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INVESTMENT COMMITTEE MARKET COMMENTARY

JUNE 4, 2018 www.clearbrookglobal.com

U.S. EQUITIES

U.S. equity markets were mostly higher on the week, as better than expected non-farm payroll gains out-weighted concerns over the political turmoil in Italy and Spain, as well as escalating global trade issues.

a) **Dow Jones -0.48%, MTD +0.90%, YTD -0.34** b) **S&P 500 +0.54%, MTD +1.09%, YTD +3.14%**
c) **Russell 2000 +0.36%, MTD +0.88%, YTD +7.32%**

Drivers: I) **U.S. nonfarm payrolls rose 223,000** in May, a large gain that took forecasters by surprise, exceeding the Street's consensus estimate of 186,000. The gain in jobs pushed the unemployment down to an 18-year low of 3.8%, signaling that a nine-year-old economic expansion still had a good deal of momentum. The last time the **unemployment rate was lower** was in **1969**.

II) **Average hourly earnings rose 0.3%,** which was at the top of the consensus range while the **year-on-year rate** moved up slightly to **2.7%.** Earnings are obviously not out of control, but the risk of acceleration is increasing as the available labor force shrinks. In addition, the PCE price index and the PCE core, has just recently hit the 2% level while the latter, at 1.8%, is still short of the Fed's goal.

III) **Spending** on **consumer goods in April rose sharply** for a second straight month, pointing to a pickup in the U.S. economy in the spring. Last week, the government reported consumer spending **jumped 0.6%** after a revised 0.5% gain in March. Economists had predicted a 0.4% increase. Drivers had to spend more on gas because of rising prices at the pump. They also paid more for utilities during an unusually cool month.

IV) The **PCE index**, the Federal Reserve's preferred inflation gauge, **rose 0.2%,** as did the core rate that strips out food and energy. The rate of inflation over the past 12 months, however, was unchanged at 2%. Similarly, the **core rate was flat at 1.8%.** That gives the Fed more room to pursue its current "gradualist" strategy of raising interest rates.

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

Capitalization: **Large Caps +1.05%** (YTD +2.45%), **Mid-Caps +0.86%** (YTD +1.84%) and Small Caps +0.88% (YTD +7.32). **Style: Value +0.50%** (YTD +3.64%) and **Growth +0.84%** (YTD +6.86%). **Industry Groups (Leaders): Info. Tech +1.91%** (YTD +12.80%), **Technology +1.86%** (YTD +11.65%), Consumer Discretionary +0.73% (YTD +8.36%), Energy +0.53% (YTD +6.64%) and Healthcare +1.18% (YTD +1.29%). (**Laggards):** Industrials +1.15% (YTD -0.05%), Financials +1.11% (YTD -1.17%), Materials +1.50% (YTD -1.95%), REITs +0.40% (YTD -3.13%), **Utilities -1.53%** (YTD -3.92%), Telecom +1.04% (YTD -7.59%) and **Consumer Staples -0.02%** (YTD -12.17%).

EUROPEAN EQUITIES

The MSCI Europe index was lower last week by -1.99%, with only the FTSE higher for the month of May due primarily to the political uncertainty in Italy and Spain.

Drivers: I) Investor sentiment received a boost as **Italy's anti-establishment Five Star Movement** and the **far-right League** reached a **deal to form a populist government**, helping to **avert a snap election**. The new government however, still faces a confidence vote in parliament. In Spain, the Prime Minister Mariano Rajoy was ousted by a no-confidence vote. He will be replaced by Socialist leader Pedro Sanchez. This political uncertainty roiled global markets as the rise of anti-establishment parties to power could spark a crisis for the euro.

II) The **Euro-zone's May flash harmonized index of consumer prices** was **up 1.9%** from a year ago and was 0.7% above its final April reading and equaled its highest rate since February 2017. It also moved back to its near 2% medium-term target. The core rates accelerated significantly too. The narrowest measure, which excludes energy, food, alcohol and tobacco, saw its yearly gain jump 0.4 percentage points to 1.1%.

III) **Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was lower by -1.99% for the week (MTD +0.85%, YTD -2.05%).**

ASIAN EQUITIES

Asian equities retreated last week due to the geopolitical uncertainties surrounding the governments of Spain and Italy as well as looming threats of a trade war. The Dow Jones Asia Index fell by -0.85% for the week, (MTD +0.37%, YTD -4.24%).

Drivers: I) In **Japan**, April **industrial production advanced 0.3%** on the month (seasonally adjusted), down from 2.2% in March. The monthly gain reflected increases in the output of transport equipment, general-purpose, production and business-oriented machinery and fabricated metals. On the year, output increased 1.5%, down from 4.1% in March.

II) **In India**, **first quarter gross domestic product increased 7.7%** on the year after rising 7.0% in the three months to December. This is the third consecutive increase in year-on-year growth and the **strongest since mid-2016.** The annual increase was relatively broad-based, with most sectors of the economy recording stronger growth in gross value added, including agriculture, mining, manufacturing, utilities and construction.

III) **Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was lower by -1.24% (MTD -0.14%, YTD -1.80%), the Hang Seng Index declined by -0.30% (MTD +0.11%, YTD +1.53%) and the Shanghai Composite fell by -2.11% (MTD -0.66%, YTD -7.02%).**

FIXED INCOME

Treasury yields were lower for the week, but the fall in rates prompted by the political uncertainty in Italy and Spain, were offset by a solid nonfarm payrolls report that helped to cement expectations that the Federal Reserve will raise interest rates later this month and later this year.

Performance: I) **The 10-year Treasury yield was lower last week ending at 2.902 down from 2.928%. The 30-year yield dropped last week falling from 3.090 to 3.050.**

II) **Performance for the week, month-to-date and year-to-date. The Bloomberg Barclays US Aggregate Bond Index rose by +0.16% last week, MTD -0.36% and YTD -1.85%. The Bloomberg Barclays US MBS TR was higher by +0.18% last week, MTD -0.29% and YTD -1.29%. The Bloomberg Barclay's US Corporate HY Index was up by +0.07%, MTD +0.09% and YTD -0.15%.**

COMMODITIES

The DJ Commodity Index was lower by -0.70 last week and is down month to date -0.36% (YTD +4.56%), as gold declined due a resolution to form a coalition government in Italy was reached and oil dropped due to production concerns involving OPEC and Russia.

Performance: I) The price of **oil last week fell by -2.65%** down to $65.71 and is lower month to date in June -1.98% (YTD +9.33%). Oil prices were lower, pressured by unexpected increases in U.S. petroleum-product stockpiles, ongoing growth in domestic crude output and uncertainty surrounding OPEC's plans for production.

II) The **ICE USD Index**, a gauge of the U.S dollar's movement against six other major currencies, **declined -0.09%** from 94.25 to 94.16 for the week (MTD +0.19%, YTD +2.01%). The U.S. dollar lost ground after the political crises in Europe appeared to be resolved. The pound sterling strengthened against the dollar and the euro Friday, as data showed UK manufacturing growth picked up speed in May while Italy's political crisis dominated investors' attention.

III) **Gold declined last week** as upbeat monthly U.S. jobs data backed expectations for an interest-rate hike by the Federal Reserve later this month. **Gold was lower -0.66%** last week, dropping from $1306.5 to $1297.9 (MTD -0.52%, YTD -0.55%).

HEDGE FUNDS

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

Performance:

I) The HFRX Global Hedge Fund Index is higher at +0.26% MTD and -0.66% YTD.
II) Equity Hedge has risen by +0.30% MTD and is up +0.92% YTD.
III) Event Driven has advanced MTD +0.36% and is lower YTD -4.05%.
IV) Distressed Debt is higher by +0.49 MTD and is negative YTD -4.55%
V) Macro/CTA has declined by -0.36% MTD and is down -1.93% YTD.
VI) Relative Value Arbitrage has risen by +0.58% and is higher by +1.80% YTD.

ECONOMIC DATA WATCH AND MARKET OUTLOOK

As we look ahead to **next week's trading session,** the **performance of equity market indexes** and **investor sentiment** are running well **below the positive hard and soft data** we are seeing, particularly **in the U.S**. Just over the past two weeks we have seen new lows in the unemployment rate, strengthening retail sales and continued near record levels for the consumer and business sentiment indexes. From a fundamental perspective, now with 98% of S&P 500 companies having reported Q1 earnings, 79% and 76% have beaten bottom line and top line expectations, respectively.

Despite the solid economic and fundamental results in the U.S., according to an **investor survey** from Bank of America Merrill Lynch (BAML), investor sentiment is **in a neutral state** regarding the stock market. **Geo-political concerns** over trade wars, North Korea, along with economic factors such as inflation and interest rates have **dominated the psyche of investors**. The BAML research team states that their **sentiment model though neutral to bearish**, from this level historically the **next 12 month's return for equities** have been **positive 93% of the time.** In fact, the **median return has been 19%,** but past results are not indicative of future returns.

In turning to the week's **upcoming economic calendar**, we open with factory orders on Monday where a give back for aircraft looks to make for a deceptive decline in headline growth. The durable goods report for April showed headline weakness which reflected a give back for aircraft orders and which masked solid strength especially for capital goods. Forecasters see **factory orders in April slipping 0.4%**.

Attention turns to services on **Tuesday with the services PMI and ISM non-manufacturing** reports both expected to **show strength**. PMI services moved higher in the flash report for May, getting a boost from backlogs and showing other signs of capacity stress as well including a rise in input costs. The index is expected to hold at the 55.7 flash reading.

Acceleration is the call for the ISM non-manufacturing index which fell back in April due to a shortening in delivery times, one that may have proven temporary given continuing reports of substantial delays in other data. New orders were very strong in April and point to general strength for the May report. Forecasters see the index rising 1.2 points to 58.0.

The **JOLTS report will be Tuesday**'s highlight, with forecasters expecting job openings to well exceed the number of employed in what would be a first for the U.S. economy. **Job openings**, at a **consensus 6.543 million in April**, are expected to hold **near March's 6.550 million** total and emerge above the number of employed actively looking for work, which for comparison, totaled 6.346 million in April (6.065 million was posted for May). Openings in this report have been well ahead of hirings, suggesting that employers are not finding sufficient candidates.

Trade data follows on Wednesday and a **steady deficit** is the call in a report that may offer early **effects from steel and aluminum tariffs**. The international trade deficit for goods and services is expected to hold steady in April at $49.0 billion in line with little change in advance data on the goods side of the report. The advance data showed a 0.5% decline in imports but also a 0.5% decline for exports. Tariff effects on metals are a possible wildcard for the April report.