

U.S. EQUITIES

U.S. equity markets were higher last week, as the recent spate of soft inflation numbers has lowered the risk that the Fed will need to hold down inflation with accelerated rate hikes.

a) Dow Jones +2.51%, MTD +2.94%, YTD +1.26% b) S&P 500 +2.49%, MTD +3.11%, YTD +2.72%
c) Russell 2000 +2.65%, MTD +4.25%, YTD +5.06%

Drivers: I) The year-over-year rate of the **core consumer price index held at 2.1%** and failed to advance. This reading is closely shadowed by the core PCE price index which is the Federal Reserve's policy measure and which back in late April jumped 0.3% to 1.9%. The latest CPI results do not point to a repeat of another PCE spike, at least not for April.

II) There are very **few indications of pressure in consumer prices** and the direction of two **key components**, housing and medical costs, are only **marginally higher**. Housing costs have been remained at the 3% line for the past year with components for rent flat to only slightly higher, at a rate of 3.7%. Medical care has been struggling at the 2% line with April's 2.2% rate, which is not indicative of runaway costs.

III) **Producer prices** were also released last week and there is **little indication** here of much **trouble along the inflation pipeline**. The ex-food ex-energy core index, at a year-on-year 2.1% in April, has been unable to make much headway over the past year while the total index, at 2.7%, has been unable to move past the 3% line despite the recent rise underway in oil.

IV) So far, **444 S&P 500 companies** have posted earnings and the index is showing **profit growth of 24.5%** from the same period a year ago and **9.3% growth in revenues**, according to Zacks. Almost 78% of those companies beat per-share earnings-per-share estimates, while 75% beat revenue estimates. The growth picture for this earnings season is very impressive, although there have been no increases in estimates for the upcoming quarters.

V) **Equities in May are higher with Small-Cap, Growth, Technology and Information Technology leading equity price performance. The laggards for the month are Mid-Cap, Value, Consumer Staples and Utilities.**

Capitalization: Large Caps +3.13% (YTD +2.76%), **Mid-Caps +2.63%** (YTD +2.00%) and **Small Caps +4.25%** (YTD +5.06). **Style: Value +3.45%** (YTD +1.85%) and **Growth +4.11%** (YTD +5.14%). **Industry Groups (Leaders): Info. Tech +7.32%** (YTD +10.98%), **Technology +6.82%** (YTD +9.77%), Energy +4.03% (YTD +7.14%), Consumer Discretionary +1.17% (YTD +6.71%), Financials +2.95% (YTD +1.56%) and Healthcare +1.00% (YTD +0.90%). **(Laggards): Industrials +3.48%** (YTD -0.71%), Materials +3.32% (YTD -2.23%), **Utilities -2.25%** (YTD -3.52%), REITs +2.09% (YTD -3.65%), Telecom -0.92% (YTD -6.78%) and **Consumer Staples -1.84%** (YTD -12.40%).

EUROPEAN EQUITIES

The MSCI Europe index was higher last week advancing **+1.77%** and has now recorded the longest string of weekly increases in more than three-years thanks for the most part to strong corporate earnings.

Drivers: I) In **Germany, March manufacturing orders dropped** a monthly 0.9% following a revised 0.2% decline in February. The weakness in the overall monthly change was for the most part, attributable to a **decline in overseas demand**. This contracted 2.6% (Eurozone minus 3.0%) and more than offset a 1.5% rise in domestic orders. Within overall orders, capital goods were 1.8% lower than in February and basics were off 0.3%.

II) March **industrial production in Germany** was **up 1.0%** for the month, its best performance since last November, and enough to lift **annual growth** from **2.1% to 3.2%**. March's partial monthly recovery was reasonably broad-based. Capital goods climbed 2.6% after a 2.7% drop, consumer goods were up 1.1% following a 1.4% decline and construction gained 0.6% after a 3.1% drop.

III) **Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was higher by +1.77% for the week (MTD +1.03%, YTD +1.76%).**

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ASIAN EQUITIES

Asian equities rose last week as higher commodity prices and easing interest rate increase fears helped bolster investor sentiment. The Dow Jones Asia Index rose by +2.01% for the week, (MTD +0.54%, YTD -1.12%).

Drivers: I) In China, the April merchandise trade balance shifted from a deficit of \$4.98 billion in March to a surplus of \$28.78 billion. China's trade surplus with the United States was \$22.19 billion in April and \$80.4 billion year-to-date, up 13.5% from the same period last year. Exports rose 12.9% on the year, after falling 2.7% in March. Imports also recorded stronger growth in April, up 21.5% on the year after advancing 14.4% in March.

II) April consumer price index in China slowed to an increase of 1.8% on the year from 2.1% in March. This is the second consecutive decline after it jumped sharply higher in February. The index fell 0.2% on the month after dropping 1.1% previously. Once again food prices were the main factor driving the decline, increasing 0.7% on the year after an increase of 2.1% previously

III) Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was higher by +1.27% (MTD +1.29%, YTD +0.80%), the Hang Seng Index advanced by +3.99% (MTD +1.00%, YTD +3.56%) and the Shanghai Composite rose by +2.34% (MTD +2.63%, YTD -4.35%).

FIXED INCOME

Treasury yields were higher for the week particularly on the short end, as investors said the data would not discourage the Fed from raising rates in June, the widely-expected date for the second hike of the year.

Performance: I) The 10-year Treasury yield was higher last week ending at 2.968 up from 2.952%. The 30-year yield climbed higher last week rising from 3.124 to 3.105%.

II) Performance for the week, month-to-date and year-to-date. The Bloomberg Barclays US Aggregate Bond Index fell by -0.01% last week, MTD -0.09% and YTD -2.28%. The Bloomberg Barclays US MBS TR was lower by -0.08% last week, MTD -0.04% and YTD -1.73%. The Bloomberg Barclay's US Corporate HY Index was up by +0.28%, MTD +0.20% and YTD -0.02%.

COMMODITIES

The DJ Commodity Index was higher by +0.25 last week and is up month to date +0.64% (YTD +4.32%), as energy prices rose with the U.S. withdrawing from the Iran nuclear deal and commodity prices were supported by a decline in the USD.

Performance: I) The price of oil rose last week by +1.03% up to \$70.51 and is higher month to date in May +2.83% (YTD +17.32%). Oil saw a second weekly climb in a row, driven by uncertainty over how much oil the global market will lose following the U.S. decision to reimpose sanctions on OPEC member Iran.

II) The ICE USD Index, a gauge of the U.S dollar's movement against six other major currencies, fell -0.02% from 92.57 to 92.55 for the week (MTD +0.77%, YTD +0.27%). The U.S. dollar fell on disappointment over a key read of inflation that came in lower than expected, suggesting that the Federal Reserve may not need to raise interest rates faster than Wall Street is expecting this year, a slightly bearish factor for the USD.

III) Gold rose as the benchmark dollar index weakened, offering some support to prices for the precious metal. Gold rose by +0.18% last week, rising from \$1316.0 to \$1318.4 (MTD -0.06%, YTD +1.01%).

HEDGE FUNDS

Hedge fund returns for May are primarily higher for the month, with core strategies Equity Hedge, Distressed, Macro and Relative Value in positive territory while Event Drive is lower.

Performance:

- I) The HFRX Global Hedge Fund Index is higher at +0.50% MTD and -0.43% YTD.
- II) Equity Hedge has risen by +0.63% MTD and is up +1.25% YTD.
- III) Event Driven has fallen MTD -0.24% and is lower YTD -4.62%.
- IV) Distressed Debt is higher by +0.39% MTD and is negative YTD -4.65%
- V) Macro/CTA has advanced by +1.50% MTD and is down -0.10% YTD.
- VI) Relative Value Arbitrage has risen by +0.35% and is higher by +1.57% YTD.

ECONOMIC DATA WATCH AND MARKET OUTLOOK

As we look ahead to **next week's trading session**, markets have shown **tremendous resiliency** over the past six weeks, as they have been **able to rally** and move past concerns over inflations, rising interest rates, trade wars and a plethora of geo-political worries. An eerie semblance of growing calm has overtaken markets, as recent inflation data and jobs data have been happily mediocre. The not too hot or too cold scenario has helped to keep the **U.S. 10-year Treasury rate below** the important psychological **3.0% level**. Stable interest rates and **declining** levels of market **volatility** have **brought buyers back** into the market.

Investors have been pricing in virtually **every negative scenario** possible, including run away inflation, rapid rises in interest rates, escalating trade wars and the potential for military conflict. Through it all, **economic growth** continues to **rise** and **corporate earnings** are achieving record levels of top and bottom line growth. The S&P 500 for Q1 is growing at nearly a 25% rate, while revenues are also seeing a solid gain of 8%. Though Q1 earnings have been boosted by lower tax rates, Q2 earnings are projected to grow by 20% according to FactSet. Despite continued worries over economic or geo-political headwinds, market participants are hoping that solid global economic data and corporate earnings should **support higher equity prices** over the next several months.

In turning to the week's upcoming **economic calendar**, **Tuesday** will be the first look at second-quarter consumer spending, **April retail sales**. At a moderate 0.3% consensus gain, April retail sales, unlike those for March, are not expected to get any boost from vehicles following the separately released falloff in the month's unit sales. A more **solid 0.5% increase** is the projection for ex-auto sales which are expected to get a boost from the month's **higher gas prices**. When excluding both autos and gasoline, sales are seen rising 0.4% with control group sales, which also excludes food services and building materials, also expected to increase 0.4%.

Attention turns to a factory sector that may be accelerating though expectations are pointing to only a moderate gain for the **manufacturing component** of **Wednesday's industrial production** report. Mining has been the strength of the industrial production report which is expected to rise a **solid 0.6% in April**. Manufacturing has been uneven in this report though a respectable 0.3% gain is April's call. Pressures on capacity utilization have until now been limited though forecasters are looking for a sizable 0.4% gain to 78.4%.

The new home market is also in focus: home builder assessments in **Tuesday's housing market index** followed on Wednesday by housing starts and permits which, after surging in March, are expected to slow but only slightly in April. Home-builder confidence has been leveling in contrast to new home sales and permits which are both accelerating. Street consensus calls for **slight strengthening** for the housing market index, at 70 in May versus April's 69 which was a 5-month low.