

INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

U.S. equity markets were down last week as the Dow & S&P 500 suffered their second straight weekly decline as President Trump offered few details during his inaugural address about his legislative priorities.

a) **Dow Jones -0.24%** MTD +0.43% YTD +0.43% b) **S&P 500 -0.13%** MTD +1.54% YTD +1.54%
c) **Russell 2000 -1.46%** MTD -0.35% YTD -0.35%

Drivers: I) **Equities have rallied since the surprise presidential election of Donald Trump.** Indexes hit a series of records with investors anticipating that he would enact massive corporate tax cuts, deregulation, and infrastructure spending, all of which are expected to accelerate economic growth and re-ignite inflation. However, **the equity rally has recently stalled as market participants look for proof that the rise will be justified by policy actions.**

II) **As of last week, with 12% of the companies in the S&P 500 reporting actual results for Q4 2016, 74% of S&P 500 companies have beat the mean EPS estimate and 47% of S&P 500 companies have beat the mean sales estimate according to FactSet. If the index reports earnings growth for Q4, it will mark the first time the index has seen year-over-year growth in earnings for two consecutive quarters since Q4 2014 and Q1 2015.** For Q4 2016, the blended earnings growth rate for the S&P 500 is 3.4%.

III) **Inflation rose in 2016 at the fastest pace in five years as rising rents, medical care and higher gas prices have cost consumers more. The consumer price index jumped 0.3% in December** and the string of sharp gains since late summer helped **drive up inflation by 2.1% for the full year**, the biggest increase since a 3% gain in 2011.

IV) **Industrial production rebounded in December by posting the strongest advance in two years**, though the monthly advance was led by utility output after an unusually warm month. Last week, The Federal Reserve reported that **industrial production climbed 0.8% in December**, the largest percentage rise since November 2014. Economists had expected a 0.9% rise in December output.

V) **Equity prices in January are higher with Mid-Cap, Growth, Consumer Discretionary and Information Technology leading equity price performance. The laggards for the month are Small-Cap, Value Stocks and Energy.**

Capitalization: Large Caps +1.62% (YTD +1.62%), **Mid-Caps +1.74%** (YTD +1.74%) and **Small Caps -0.35%** (YTD -0.35%). Style: **Value +0.06%** (YTD +0.06%) and **Growth +0.51%** (YTD +0.51%). Industry Groups (Leaders): **Consumer Discretionary +4.84%** (YTD +4.84%), **Information Technology +3.29%** (YTD +3.29%), Technology +3.09% (YTD +3.09%), Materials +2.85% (YTD +2.85%), Healthcare +1.42% (YTD +1.42), Consumer Staples +0.89% (YTD +0.89%) and Utilities +0.11% (YTD +0.11%). (Laggards): **Energy -0.98%** (YTD -0.98%), Telecommunication -0.38% (YTD -0.38%) and Financial Services -0.51% (YTD -0.51%).

EUROPEAN EQUITIES

The MSCI Europe index fell for the week, ending a weekly winning streak, as investors stayed mostly on the sidelines before Donald Trump delivered his inauguration speech as the 45th president of the United States.

Drivers: I) **At the first policy-setting meeting this year, the European Central Bank left its key refinancing rate at 0% and the deposit rate at negative 0.4%, as was widely expected.** Policy makers also made no changes to the ECB's 80-billion-euro-a-month bond-buying program. The ECB has adopted an aggressive easing program and negative deposit rate trying to get inflation back to a target of around 2%.

II) **The big moves in London last week came after U.K.'s Prime Minister Theresa May said British lawmakers will be able to vote on terms of a final Brexit deal negotiated between U.K. and European Union officials.** Britain will leave the bloc's single market, she said in a speech last Tuesday in London, or make **a so-called hard Brexit.** Taken together, this should help alleviate some of the harder Brexit concerns that overall sends a positive signal to reassure U.K. business and investors.

III) *Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was down -0.42% for the week (MTD +1.58% YTD +1.58%).*

ASIAN EQUITIES

Asian equity markets were mixed as investors continued to await what the start of Donald Trump's presidency will bring. The Dow Jones Asia Pacific Index was lower by -0.54% for the week, (MTD +3.56%), (YTD +3.56%).

Drivers: I) *With a strong push to accelerate growth with easy credit and state spending, China managed to squeeze out a 6.7% rise in economic growth for 2016.* The rate was well within their leaders target range for growth of between 6.5% and 7%. On the flip side, it was the third year in a row Beijing posted the lowest annual growth in a quarter-century. *Economists say Beijing achieved this by relying heavily on short-term measures that are likely to delay much-needed reforms* to bloated state-owned companies and the country's inefficient financial system.

II) *With China's stimulus policies keeping the slowdown in check, the International Monetary Fund last week raised its 2017 growth forecast by 0.3 percentage point to 6.5%.* It also warned that continued reliance on debt-fueled investment risks a sharper slowdown in coming years. Beijing is also wrestling with a more challenging external environment, including a new U.S. president who has voiced skepticism about globalization and free trade.

III) *Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was lower by -0.77% (MTD +0.12% YTD +0.12%), the Hang Seng Index rose by +0.12% (MTD +3.98% YTD +3.98%) and the Shanghai Composite advanced by +0.33% (MTD +0.63% YTD +0.63%).*

FIXED INCOME

Treasury yields were higher last week as the market is still pricing in the potential of the Fed raising rates three times this year. The Fed raised interest rates in December for the second time in a decade.

Performance: I) *The 10-year Treasury was higher last week ending at 2.468% up from 2.397%. The 30-year yield rose last week climbing from 2.991% to 3.053%, steepening the yield curve on the long end.*

II) *Performance for the week, month-to-date and year-to-date. Barclays US Aggregate Bond was down -0.34% last week, MTD +0.03% and YTD +0.03%. The Barclays US MBS TR was down -0.31% last week, MTD -0.23% and YTD -0.23%. The Barclay's US Corporate HY Index fell by -0.14%, MTD +1.10% and YTD +1.10%.*

COMMODITIES

The DJ Commodity Index was lower last week by -0.19% and is up month to date +1.36% (YTD +1.36%) as market's await greater clarity as to the policy priorities to be pursued by the Trump administration.

Performance: I) *The price of oil was lower last week by -0.36%, dropping from \$52.52 to \$52.33 and is down month to date -2.89% (YTD -2.89%). Oil rallied a bit on Friday boosted by signs of a tighter supply after major oil producers agreed to cut output. But prices finished the week lower after data showed a weekly rise in the number of active U.S. rigs drilling for oil.*

II) *The ICE USD Index, a gauge of the U.S dollar's movement against six other major currencies, was negative falling -0.37% from 101.19 to 100.81 for the week (MTD -1.53% YTD -1.53%).* After drifting lower over the past several weeks, the *U.S. dollar index* was down only marginally last week. It had appreciated sharply following the November presidential election in anticipation of pro-growth policies under a Trump administration.

III) *Gold closed higher for the week at \$1210.20, the fourth week in a row, helped by weakness in the U.S. dollar and uncertainty surrounding Donald Trump's presidency.* For the week gold was higher by +1.07% climbing from \$1197.2 to \$1210.2 (MTD +5.05% YTD +5.05%).

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HEDGE FUNDS

Hedge fund returns in January are mostly higher with the core strategies Equity Hedge, Event Driven, Distressed and Relative Value in positive territory, while Macro is down for the year.

Performance:

- I) *The HFRX Global Hedge Fund Index is higher at +0.44% MTD and +0.44% YTD.*
- II) *Equity Hedge has risen +0.80% MTD and is up +0.80% YTD.*
- III) *Event Driven is up MTD +1.13% and is higher YTD +1.13%.*
- IV) *Distressed Debt is higher at +0.70% MTD and is positive YTD +0.70%*
- V) *Macro/CTA has fallen by -1.12% MTD and is down -1.12% YTD.*
- VI) *Relative Value Arbitrage is higher at +0.49% and is up +0.49% YTD.*

ECONOMIC DATA WATCH AND MARKET OUTLOOK

Looking ahead to next week, investors now have been confronted with the task of investing assets in market's that have less certainty. The markets are waiting to see *which President Trump will emerge* in the coming weeks. *Will it be the "America First" mantra that can create a potential trade war*, which would be negative for the markets. *Or will it be the Donald Trump who commits to introducing positive changes such as cutting taxes and boosting infrastructure spending*, which would be a boon for global equities.

From a corporate prospective according to FactSet, U.S. corporations are openly enthusiastic in welcoming the president's pledge to lower corporate taxes and remove regulatory barriers. Some of that optimism has already surfaced during this earnings season as the data from FactSet shows. Specifically, in terms of government policies in conjunction with the new administration, tax policy was either cited or discussed by the highest number of S&P 500 companies at eleven. Six of these eleven companies stated that if taxes were lowered, it would benefit their clients or themselves.

As we are in the throws of corporate earnings season, markets will be looking for any mention of currency or U.S. dollar strength concerns and their potential effects on future 2017 earnings. Thirty-Four S&P 500 components are slated to report earnings this week. Of the 54 companies that have released quarterly results so far, 74% are beating earnings estimates by a median of 5%, according to Fundstrat.

On the economic data and geo-political front, President Trump and Administration officials will be making policy comments during the week. After being sworn in to office on Friday, *market attention will continue to focus on comments surrounding economic policy from the new President and his Administration* throughout the first week in office and beyond, rather than being an individual event.

Commentary on fiscal policy will be important with markets looking for hints surrounding a fiscal stimulus and potential tax cuts. Trade policies will also be an extremely important focus with a particular interest on China. Any rhetoric surrounding the dollar is also likely to move markets, possibly substantially.

The advance reading of US GDP is due on Friday January 27th at 08:30 EST. The Bureau of Economic Analysis will release its advance reading of fourth-quarter GDP and any revisions to previous data.

The headline release will inevitably trigger a significant short-term market reaction, although the immediate impact on Federal Reserve policy should be limited unless the data is sharply different from expectations. A notably strong release would trigger some speculation that the Fed will look to raise rates at the March FOMC meeting, while weakness would dampen immediate pressures.