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INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

U.S. equity markets led by the S&P 500 closed at a record high, as the outlook for less regulation, lower taxes, and higher infrastructure investments all support a resurgence in growth prospects.

a) ***Dow Jones +3.13% MTD +3.39% YTD +16.43%*** b) ***S&P 500 +3.13% MTD +2.81% YTD +12.87%***
c) ***Russell 2000 +5.64% MTD +5.01% YTD +23.91%***

Drivers: I) ***Five major U.S. stock-index benchmarks finished at records on the same day, something that has not taken place since March 16, 1998, according to Dow Jones data.*** On Thursday, the Dow Jones Industrial Average closed up 65 points, or 0.3%, at 19,614.81. The S&P 500 index gained 0.2% to end at a record 2,246.19 and the Nasdaq Composite Index was 0.4% higher at a record 5,417.36. Lastly, the Dow Jones Transportation Average hit new heights, ending at a fresh record of 9,421.08, while the Russell 2000 index also closed at a record of 1,386.37.

II) ***Consumer sentiment jumped in early December*** as Americans believe ***Donald Trump's election and policies that would lift economic growth.*** The University of Michigan's gauge surged 4.5% to 98.0, one-tenth of a percent short of the recovery cycle high touched in 2015. That reading was the highest since 2004.

III) ***Factory orders jumped 2.7% in October, the fourth straight monthly gain and the largest since January 2015, the Commerce Department reported last week***. Economists had expected a gain of 2.8% for overall factory orders. In October, most of the overall increases in orders reflect an increase in the civilian aircraft sector. Shipments of manufactured goods ticked up 0.4% in October.

IV) ***Job openings and hires were mostly unchanged in October, as the labor market remained strong***. There were 5.5 million openings on the last day of October, the Labor Department reported. That was down 2% from an upwardly revised 5.6 million in September. Hires were little changed at 5.1 million. ***The number of people who quit their job voluntarily was also unchanged, at 3 million. That figure is considered a measure of worker confidence in the ability to find another job.***

V) ***Equity prices in December are higher with Small-Cap, Value and Financials leading equity price performance. The laggards for the month are Large-Cap and Growth Stocks, Consumer Staples and Healthcare.***

Capitalization: ***Large Caps +2.83%*** (YTD +13.10%), Mid-Caps +3.07% (YTD +15.98%) and ***Small Caps +5.01%*** (YTD +23.91%). Style: ***Value +4.98%*** (YTD +31.22%) and ***Growth +4.05%*** (YTD +18.58%). Industry Groups (Leaders): Energy +2.82% (YTD +29.45%), ***Financial Services +5.59%*** (YTD +24.56%), Materials +3.11% (YTD +20.09%), Telecommunication +3.82% (YTD +18.54%), Information Technology +2.41% (YTD +15.64%), Technology +2.44% (YTD +15.09%), Utilities +2.58% (YTD +13.49%), ***Consumer Staples +1.22%*** (YTD +4.07%) and Consumer Discretionary +1.60% (YTD +1.62%). (Laggards): Healthcare +0.40% (YTD -2.53).

EUROPEAN EQUITIES

The MSCI Europe index was higher last week gaining +3.55%. European equities scored five straight days of gains as investors cheered the European Central Bank's decision to extend its stimulus efforts.

Drivers: I) ***The ECB decided last week it will buy €60 billion a month in government bonds***, ***starting in April 2017 through December 2017. This compares with the €80 billion in bonds it buys a month now***, with that amount to run through March 2017. The ECB said it will now be able to buy debt yielding less than its deposit rate of minus 0.4%. Such purchases are an option, not a necessity, Draghi said at a press conference.

II) ***The euro-zone's annual rate of inflation rose to its highest level since early 2014*** during November. The European Union's statistics agency said consumer prices in the eur-ozone were 0.6% higher in November than a year earlier, a rise in the annual rate of inflation from 0.5% in October and its highest level since April 2014. ***However, it remained far below the ECB's target of just under 2%, and with economic growth set to remain mediocre at best.***

III) ***Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was up +3.55% for the week (MTD +3.32% YTD -2.22%).***

ASIAN EQUITIES

Asian equity markets were higher as their reaction was positive to the perceived policy easing enacted by the ECB. The Dow Jones Asia Pacific Index was higher by +1.62% for the week, (MTD +1.72%), (YTD +4.40%).

Drivers: I) ***China's consumer inflation jumped up for a third-straight month in November***, while industrial inflation came in much stronger than expected. ***Beijing will need to watch price levels closely to contain asset bubbles. China's consumer-price index increased 2.3% in November*** from a year earlier, a quicker pace than a 2.1% year-over-year gain in October, the National Bureau of Statistics reported on Friday. ***The key inflation reading slightly exceeded the median forecast for a 2.2% gain.***

II) ***South Korean legislators voted to impeach President Park Geun-hye*** following months of discontent over influence-peddling accusations, opening up a new period of uncertainty for Asia's fourth-largest economy. ***The country's Constitutional Court will have six months to decide whether Park stays in office. If six of the court's nine members agree on the impeachment, Park will be permanently removed from office and a snap election will follow within two months.***

III) Performance of Asian Indexes for the week, month-to-date and year-to-date. ***The Nikkei was higher by +3.10% (MTD +3.76% YTD -0.20%), the Hang Seng Index rose by +0.87% (MTD -0.17% YTD +3.86%) and the Shanghai Composite declined by -0.34% (MTD -0.53% YTD -8.65%).***

FIXED INCOME

Treasury prices declined sending the 10-year yield to its highest end-of-day level since June 2015, as the sharpest bond selloff since the so-called taper tantrum reached its fifth straight week.

Performance: I) ***The 10-year Treasury was higher last week ending at 2.467% up from 2.387%. The 30-year yield rose last week rising from 3.065% to 3.152%.***

II) ***Performance for the week, month-to-date and year-to-date. Barclays US Aggregate Bond was down -0.26% last week, MTD -0.35% and YTD +2.14%. The Barclays US MBS TR was down -0.16% last week, MTD -0.23% and YTD +1.44%. The Barclay's US Corporate HY Index rose by +1.29%, MTD +1.31% and YTD +16.80%.***

COMMODITIES

The DJ Commodity Index was higher last week by +1.43% and is up month to date +2.38% (YTD +14.47%), led by a rise in industrial metals such as copper, which have rallied on the proposed pro-business agenda put forth by President-Elect Trump.

Performance: I) ***The price of oil was lower last week by -0.23%***, falling from $51.60 to $51.48 and is up month to date +4.12% (YTD +26.45%). ***Oil fell slightly as some of the world's biggest crude producers were expected to hold a meeting this weekend to firm up last month's agreement to curb production.***

II) ***The ICE USD Index, a gauge of the U.S dollar's movement against six other major currencies, was positive rising +0.82%*** from 100.74 to 101.57 for the week (MTD +0.04% YTD +2.92%). ***The U.S. dollar index was higher, particularly against the Euro which fell as the European Central Bank decided last week to extend its Quantitative Easing program from April to December 2017.***

III) ***Gold fell again last week to its lowest levels since February, marking their fifth weekly loss in a row, as the dollar rallied in anticipation of an interest rate hike at next week's Federal Reserve meeting***. For the week gold was lower by -1.24% dropping from $1176.0 to $1161.4 (MTD -1.06% YTD +9.41%).

HEDGE FUNDS

Hedge funds returns in December are primarily higher with the core strategies Equity Hedge, Event Driven, Distressed and Relative Value higher, while Macro was in negative territory.

Performance:

I) ***The HFRX Global Hedge Fund Index is higher at +0.69% MTD and +2.34% YTD.***
II) ***Equity Hedge has risen +0.87% MTD and is up +0.79% YTD.***
III) ***Event Driven is up MTD +1.08% and is higher YTD +10.16%.***
IV) ***Distressed Debt is higher at +1.50% MTD and is positive YTD +19.30%***
V) ***Macro/CTA has fallen by -0.07% MTD and is down -3.46% YTD.***
VI) ***Relative Value Arbitrage is higher at +0.69% and is up +0.90% YTD.***

ECONOMIC DATA WATCH AND MARKET OUTLOOK

As we head into next week, investors will be interested in seeing that the market landscape has changed since the Presidential Election. Up until the election, sectors were more of less moving in tandem with the broader S&P 500 on macro events and central bank policy. In short, the higher the correlation, the more sectors and individual stocks moved side by side with one another. ***That all changed following the election, when investors started taking a serious look at which sectors and individual stocks were the most likely to benefit and be hampered by a Trump administration.***

Average sector correlations dropped to 56.8% in November, their lowest level since October 2009 when Convegex started tracking the metric. That is down from 66% in October, and 79% in September, telling us investors are becoming more selective in their stock picks. The financial sector has been the greatest winner, with the sector rallying nearly 19% since the election. That sector has also seen one of the biggest drops in correlation to the S&P 500 along with other large correlation declines seen in the industrial and energy sectors.

On the economic data front, the latest Federal Reserve Open Market Committee (FOMC) policy decision is due on Wednesday December 14th at 14:00 EST. Fed Chair Yellen will hold a press conference 30 minutes later. ***As well as announcing the interest rate decision, the Federal Reserve will issue its latest economic projections and the individual interest rate projections by FOMC members.*** Given the minutes from November's meeting and the recent rhetoric from Fed officials, it will be a major surprise if the Fed Funds rate is not increased at this meeting and ***market expectations of a hike are close to 100%.***

The 'dot plots' of rate forecasts by FOMC members will be very important as the market looks to gain some insight into the 2017 prospects. A further downgrading of medium-term projections would tend to trigger a downward adjustment of yield expectations, which would tend to negative for the dollar. The overall tone of the statement will also be very important with a ***focus on commentary surrounding inflation and inflation expectations***. Statements regarding the dollar and international economy will also be an important focus. Any remarks on the implications of fiscal policy will also be watched closely.

The latest US consumer prices data will be released on Thursday December 16th at 08:30 EST. Overall trends in US inflation will be very important for expectations surrounding the pace of further potential Fed tightening during 2017. The data will be particularly important given that earnings data in the December employment report was notably weaker than expected with a 0.1% decline cutting annual growth to 2.5% from 2.8%. ***A strong rate of increase in prices, especially for the core rate, would increase pressure for a more aggressive Fed tightening, while a subdued reading would dampen expectations surrounding 2017 rate increases.***

The latest US retail sales data will be released on Wednesday December 14th at 08:30 EST. The impact of the retail sales data is likely to be lessened slightly by the fact that it comes out a few hours before the US Federal Reserve policy statement. ***The data will, however, still have an important impact, especially as it will capture some of the consumer spending trends following the US presidential election.***