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INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

U.S. equity markets ended the week with a gain, the first in three weeks, as stocks are riding the wave of a solid reporting season where corporations are handily beating revenue and earnings estimates.

a) **Dow Jones +0.89%, MTD +1.04%, YTD +21.83%** b) **S&P 500 +0.93%, MTD +1.24%, YTD +18.36%**
c) **Russell 2000 +1.77%, MTD +1.18%, YTD +13.21%**

Drivers: I) US corporations in the **S&P 500** are coming to the **end of reporting season**, and they are posting **solid growth for Q3 of +8.2%** according to Thomson Reuters. This far exceeds original expectation coming into the Q3 reporting period of +3.0%. The rise in earnings have been led by energy, technology and healthcare and the **beat rate** for third quarter earnings is **72% to date**, well above the historic average (since 1999) of 62%.

II) Top line **revenue growth** has been pleasantly surprising as well for S&P 500 companies. Thus far, over **68% of corporations reporting have beaten estimates** for revenue growth, nicely exceeding the historical averages. For revenues, the beat winners have been technology again, but also materials, while the laggards have been utilities and telecom.

III) The **Leading Economic Indicator** which was held down in September, **surged in October** with an unusually **strong gain of 1.2%.** Unemployment claims were a major factor, after jumping sharply with many lost jobs due to the hurricanes, but have quickly moved back lower to pre-hurricane levels. Strength included gains in building permits and the factory work week, as well as ISM new manufacturing orders.

IV) **Housing** is a sector that **continues to show strength** going into year end. **Existing home sales** proved stronger-than-expected in October, **up 2.0% to a 5.480 million annualized rate**. Strength showed for both single-family resales, up 2.1% to a 4.870 million rate and up 1.7% for condos to a 610,000 rate. Discounting was limited in October with the median price down only 0.2% to $247,000 for 5.5% year-on-year appreciation.

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

Capitalization: Large Caps +1.31% (YTD +18.32%), **Mid-Caps +1.64%** (YTD +15.46%) and **Small Caps +1.18%** (YTD +13.21). **Style: Value +1.17%** (YTD +9.01%) and **Growth +1.88%** (YTD +16.81%). **Industry Groups (Leaders):** Info. Tech +2.59% **(**YTD +39.46%), Tech +2.43% (YTD +35.04%), Healthcare +0.77% (YTD +19.99%), Materials -0.28% (YTD +19.97%), Utilities +1.40% (YTD +17.70%), Con. Discretionary +2.86% **(**YTD +17.40%), Industrials -0.20% (YTD +16.36%), **Financials -1.44%** (YTD +14.00%), **REITs +3.60%** (YTD +11.94%) and **Con. Staples +3.15%** (YTD +7.96%). **(Laggards):** Energy -0.07% (YTD -7.47%) and **Telecom -1.24%** (YTD -9.24%).

EUROPEAN EQUITIES

The MSCI Europe index was up last week rising +1.17%. Markets got a lift as business optimism in the region's largest economy climbed to a record and as one of Germany's major political parties gave hope to possibly breaking a political impasse.

Drivers: I) **German business sentiment** surged to another **record high in November**, as companies upgraded their outlook for the months ahead, despite Germany's uncertain political situation. The IFO think tank reported last Friday that its **business climate index rose to 117.5 points** from a previous record of 116.8 points in October. The latest figure marks the highest level since records began in 1991.

II) In **Germany**, the economy picked up speed in the third quarter, propelled by exports and corporate investments, the Federal Statistical Office, reported last week. Germany's **gross domestic product** grew at a quarter-to-quarter rate of 0.8% in the three months through September, or **3.3% in annualized terms**. There was a pickup in global demand for high-end tools and machinery and stronger corporate investments.

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III) **Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was higher by +1.17% for the week (MTD -0.52% YTD +22.95%).**

ASIAN EQUITIES

Asian markets rose last week as concerns over China's recent liquidity squeeze waned. Investors are expecting strong Chinese economic growth at least through next year and companies to post double-digit earnings jumps. The Dow Jones Asia Index rose by +1.58% for the week, (MTD +1.50%, YTD +24.06%).

Drivers: I) The **People's Bank of China** put just a small amount of cash into the financial system last Friday morning, as expected by some market participants, suggesting Beijing is not worried about the recent drop in the stock market. The central bank **injected net 20 billion yuan** ($3.04 billion), following Thursday's relatively large 100 billion yuan.

II) In **China**, following the recent deceleration in gains, **home prices seem to have stabilized somewhat** in October. The NBS 70-city house price index **increased 0.3%** month over month **in October**, slightly higher than the 0.2% rise in September. Policy tightening continued to impact prices in the 15 focus cities, with new home prices edging down 0.1% month over month in in tier-1 cities, while secondary market home prices stayed flat.

III) **Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was higher by +0.69% (MTD +2.47%, YTD +20.02%), the Hang Seng Index rose by +2.34% (MTD +5.65%, YTD +34.83%) and the Shanghai Composite was down by -0.86% (MTD -1.16% YTD, +8.06%).**

FIXED INCOME

Treasury yields dropped back slightly last week as low levels of inflation in the US brings into question the path of Fed interest rate hikes for calendar year 2018.

Performance: I) **The 10-year Treasury yield was unchanged last week ending at 2.344%. The 30-year yield fell last week declining from 2.779% to 2.764%.**

II) **Performance for the week, month-to-date and year-to-date. The Bloomberg Barclays US Aggregate Bond Index rose +0.19% last week, MTD +0.18% and YTD +3.39%. The Bloomberg Barclays US MBS TR was up +0.12% last week, MTD +0.11% and YTD +2.40%. The Bloomberg Barclay's US Corporate HY Index rose by +0.39%, MTD -0.38% and YTD +7.05%.**

COMMODITIES

The DJ Commodity Index was higher by +0.45 last week and is up month to date +1.52% (YTD +2.79%), as oil demand growth continues to outpace supply growth and OPECs decision to reduce output is working.

Performance: I) **Oil prices rose last week** to $58.97, up by +4.04% and is higher month to date for October +8.44% (YTD +9.42%). Oil hit a 2½-year high in last week, as investors focused on a disruption to a major crude-oil hub in Oklahoma and looked ahead to a key OPEC meeting next week.

II) The **ICE USD Index**, a gauge of the U.S dollar's movement against six other major currencies, **fell -0.97%** from 93.67 to 92.76 for the week (MTD -1.89%, YTD -9.39%). The U.S. dollar hit its **lowest level since Sept. 25** and suffered its third weekly loss in a row, driven by a **rallying euro** and concerns that **the Federal Reserve** may be **hesitant** to deliver further **interest-rate increases** due to stubbornly **low inflation**.

III) Gold was lower last week, as investors worried about persistently low inflation, which raises the question of whether the Fed will stick to three planned rate increases in 2018. Gold was down by -0.14% last week, dropping from $1294.4 to $1292.6 (MTD +1.74%, YTD +12.20%).

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HEDGE FUNDS

Hedge fund returns in November are mixed, as core strategies Equity Hedge, Distressed and Macro are in positive territory. Event Driven and Relative Value are lower on the month.

Performance:

I) The HFRX Global Hedge Fund Index is higher at +0.04% MTD and +5.20% YTD.
II) Equity Hedge is up +0.41% MTD and is up +8.35% YTD.
III) Event Driven has declined MTD -0.48% and is higher YTD +5.92%.
IV) Distressed Debt is higher by +0.03% MTD and is positive YTD +1.75%
V) Macro/CTA has risen by +0.46% MTD and is up +2.29% YTD.
VI) Relative Value Arbitrage has declined by -0.14% and is higher by +3.24% YTD.

ECONOMIC DATA WATCH AND MARKET OUTLOOK

In a look forward to the **upcoming week of trading**, investors will be recovering from their annual over indulgence of l-tryptophan and carbohydrates while trying to figure out whether the run-away **bull market** in stocks **will continue in 2018**. When we started 2017, except for the most prescient of Wall Street strategists, few would have predicted the S&P 500 would have broached the 2600 level by the end of November. But with only 24 more trading days left to the year, equity markets have defied the odds, **reaching record highs despite political uncertainty, stubbornly low levels of inflation and volatility.**

In short, it's all about the **coordinated global economic growth** we are seeing, and **solid revenue and earnings gains** from corporations around the world. In addition, we are still seeing **historically easy money** policies from the **central banks**, and the cherry on top of the cake would be any **tax reform** coming out of the Trump White House and the **US Congress**. For the S&P 500, **JPMorgan** is **estimating earnings** could come in at plus 11.4% in 2018, with global earnings estimated to rise by 10.4%. Though these estimates will be subject to revisions, this could a solid case for the **S&P 500** to give investors a **return ranging from 7% to 10%** in 2018. Not a bad sequel to a very successful 2017 for equities.

In turning to next week's **economic calendar**, **Wednesday's testimony from Janet Yellen** will be a focus of the week. The outgoing Chairperson of the Fed has been repeating the need for an extended series of gradual rate hikes.

Also **on Wednesday, the Beige Book** from the Federal Reserve will be released, and the report has been underlining indications of labor scarcity. "Modest-to-moderate" was once again the assessment of the last Beige Book released in early October. **The report did cite some wage pressures,** but concerns over inflation were nevertheless limited. Consumer spending got a downgrade to slow growth while the report said both employment and housing were constrained by low inventories.

Housing, a hesitant sector that may be picking up steam, will be a feature of the week with **new home sales on Monday** followed by pending home sales on Wednesday and construction spending on Friday. The new home sales report is known for its volatility which was apparent once again in **September** as the annualized rate surged to **667,000 for an 18.9% monthly gain**. This was the largest percentage gain in 28 years and the highest level in 10 years. The consensus for **October new home sales is a 620 ,000 annualized rate.**

Coming out on **Wednesday** will be the all-important **PCE Price Index**. The PCE price index is expected to **rise only 0.1% for a year-on-year rate of 1.5%** with the **core PCE price index**, which excludes both food and energy, seen up 0.2% for a **yearly rate of only 1.4%.**

On **Friday,** we end the week with the **ISM Manufacturing Index** and unit vehicle sales, which will offer the first tangible indication on consumer spending during November. The ISM manufacturing index **has been surging** this year, having **beaten** Street **consensus for five of the last six months**. New orders including export sales were major positives in the last report as was employment. The Street consensus for November calls for **modest slowing, to 58.4 from 58.7**.

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