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INVESTMENT COMMITTEE MARKET COMMENTARY

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U.S. EQUITIES

U.S. equity markets saw the DJIA, NASDAQ Composite and S&P 500 once again hit record highs last Friday, propelled by strong earnings from Apple which offset the lackluster non-farm payroll jobs report.

a) **Dow Jones +0.45%, MTD +0.69%, YTD +21.42%** b) **S&P 500 +0.29%, MTD +0.51%, YTD +17.50%**
c) **Russell 2000 -0.87%, MTD -0.51%, YTD +11.32%**

Drivers: I) The **U.S. economy added 261,000 jobs in October** as employment rebounded from a small job gain last month due to hurricanes Harvey and Irma. Economists had predicted a 325,000 increase in nonfarm jobs. **Unemployment dropped to 4.1%** from 4.2% and sat near a 17-year low, but the decline was due in part from a sharp 765,000 decline in the number of people in the labor force.

II) The broader **U6 jobless rate fell to 7.9%,** the first time it has been below 8.0% since 2006. Wages fell one cent to an average of $26.53 an hour, the government reported last Friday. The year-over-year increase in **hourly pay slowed to 2.4%** from 2.8%, though wage data for the past two months were distorted by the storms.

III) The **Federal Reserve kept its interest rate** range **unchanged at 1.00% to 1.25%** as widely expected. In its statement, the FOMC said that growth was solid and the labor market continued to strengthen. It acknowledged that **inflation remained soft** but did not downgrade its assessment of inflation expectations. The Fed also noted that the nation's unemployment rate had declined further.

IV) The **Institute for Supply Management** said its **nonmanufacturing index rose slightly to 60.1%** from 59.8%, reaching the best level since Aug. 2005. Economists had forecast a reading of 58.1%. The report was very strong, with production and new orders both above 62%. Business is strong, driven by large upticks in business from clients in the retail industry.

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

Capitalization: **Large Caps +0.47%** (YTD +17.34%), Mid-Caps +0.15% (YTD +13.78%) and **Small Caps -0.51%** (YTD +11.32). **Style: Value -0.36%** (YTD +7.36%) and **Growth -0.31%** (YTD +14.30%). **Industry Groups (Leaders): Info. Tech +0.87% (**YTD +37.12%), Tech +0.85% (YTD +32.95%), Materials -0.28% (YTD +19.97%), Healthcare +0.56% (YTD +19.74%), Industrials +0.40% (YTD +17.05%), Financials +0.75% (YTD +16.54%), Utilities +0.22% (YTD +16.34%), **Con. Discretionary -0.34% (**YTD +13.75%), REITs +0.76% (YTD +8.87%) and Con. Staples +0.07% (YTD +4.74%). **(Laggards): Energy +1.11%** (YTD -6.38%) and **Telecom -3.87%** (YTD -11.66%).

EUROPEAN EQUITIES

The MSCI Europe index was higher last week by +0.96% amid the many market moving events that took place. Among the events were the results of three central banks where the ECB and US Federal Reserve kept rates steady, while the Bank of England raised rates by 0.25% for the first time in a decade.

Drivers: I) The **European Union's third quarter flash gross domestic product climbed 0.6%** on the quarter and **2.5% on the year**. This followed a stronger revised 0.7% quarterly increase in the previous period. National statistics that were released showed France (0.5%) and Spain (0.8%) maintaining respectable quarterly rates while Germany looks to have performed well again (data due 14th November).

II) The **October EU Commission's** measure of **economic sentiment** registered its **fifth consecutive gain to 114.0**, up from a stronger revised 113.1 in September, its **highest level since January 2001**. the most significant advances were recorded in retail (5.5 after 3.0) and construction (0.2 after minus 1.7). Inflation developments were generally positive. Expected selling prices in services increased from 8.0 to 8.4, their fifth straight gain. In addition, household inflation expectations rose by 0.5 points to 14.7, their strongest mark since March.

III) **Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was up by +0.96% for the week (MTD -0.06%, YTD +23.29%).**

ASIAN EQUITIES

Asian markets were higher last week as investors were focused on central bank monetary policy decisions from Japan, the U.S. and the UK. The Dow Jones Asia Index rose by +1.64% for the week, (MTD +1.00%, YTD +23.45%).

Drivers: I) The **Bank of Japan left its monetary policy unchanged** in line with expectations. The BoJ's short-term policy rate for excess reserves remains at minus 0.1% while the target level for the **long-term 10-year yield remains at around 0.0%.** The BoJ's policy framework also involves adjusting the pace of their Japanese government bonds purchases in order to keep the 10-year yield close to its target level. The monetary policy board continues to believe that purchasing these bonds at an annual rate of ¥80 trillion is consistent with meeting this target.

II) **Japan's September industrial production** dropped a monthly 1.1% but **advanced 3.9% from a year ago**. The monthly decline reflected weaker output of electronic parts and devices, general purpose, production and business-oriented machinery and fabricated metals. This was offset by stronger output of chemicals, petroleum and coal products and non-ferrous metals.

III) **Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was up by +2.42% (MTD +2.41% YTD +19.94%), the Hang Seng Index declined by +0.59% (MTD +1.25% YTD +29.22%) and the Shanghai Composite was lower by -1.32% (MTD -0.64% YTD +8.64%).**

FIXED INCOME

Treasury yields were lower last week after a weaker-than-expected non-farm payroll employment report.

Performance: I) **The 10-year Treasury yield was lower last week ending at 2.334% down from 2.411%. The 30-year yield fell last week declining from 2.919% to 2.815%.**

II) **Performance for the week, month-to-date and year-to-date. The Bloomberg Barclays US Aggregate Bond Index rose +0.44% last week, MTD +0.15% and YTD +3.36%. The Bloomberg Barclays US MBS TR was up +0.36% last week, MTD +0.11% and YTD +2.40%. The Bloomberg Barclay's US Corporate HY Index rose +0.04%, MTD -0.01% and YTD +7.44%.**

COMMODITIES

The DJ Commodity Index was up +1.29 last week and is up month to date +0.80% (YTD +2.21%) as oil led the charge higher as supplies have declined as well as production in the US.

Performance: I) **Oil prices rose** last week **by +2.79%** up to $55.70 and is higher month to date for October +2.42% (YTD +3.36%). Oil hit its highest level in more than two years as a **drop in the U.S. oil-rig count** hinted at an output slowdown. Baker Hughes reported the number of active U.S. rigs drilling for oil fell by 8 to 729 last week. That was the **fourth weekly decline in five**.

II) The **ICE USD Index**, a gauge of the U.S dollar's movement against six other major currencies, **rose +0.11%** from 94.81 to 94.92 for the week (MTD +0.39% YTD -7.29%). The U.S. dollar recovered from earlier losses against many of its major rivals on Friday, buoyed by a better-than-expected ISM services index, which came in at a 12-year high.

III) **Gold hit a three-month low** as the **U.S. dollar index climbed** to levels not seen since July on signs of a strong pickup in service-sector activity. Gold was **lower by -0.34**% last week, falling from $1274.6 to $1270.2 (MTD -0.02%, YTD +10.26%).

HEDGE FUNDS

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

Performance:

I) The HFRX Global Hedge Fund Index is higher at +0.02% MTD and +5.17% YTD.
II) Equity Hedge is down -0.02% MTD and is up +7.89% YTD.
III) Event Driven has declined MTD -0.20% and is higher YTD +6.22%.
IV) Distressed Debt is higher by +0.17% MTD and is positive YTD +1.90%
V) Macro/CTA has advanced by +0.15% MTD and is up +1.98% YTD.
VI) Relative Value Arbitrage has risen +0.17% and is higher by +3.55% YTD.

ECONOMIC DATA WATCH AND MARKET OUTLOOK

In a look towards **next week's market action**, the **strong rise in global equity markets** this year are still being met with **investor skepticism**. For example, despite the **record levels seen in the US** by the DJIA, S&P 500 and the NASDAQ Composite, **fund flows have been negative** for the year. And global equity markets have been able to shrug off global macro events that should have caused a down-draft, including North Korea's military threats, major policy inaction in Washington, and questions regarding the many European elections this year.

Despite it all, the major **global equity markets** have been **boosted higher** by several global economic and fundamental tailwinds. First, the **45 global economies** followed by the OECD are in a **synchronized growth** mode for the first time in over a decade. Global growth is projected to reach 3.6% in 2017 and 3.7% in 2018, the best since the Great Recession. We are also in a time of the year that is **seasonally positive for markets**, where over the past two decades, the large-cap index been higher 15 out of 20 Novembers with an average rise of 1.5%. It also does not hurt that the positive sentiment is being helped by **positive job growth, hope for tax cuts, and soaring business and consumer confidence.**

Finally, and most importantly, **corporation earnings and revenue reports** for the third quarter are **exceeding expectations**. As of last week, **S&P 500 earnings are up by 4.7%** with six of the 11 sectors turning in higher profits. Some 76% of companies are posting better-than-expected results, ahead of the one-year (71%) and the five-year (69%) averages, according to FactSet. **S&P 500 revenues are also up 5.7%** with 10 of the 11 sectors reporting higher sales. And looking forward, should **Congress** be successful at **reducing corporate tax rates from 35.0% down to 20.0%**, this could add about $8 per share to earnings. Based on a P/E ratio for the S&P 500 of 18 times, the added earnings **could provide another 100 points of upside** to the Index.

In turning to **next week's economic calendar**, it is a very light week for economic data releases. **JOLTS data on Tuesday** will update job openings, which have far exceeded hiring, in strong evidence that the economy is at full employment. At 4.1%, the unemployment rate is low and consistent with full employment, which is also the signal from the JOLTS report where job openings have been running over 6 million and nearly matching the number of unemployed actively looking for work. Street consensus for September job openings is 6.082 million.

Jobless claims will offer the first November **update on the jobs market** and whether hurricane effects have completely unwound. Initial claims are expected to come in at **232,000** in the November 5 week **versus 233,000** in the October 28 week. Hurricane-related claims from Puerto Rico are still an unknown.

Closing out the week is consumer sentiment which, reflecting the strength of the labor market, is **coming off a 13-year hig**h. Bolstered by high employment and rising income prospects, the consumer sentiment index jumped in the preliminary October report to 101.1 for the **best showing in 13 years** before ending the month nearly as high, at 100.7. Street consensus for preliminary November is 100.0.