. The BofAML US HY Master II rose last week by +0.60%, MTD +2.82% and YTD +0.22%.***

COMMODITIES

The DJ Commodity Index was lower last week declining from 278.14 to 270.82 and is lower month to date -0.73% (YTD -16.32 %) as the strong rally in the USD cast a negative pall over the commodity sector.

Performance: I) ***The price of oil was lower as strength in the U.S. dollar helped pull prices down by almost 6% for the week.*** For the week the price of oil dropped from $47.26 to $44.73 per barrel.

II) ***The ICE USD Index***, a gauge of the US Dollar's movement against six other major currencies, was higher rising from 94.73 to 97.04 for the week. ***The USD posted its largest weekly gain against the euro since late May, supported by interest-rate cuts in China and the promise of more stimulus in Europe.*** For the week the yen fell from ¥119.47 to ¥ 121.46 and the euro dropped from 1.1349 to 1.1017 against the USD.

III) ***Gold fell to its the lowest settlement level in two weeks as a stronger U.S. dollar pushed prices to their largest weekly loss since August.*** For the week gold dropped lower from $1177.3 to $ 1164.0.

HEDGE FUNDS

Hedge funds returns in October are mostly higher, with core strategies Equity Hedge, Event Driven, Distressed, and Relative Value all positive, while Macro/CTA is in negative territory.

Performance:
I) ***The HFRX Global Hedge Fund Index is higher at +0.58% MTD and -2.48% YTD.***
II) ***Equity Hedge is positive at +0.67% MTD and has fallen -2.48% YTD.***
III) ***Event Driven has advanced MTD +1.19**% **and is down YTD -5.26%.***
IV) ***Distressed Debt is higher at +0.26% MTD and is negative YTD -4.49%***
V) ***Macro/CTA is lower at -1.20% MTD and is down -2.74% YTD.***
VI) ***Relative Value Arbitrage is positive at +1.13% and is up +0.31% YTD.***

ECONOMIC DATA WATCH AND MARKET OUTLOOK

Heading into next week, strong profit expectations from Apple Inc. and consumer-based companies will be in sharp contrast to avalanche of weak energy sector results, as they will try to save the S&P 500 from a projected earnings loss for the quarter. On the earnings front, about one-third of the S&P 500 companies reports results, with six of those companies also Dow components. ***More than a third of the S&P 500 has already reported results for the quarter.***

Overall, the S&P 500 faces a 3.8% decline in earnings from the year ago quarter, an improvement over the week ago trajectory of a 4.6% decline (after starting the season at a projected 5.5% decline), primarily due to better than expected results last week from companies such as Microsoft Corp., Alphabet Inc. and Amazon.com Inc.

On the economic data front, U.S. manufacturing output faced substantial head winds in recent months as a strong dollar and weak overseas economies have curtailed demand for American-made goods. ***Tuesday's durable goods report from the Commerce Department will give a sense if demand is rebounding for Durable Goods (expected to improve from -2.3% to -1.5%).***

The Federal Reserve will release its next policy statement on Wednesday. There appears to be little chance that the central bank will raise benchmark interest rates at the meeting. Instead ***markets will look for clues to determine if the Fed will act in December or wait until next year for the first post-recession rate increase.***

The Commerce Department will release its initial GDP reading (projected to fall from 3.9% to 2.1%) for the third quarter on Thursday. Economists will watch the degree to which consumer spending can offset expected declines in inventory growth and sectors of the economy exposed to China and other global weak spots.

The Commerce Department will report on Thursday the central bankers' preferred inflation gauge, the price index for personal-consumption expenditures (estimated to fall from 0.4% to 0.1%). Policy makers are looking for signs of higher inflation ahead of moving to raise rates.

On Friday, the employment-cost index from the Labor Department will give a broader view of how worker compensation changed during the third quarter. ***Monthly wage data shows payrolls have increased only modestly, but ECI (expected to rise from 0.2% to 0.6%) includes both wages and benefits.***