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INVESTMENT COMMITTEE MARKET COMMENTARY

OCTOBER 30, 2017 www.clearbrookglobal.com

U.S. EQUITIES

U.S. equity markets saw the S&P 500 and Nasdaq Composite hit new record highs last Friday, led by sharp rallies in technology stocks after posting better-than-expected quarterly results from industry titans Amazon.com Inc., Microsoft Corp., Alphabet Inc. and Intel Corp.

a) **Dow Jones +0.45%, MTD +4.70%, YTD +20.87%** b) **S&P 500 +0.23%, MTD +2.55%, YTD +17.16%**
c) **Russell 2000 -0.06%, MTD +1.22%, YTD +12.29%**

Drivers: I) Real **GDP rose above the 3.0% for a second straight quarter**, at 3.0% exactly in the third quarter versus the second quarter's 3.1% annualized rate. These are the best results in 2-1/2 years and lifts the long-term trendline higher and slightly above the 2% mark. Growth was jump started by solid consumer spending, healthy business and government outlays and a boost from more volatile sectors such as inventory and trade.

II) **Amazon.com Inc., Google parent company Alphabet Inc., Microsoft Corp. and Intel Corp. easily beat expectations for profit and revenue** in third-quarter reports last week, collectively bringing in about $2.2 billion more profit and $19 billion more revenue than in the same quarter a year ago. The combined market cap of these companies now exceeds over $2 trillion.

III) **US exports rose by a solid 2.3% during the third quarter**, representing about 1/10 of the quarter's growth. The inflation-adjusted dollar total for exports, at $2.19 trillion annualized, is the third straight improvement. Export strength has been centered in services, especially financial and information services, which have offset a mixed showing for goods where most categories are flat.

IV) A core component of GDP growth, **consumer spending, came in at a 2.4% rate for the third quarter**. Though not a knock out number, the trendline is pointing upward to 3.0% which, if realized, would on its own lift GDP to the stated goal. Durable goods spending was very strong in the quarter, at 8.3% and reflecting, at least in part, hurricane replacement demand for vehicles.

V) **Equity prices in October are higher with Large-Cap, Growth, Information Technology and Tech leading equity price performance. The laggards for the month are Small-Cap, Value, Energy and Telecom.**

Capitalization: **Large Caps +2.49%** (YTD +17.01%), Mid-Caps +1.80% (YTD +13.75%) and **Small Caps +1.22%** (YTD +12.29). **Style: Value +1.30%** (YTD +8.19%) and **Growth +2.95%** (YTD +14.84%). **Industry Groups (Leaders): Info. Tech +6.73% (**YTD +34.91%), **Tech +5.75%** (YTD +30.93%), Healthcare +0.46% (YTD +20.55%), Materials +4.07% (YTD +20.58%), Industrials +1.85% (YTD +17.85%), Financials +3.68% (YTD +16.52%), Utilities +3.76% (YTD +15.96%), Con. Discretionary +2.54% **(**YTD +14.63%), REITs -0.14% (YTD +7.10%) and Con. Staples -1.51% (YTD +4.71%). **(Laggards): Telecom -1.87%** (YTD -7.16%) and **Energy -1.56%** (YTD -8.14%).

EUROPEAN EQUITIES

The MSCI Europe index was lower last week by -0.91% as traders were cautious due to the worsening of the Catalonian situation. The Parliament of the Catalonia region voted in favor of breaking away from Spain.

Drivers: I) The **Catalan parliament on Friday voted to declare independence from Spain** less than an hour before the Spanish government got a green light to take direct control of the region. In Madrid, Spain's central government got approval to crack down on the push for independence. It has been pursuing a crackdown since an Oct. 1 referendum, deemed illegal by Spain's government, showed support for a split among Catalans.

II) The **ECB** announced its quantitative **easing program would be reduced**, while being extended at least through September 2018. After maintaining the rest of 2018 at €60 billion per month, there will be a reduction in average monthly asset purchases **from €60 billion to €30 billion per month** beginning in January 2018. This follows the €20 billion reduction to €60 billion per month made back in April and implies extra easing of €270 billion next year.

III) **Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was down by -0.91% for the week (MTD -0.55% YTD +22.12%).**

ASIAN EQUITIES

Asian markets advanced last week due to a weakening yen, higher oil prices, optimism over U.S. tax reform plans, solid industrial profits data from China and encouraging results from U.S. technology companies. The Dow Jones Asia Index rose by +0.32% for the week, (MTD +3.67% YTD +21.45%).

Drivers: I) The **Japanese yen retreated** after Prime Minister Abe won the October 22 election indicating that the vast **stimulus will continue**. Prime Minister Shinzo Abe's clear victory in Sunday's general election has only added to the bullish sentiment permeating the market. **Mr. Abe's Liberal Democratic Party** and its coalition partner retained a **two-thirds majority** following a lower-house election on Sunday. Investors believe that his government's policy mix of loose monetary policy and corporate governance reform is likely to continue.

II) **Japan's September consumer price index increased by 0.7%** on the year unchanged from August and still well below the Bank of Japan's 2.0% inflation target. Seasonally adjusted headline CPI was flat on the month in September after an increase of 0.2% in August. The stability in the annual change reflects offsetting moves in price changes for some of the major categories of consumer spending.

III) **Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was up by +2.59% (MTD +8.14% YTD +17.11%), the Hang Seng Index declined by -0.17% (MTD +3.30% YTD +28.46%) and the Shanghai Composite was higher by +1.13% (MTD +2.03% YTD +10.09%).**

FIXED INCOME

Treasury yields rose last week as prospects of the tax cut "brightened" when the Senate approved a budget resolution and in anticipation of another Fed rate hike coming in December.

Performance: I) **The 10-year Treasury yield was higher last week ending at 2.411% up from 2.383%. The 30-year yield rose last week advancing from 2.898% to 2.919%.**

II) **Performance for the week, month-to-date and year-to-date. The Bloomberg Barclays US Aggregate Bond Index fell -0.45% last week, MTD -0.13% and YTD +3.01%. The Bloomberg Barclays US MBS TR was down -0.43% last week, MTD -0.21% and YTD +2.10%. The Bloomberg Barclay's US Corporate HY Index rose +0.31%, MTD +0.50% and YTD +7.53%.**

COMMODITIES

The DJ Commodity Index was up +0.78 last week and is higher month to date +0.92% (YTD +0.91%) with oil rallying on expectations of further production cuts by OPEC. Industrial metals led by aluminum rose, hitting new highs as China moved to cut its output of the industrial metal.

Performance: I) **Oil prices rose** last week by +4.07% up to $54.19 and is higher month to date for October +4.94% (YTD +0.55%). Oil rallied strongly on speculation that the Organization of the Petroleum Exporting Countries and other major producers will agree to extend their production-cut deal through the end of the next year.

II) The **ICE USD Index**, a gauge of the U.S dollar's movement against six other major currencies, **rose +1.22%** from 93.66 to 94.81 for the week (MTD +1.87% YTD -7.39%). The U.S. dollar produced the best weekly gain of 2017 after the currency rallied on the back of a brightening outlook for tax cuts, better-than-expected third quarter GDP data and a dovish stance on actions taken a day earlier by the European Central Bank.

III) **Gold declined last week** as government data posted a 3% reading for U.S. gross domestic product in the third quarter, which prompted a rally in the USD. Gold was **lower by -0.56**% last week, falling from $1281.8 to $1274.6 (MTD -0.61% YTD +10.64%).

HEDGE FUNDS

Hedge fund returns in October are primarily higher, as the core strategies Equity Hedge, Macro and Relative Value are in positive territory. Event Driven and Distressed are down for the month.

Performance:

I) The HFRX Global Hedge Fund Index is higher at +0.28% MTD and +4.73% YTD.
II) Equity Hedge has risen +0.30% MTD and is up +7.39% YTD.
III) Event Driven has declined MTD -0.35% and is higher YTD +6.21%.
IV) Distressed Debt is lower by -0.99% MTD and is positive YTD +1.42%
V) Macro/CTA has advanced by +1.26% MTD and is up +1.16% YTD.
VI) Relative Value Arbitrage has risen +0.19% and is higher by +3.04% YTD.

ECONOMIC DATA WATCH AND MARKET OUTLOOK

In a look towards **next week's market action**, the **corporate earnings season** will continue to be **front and center.** The third-quarter earnings season is passed the halfway point after a slew of earnings reports last week. As of Friday, 55% of companies in the S&P 500 had reported results for the quarter, with **76% reporting earnings per share above estimates**, surpassing the five-year average, according to FactSet. In aggregate, companies are reporting earnings that are 4.7% above estimates.

Of companies that have reported, **67% topped Wall Street sales estimate**, in aggregate coming in 1.5% above consensus forecasts. Strong earnings from tech leaders Amazon.com Inc., Google parent Alphabet Inc Microsoft Corp. and Intel Corp. helped to propel the tech-heavy Nasdaq Composite up 2.20% on Friday, its largest one-day gain since November, and a record close. The S&P 500 jumped 0.23% for the week, also hitting a record high while the Dow industrials saw a 0.45% weekly increase.

In turning to **next week's economic calendar**, October's all-important **employment report** will be released **on Friday.** Hurricane effects pulled nonfarm payrolls down 33,000 in September and a **bounce-back gain of 323,000 is expected for October**. The consensus range, however, is very wide, between 200,000 and 371,000. No less dramatic was a sharp jump for **average hourly earnings** where September's 0.5% surge is **expected to slow** to 0.2% or a **2.7% yearly rate versus 2.9% in September**.

On **Monday,** the week begins with **personal income and spending**. Inflation indications from both reports will help **set the tone for the week's FOMC meeting**. Income and especially spending are expected to rebound in September, but not the Federal Reserve's core price index which is expected to remain flat. **Personal income is seen is rising 0.4% in September** versus August's 0.2% gain while **consumer spending**, reflecting September's **post-hurricane surge in auto sales**, is expected to **jump 0.9%** versus August's 0.1% rise. The **PCE price index** is expected to rise 0.4% for a year-on-year rate of 1.7% but the core rate, which excludes both food and energy, is seen **up only 0.1%for a year-on-year rate stuck at 1.3%.**

The historically high **ISM manufacturing report** will be out Wednesday morning pending the afternoon's **FOMC announcement where no action is the unanimous call**. The ISM manufacturing index has been surging this year, beating Street consensus for 5 straight months and often, as in September, by very wide margins. **September's 60.8** marked a **13-year best** though hurricane-related delivery delays did skew the score higher. Yet strength has been very evident with new orders at a 4-year high and employment at a 6-1/2 year high. The Street consensus for October calls **for cooling, to 59.5**.

The **Federal Open Market Committee** is expected to **hold their federal funds target at a 1.00 to 1.25 percent** range with a 1.125 percent midpoint. The Street is pretty much unanimous with no expectations for a rate hike. Language **on inflation and spare capacity** in the labor market will be **closely watched** following recent pressure in average hourly earnings. Hurricane effects, and whether they are described as temporary, will also be watched. Though a pass is the call for this meeting, the FOMC is widely expected to raise the funds target at their December meeting.