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INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

U.S. equity markets closed lower on Friday, ending the multi-week winning streaks by the major indexes as investors were concerned about a possible delay in the much-anticipated corporate rate tax cut.

a) **Dow Jones -0.35%, MTD +0.34%, YTD +20.99%** b) **S&P 500 -0.14%, MTD +0.37%, YTD +17.33%**
c) **Russell 2000 -1.29%, MTD -1.80%, YTD +9.88%**

Drivers: I) The **Senate Finance Committee** last Thursday **released its version of a tax plan**, which differs in some key respects from a House panel's. The Senate version would delay implementing a 20% corporate tax until 2019, versus next year, as House Republicans wanted. It also sets a top individual rate of 38.5% instead of the 39.6% in the House plan. And unlike the House bill, the Senate's fully repeals the deduction for state and local taxes.

II) The number of **job openings** in the U.S. rose slightly in September to **6.09 million**, keeping them **near a record high.** For the first time ever, job openings have exceeded 6 million, four months in a row. The so-called quits rate among private-sector employees was unchanged at 2.4%. The quit rate edged up to 2.2% from 2.1% if government workers are included.

III) Initial **U.S. jobless claims**, a proxy for layoffs, **rose by 10,000 to 239,000 in** the week ended Nov. 4, the Labor Department reported. That was higher than the 231,000 estimate of Street economists. The more stable monthly **average of claims** decreased by 1,250 to 231,250 to the **lowest level since March 1973.** The level of claims is consistent with employment growth remaining strong, driving the unemployment rate lower.

IV) **Consumer sentiment declined in November**, albeit from very strong levels. The University of Michigan consumer sentiment index fell to 97.8 from 100.7 in October. Economists had expected a 100.7 reading. There was a slight rise in expectations for inflation over the next year, and growing expectations of increasing interest rates.

V) **Equity prices in November are mixed with Large-Cap, Value, REITs and Energy leading equity price performance. The laggards for the month are Small-Cap, Growth, Telecom and Financials.**

Capitalization: **Large Caps +0.31%** (YTD +17.14%), Mid-Caps +0.03% (YTD +13.63%) and **Small Caps -1.80%** (YTD +9.88). **Style: Value -0.91%** (YTD +6.77%) and **Growth -0.95%** (YTD +13.57%). **Industry Groups (Leaders):** Info. Tech +1.00% **(**YTD +37.30%), Tech +0.88% (YTD +32.99%), Healthcare +0.07% (YTD +19.16%), Materials -1.48% (YTD +18.53%), Utilities +0.76% (YTD +16.96%), Industrials -0.67% (YTD +15.80%), Con. Discretionary +0.41% **(**YTD +14.61%), **Financials -1.90%** (YTD +13.47%), **REITs +4.05%** (YTD +12.43%) and Con. Staples +2.19% (YTD +6.95%). **(Laggards): Energy +2.52%** (YTD -5.08%) and **Telecom -5.29%** (YTD -12.96%).

EUROPEAN EQUITIES

The MSCI Europe index was lower last week by -1.37% as investors continued to monitor the tensions in the Middle East, but were more concerned about the outlook for U.S. tax reform after the Senate released their version of a tax bill.

Drivers: I) **Germany's September manufacturers' orders were up 1.0%** on the month after a sharper revised 4.1% jump in August. This shows that new business has increased in four of the last five months and annual growth now stands at 9.5%. Overseas demand expanded 1.7% as stronger capital goods (4.7%) proved enough to offset declines in basics (2.9%) and consumer & durables goods (3.1%).

II) According to **the European Commission's Autumn Forecast**, the **Eurozone will grow the fastest in a decade** this year thanks to resilient **private consumption**, stronger global growth and falling unemployment. The euro area growth forecast for this year has been **increased to 2.2% from 1.7%** while the EU growth forecast was lifted to 2.3% from 1.9%. The economies of all Eurozone Members are expanding and their labor markets improving.
III) **Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was down by -1.37% for the week (MTD -1.43% YTD +21.60%).**

ASIAN EQUITIES

Asian markets were higher last week, encouraged by Beijing's move to lift foreign ownership limits on financial firms. In addition, foreign investors jumped into the Japanese stock market at the fastest rate on record in October looking jump on the rally that has ensued in the aftermath of Shinzo Abe's election victory. The Dow Jones Asia Index rose by +0.61% for the week, (MTD +1.62% YTD +24.21%).

Drivers: I) **China's fiscal spending fell last month**, a rare contraction that points to slower economic growth toward the end of the year. Spending was down 8% from a year ago, reversing a 1.7% increase in September, as a majority of this year's expenditure was incurred in earlier months, the Finance Ministry reported. Now that the government is sure to hit the economic growth target this year, local governments are pulling back a bit.

II) **China's October consumer price index was up 1.9% on the year after increasing 1.6% in September**. Stronger headline inflation was mainly driven by a decline in food prices, down 0.4% on the year after declining by 1.4% in September. Non-food prices were unchanged at 2.4%, its highest since April. Within the non-food category, prices advanced for transportation & communication and for household articles and services.

III) **Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was up by +0.64% (MTD +3.06% YTD +20.71%), the Hang Seng Index rose by +1.83% (MTD +3.11% YTD +31.59%) and the Shanghai Composite was higher by +1.81% (MTD +1.16% YTD +10.60%).**

FIXED INCOME

Treasury yields were higher last week due to perceived hawkish rhetoric from ECB Council member Ewald Nowotny. He said the ECB should have given a clear signal at its policy meeting last month, about ending its 2.55 trillion bond purchase program in September 2018 if the euro zone economy improves further.

Performance: I) **The 10-year Treasury yield was higher last week ending at 2.397% up from 2.334%. The 30-year yield jumped up last week advancing from 2.815% to 2.877%.**

II) **Performance for the week, month-to-date and year-to-date. The Bloomberg Barclays US Aggregate Bond Index fell -0.40% last week, MTD -0.24% and YTD +2.95%. The Bloomberg Barclays US MBS TR was down -0.27% last week, MTD -0.17% and YTD +2.12%. The Bloomberg Barclay's US Corporate HY Index dropped by -0.77%, MTD -0.78% and YTD +6.62%.**

COMMODITIES

The DJ Commodity Index was up +0.93 last week and is up month to date +1.73% (YTD +3.00%) as oil rallied on hopes that production cuts by OPEC and other major producers would be extended.

Performance: I) **Oil prices rose** last week **by +2.15%** up to $56.90 and is higher month to date for October +4.63% (YTD +5.59%). Oil was higher based on expectations that **members of OPEC and other major producers** will **extend output curbs** when they meet at the end of the month.

II) The **ICE USD Index**, a gauge of the U.S dollar's movement against six other major currencies, **fell -0.56%** from 94.92 to 94.39 for the week (MTD -0.17% YTD -7.80%). The U.S. dollar dropped due to **uncertainty over progress of the Republican-led tax reform** plan. Specifically, Senate Republicans proposed to delay a cut in the corporate tax rate to 20% from 35% by a year until 2019.

III) **Gold was higher last week, as the U.S. dollar declined late in the week after the Senate's tax-cut proposal raised concerns, providing a lift to commodities priced in the currency.** Gold was higher by +0.43% last week, climbing from $1270.2 to $1275.6 (MTD +0.40% YTD +10.73%).

HEDGE FUNDS

Hedge fund returns in November are mostly lower, as the core strategies Equity Hedge, Event Driven, Distressed and Relative Value are in negative territory. Macro is higher for the month.

Performance:

I) The HFRX Global Hedge Fund Index is lower at -0.34% MTD and +4.79% YTD.
II) Equity Hedge is down -0.32% MTD and is up +7.56% YTD.
III) Event Driven has declined MTD -1.10% and is higher YTD +5.26%.
IV) Distressed Debt is lower by -0.08% MTD and is positive YTD +1.64%
V) Macro/CTA has advanced by +0.62% MTD and is up +2.45% YTD.
VI) Relative Value Arbitrage has dropped by -0.32% and is higher by +3.05% YTD.

ECONOMIC DATA WATCH AND MARKET OUTLOOK

In a look towards next week's market action, investors saw **markets exhibit recent weakness** due to **concerns over the tax bill** that was proposed by the Senate Republicans and weakness in overseas markets, which generated a volatility spike. One of the main concerns from the proposed Senate bill is that the reduction in corporate tax rates would be pushed out until 2019 instead of next year. Although the details of the bill are likely to change multiple times in the coming weeks, the current uncertainty appears to be enough to prompt profit taking by investors.

A couple months ago there may have been some question as to whether we will get another rate hike from the Federal Reserve this year, but as of today, a December rate hike is all but confirmed. Strong global economic data, all-time highs in global equity markets and rising investor/consumer confidence have pushed the probability of a **December hike, according to Bloomberg to 92%.**

On the **corporate earnings** front, an estimated 85% of the S&P 500 companies have released their Q3 earnings reports and thus far **74% have beat analyst's EPS estimates while 67% have beat on the top line**. Compared to Q2 results the EPS beat is higher (74% vs. 72%) but revenue is tracking just slightly lower (67% vs. 68%).

In turning to **next week's economic calendar**, we will be getting a broader spectrum of data compared to this week. Global economic data has been robust recently and so the expectation is that the reports will continue to convey that strength. Of note, markets will be focusing on the **PPI and CPI reports** to see how inflation is faring and the **Retail Sales report**.

Consumer inflation has been soft and moderation in housing and medical costs have held down the core CPI in September which rose only 0.1%. When including food and energy which spiked on one-time hurricane effects, the overall CPI rose an outsized 0.5%. For October, forecasters see the overall CPI rising 0.1% with the less food and energy rate at 0.2%. Year-on-year, the **CPI is seen at 2.0% with the core at 1.7%.**

A rebound for services lifted producer prices in September which came in at 0.4% overall when excluding food and energy. When also excluding trade services, prices rose only 0.2%. For October, forecasters see the **PPI-FD at 0.1%, at 0.2 percent less food and energy**, and at 0.2% less food, energy and trade services.

Auto and gasoline sales both spiked on hurricane effects in September which inflated the month's headline gain to 1.6%. But core readings were very positive in the month and underscored the fundamental strength of the consumer. **Retail sales in October are expected to rise 0.1%** with ex-auto sales at 0.2%.