CLEARBROOK

INVESTMENT COMMITTEE MARKET COMMENTARY

MARCH 19, 2018 www.clearbrookglobal.com

U.S. EQUITIES

U.S. equity markets broke a four-day losing streak on Friday due to positive economic data but was lower for the week due to concerns over trade tariffs and personnel turnover in the White House.

a) **Dow Jones -1.51%, MTD -0.22%, YTD +1.47%** b) **S&P 500 -1.20%, MTD +1.52%, YTD +3.38%**
c) **Russell 2000 -0.65%, MTD +4.96%, YTD +3.53%**

Drivers: I) The **University of Michigan's consumer sentiment index** hit the **highest level since 2004** in March, helped by a record favorable assessment of current economic conditions. The index rose to 102 in March from 99.7 in February, topping the 99.5 economist forecast. All the gain in the sentiment index was among households with incomes in the bottom third, the report said.

II) **The Political Risk Index** published by Macrobond, Saxo Bank, **reached its highest level since the invasion of Iraq in 2003**. Much of the recent political worry has centered on the changing personnel in the White House, with a number of high-profile Trump administration departures prompting concerns about turmoil in Washington, which threaten to hamper the administration's pro-business agenda.

III) **Industrial production surged 1.1% in February**, the strongest gain since last October, the Federal Reserve reported Friday. The gain in output was well above Wall Street expectations of a 0.5% increase. Manufacturing output jumped 1.2% in February, the biggest gain since October. Mining output rose 4.3%, helped by strong oil and gas extraction and coal mining. The index for oil and gas extraction was about 12% higher than a year ago.

IV) **Construction on new houses fell 7%** in February, but housing starts are still close to a post-recession high and builders show no sign of slowing down. Housing starts declined to an annual rate of 1.24 million last month from a revised 1.33 million in January. The rate of construction in January was the highest since 2008. The **decline was concentrated in the volatile category** of **multi-dwelling units**, apartment buildings and condo complexes.

V) **Equities in March are higher with Small-Cap, Growth, Utilities and REITs leading equity price performance. The laggards for the month are Large-Cap, Value, Materials and Industrials.**

Capitalization: **Large Caps +1.72%** (YTD +3.36%), Mid-Caps +3.06% (YTD +2.52%) and **Small Caps +4.96%** (YTD +3.53). **Style: Value +4.06%** (YTD +0.43%) and **Growth +4.61%** (YTD +4.80%). **Industry Groups (Leaders):** Info. Tech +2.75% (YTD +10.34%), Technology +2.49% (YTD +9.35%), Consumer Discretionary +1.43% (YTD +7.04%), Financials +0.40% (YTD +3.89%), Healthcare +1.93% (YTD +3.83%) and **Industrials +0.33%** (YTD +1.78%). **(Laggards): Materials -0.40%** (YTD -1.78%), Telecom +2.29% (YTD -2.31%), **Utilities +3.30%** (YTD -3.70%), **REITs +4.33%** (YTD -4.51%), Consumer Staples +0.25% (YTD -5.82%) and Energy +1.67% (YTD -5.92%).

EUROPEAN EQUITIES

The MSCI Europe index was down last week dropping -0.36%. European equities were mixed on the week as a drop in Eurozone inflation combined with continued worries over a potential trade war weighed on investor sentiment. Investors were nervous over US political uncertainty due to White House personnel changes.

Drivers: I) The **European Union's** reported **consumer prices were just 1.1% higher** in February than a year earlier, a lower rate of inflation that the 1.2% it first estimated. That marked the third straight month of decline and brought the rate to its **lowest level since December 2016**. The European Central Bank targets an inflation rate of just below 2% and continues to provide substantial stimulus to the eurozone economy in pursuit of that goal.

II) According to **European Central Bank President Mario Draghi,** the ECB will **end its asset purchase program** only when **inflation makes sufficient progress** in its path towards the target of 'below, but **close to 2 percent'** over the medium term. Although inflation is converging towards the target, the Bank requires more evidence, "We still need to see further evidence that inflation dynamics are moving in the right direction," he said.

III) **Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was lower by -0.36% for the week (MTD +0.28%, YTD -0.51%).**

ASIAN EQUITIES

Asian markets were mixed as reports of more upheaval in the Trump administration tested investors' nerves, already heightened by fears that U.S. tariffs could hurt the global economy and trigger a trade war. The Dow Jones Asia Index rose by +0.60% for the week, (MTD -0.52%, YTD -0.52%).

Drivers: I) In **Japan**, **January private sector machinery orders** (excluding volatile items) **increased 8.2%** on the month (seasonally adjusted), rebounding from a decline of 9.3% in December. The data, which excludes orders for ships and those from electric power companies, is considered a proxy for capital expenditures. On the year, machinery orders (excluding volatile items) advanced 3.6%, rebounding from a 5.0% decline the month before.

II) **In China**, January and February **industrial production was up 7.2%** on the year after increasing 6.2% in December. The pick-up in headline industrial production growth in the first two months was broad-based. Growth strengthened in the manufacturing sector, with output up 7.0% on the year in January and February after an increase of 6.5% in December, though there was some divergence within the sector. Growth strengthened for cement, steel products and general equipment but weakened for automobiles, textiles, chemicals and communication equipment.

III) **Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was higher by +0.97% (MTD -1.78%, YTD -4.72%), the Hang Seng Index advanced by +1.58% (MTD +1.95%, YTD +4.92%) and the Shanghai Composite was lower by -1.13% (MTD +0.32%, YTD -1.13%).**

FIXED INCOME

Bond market yields saw a weekly decline as geopolitical instability kept investors moving to the safety of government securities, but on Friday, rates rose as a robust economic data suggested U.S. growth would maintain its steady rate, ahead of a key monetary-policy update on Wednesday.

Performance: I) **The 10-year Treasury yield was lower last week ending at 2.847 down from 2.895%. The 30-year yield fell last week, declining from 3.161 to 3.080%.**

II) **Performance for the week, month-to-date and year-to-date. The Bloomberg Barclays US Aggregate Bond Index rose by +0.22% last week, MTD +0.09% and YTD -2.00%. The Bloomberg Barclays US MBS TR was higher by +0.18% last week, MTD +0.15% and YTD -1.67%. The Bloomberg Barclay's US Corporate HY Index was negative by -0.19%, MTD -0.34% and YTD -0.59%.**

COMMODITIES

The DJ Commodity Index was lower by -0.51 last week and is down month to date -0.38% (YTD +0.30%). Industrial metals were lower due to a rise in the USD, while agricultural commodities fell on increasing supplies.

Performance: I) The price of **oil moved higher last week by +0.21%** up to $62.25 and is up month to date in March +0.99% (YTD +3.58%). Oil prices rose as expectations for growth in global crude demand outweighed pressure from concerns over strong U.S. production and a weekly rise in the number of active domestic oil rigs.

II) The **ICE USD Index**, a gauge of the U.S dollar's movement against six other major currencies, **rose +0.10%** from 90.10 to 90.19 for the week (MTD -0.42%, YTD -2.28%). The U.S. dollar rallied in the wake of stronger-than-expected economic data, reversing a previous loss that had the buck trading at a nine-day low.

III) **Gold was negative** hitting its lowest level in just over two weeks, generally tethered to the dollar, this week yet supported by persistent global political and trade tensions given the metal's haven-asset status. Gold was lower by -0.76% last week, falling from $1324.0 to $1313.9 (MTD -0.30%, YTD +0.67%).

HEDGE FUNDS

Hedge fund returns for March are mixed for the month, with core strategies Distressed, Macro and Relative Value lower, while Equity Hedge and Event Driven are up.

Performance:

I) The HFRX Global Hedge Fund Index is up at +0.13% MTD and +0.09% YTD.
II) Equity Hedge is higher by +0.45% MTD and is up +2.33% YTD.
III) Event Driven has risen MTD +0.20% and is lower YTD -2.50%.
IV) Distressed Debt is lower by -1.18% MTD and is positive YTD +0.83%
V) Macro/CTA has declined by -0.18% MTD and is down -1.42% YTD.
VI) Relative Value Arbitrage has fallen by -0.09% and is higher by +1.23% YTD.

ECONOMIC DATA WATCH AND MARKET OUTLOOK

As we look ahead to **next week's trading session**, investors will be briefly putting aside worries over tariffs and geo-politics while **refocusing attention on the upcoming FOMC meetings.** These will be the first Fed meetings presided over by new Chairman, Jerome Powell, and is expected to deliver the first of a series of rate hikes. Market participants fully **expect a 0.25% increase in the Fed Funds rate** and will anxiously dissect his comments during the subsequent news conference. In short, will Powell deviate from the slow and steady rate path that was followed by his predecessor, Janet Yellen.

In turning to **next week's economic calendar**, **Wednesday's** opener will be the **current account deficit** which will focus attention once again on the nation's trade deficit. The current account deficit is expected to **widen sharply** in the fourth quarter, to a consensus $126.8 billion from a $100.6 billion total in the third quarter that was helped by receipts from foreign insurance companies for the hurricanes that swept the quarter. As a percentage of GDP, the current account deficit was 2.1% in the third quarter for the best showing since second-quarter 2014.

In addition, on **Wednesday, existing home sales** will be reported where the outlook, due to **stubbornly low supply**, has been uneven. Existing home sales have been slowing and any rebound looks to be contained based on pending sales which are down sharply. Supply of resales on the market is very thin and a stubborn and increasing obstacle to sales growth. Street consensus for February is a 5.420 million annualized rate which would be up from January's disappointing 5.380 million.

Wednesday afternoon will see the press conference debut of **Jerome Powell** who will chair an FOMC meeting where a rate hike, given solid economic growth and the risk of inflation, is the universal expectation. An **incremental 25 basis point rate hike is the Street expectation** among economists for the March FOMC, in what is expected to be the first of three if not four such rate hikes this year. And the **focus** will be **whether to expect a fourth** and this will turn on the quarterly FOMC forecasts, which will be **updated at the meeting**, and the statement's assessment of inflation and whether it is downgraded, upgraded or held steady. Comments by Jerome Powell, who will be making his first appearance at the quarterly press conference, will also affect the inflation takeaway. The federal funds target is expected to rise to 1.50% inside a range of 1.375 and 1.625%.

The week closes with two major reports **on Friday**: durable goods where rebound strength is the call and new home sales where new supply should boost results. **Orders for durable goods are expected to bounce back 1.7%** in February following a mostly soft January that included a sharp aircraft-related downswing in the headline rate, but also weakness in the ex-transportation and capital goods readings. The consensus for February ex-transportation orders is a solid gain of 0.6% with core capital goods also expected to rise 0.6%.

Supply has been moving into the market which should **help new home sales** for February where the annualized rate is expected to come in at 620,000 vs January's 593,000. New home sales surged at the end of last year and strength in February could boost confidence for extending strength into this year.