INVESTMENT COMMITTEE MARKET COMMENTARY

APRIL 22, 2019 www.clearbrookglobal.com

U.S. EQUITIES

U.S. equity markets were mixed last week but positive data was released regarding the sharp rebound in U.S. retail sales and the contraction of the U.S. trade deficit which will be additive to Q1 U.S. GDP growth.

a) **Dow Jones +0.60%, MTD +2.53%, YTD +14.64** b) **S&P 500 -0.07%, MTD +2.59%, YTD +16.59%**
c) **Russell 2000 -1.20%, MTD +1.73%, YTD +16.57%**

Drivers: I) **U.S. retail sales surged 1.6%** in March, offsetting the comparable decline that was seen in the month of December. February sales were unchanged at the headline level at -0.2% with January sales revised 0.1% higher to a gain of 0.8%. **Vehicle sales** were **up sharply** in March, rising 3.3% following declines in the two prior months. Sales at gasoline stations were strong, up 3.5% for a second straight month, boosted by price effects for fuel.

II) The **US trade deficit** for February came in at **much lower-than-expected** $49.4 billion. The drop in the trade deficit should provide a **sizable boost to Q1 GDP**. The rise in export were driven by aircraft, which jumped 1.0% in the month following January's strong 1.0% gain. Exports of goods rose 1.5% to $139.5 billion as civilian aircraft rose $2.2 billion in the month. Exports of services at $70.1 billion were additive, rising 0.3%.

r

III) Growth is slowing as the **Composite PMI index** came in at **52.9** which is well **under the Street's 55.0 estimate,** but was still within the consensus range. This is the lowest level since March 2017 and reflects the slowest rate of order growth in two years. The positive take away from the report was Markit's **manufacturing** sample **did not report greater deterioration** in growth, holding mostly steady at but still muted at 52.4.

IV) The index of **leading economic indicators** re-accelerated with a **better-than-expected 0.4%** gain in March, following five months of mediocre readings. The month's results were led by jobless claims, consumer expectations and financial conditions. **Despite the strength**, the report warns that, given prior weakness, the trend for the LEI is still moderate and suggests that **U.S. GDP** is likely to **decelerate** toward the **2% level** through the year.

V) **Equities in April are higher with Large-Cap, Value, Financials and Information Technology leading equity price performance. The laggards for the month are Small-Cap, Growth, Healthcare and REITs.**

Capitalization: **Large Caps +2.56%** (YTD +16.91%), Mid-Caps +2.39% (YTD +19.32%) and **Small Caps +1.73%** (YTD +16.57). **Style: Value +4.15%** (YTD +18.24%) and **Growth +1.72%** (YTD +15.63%). **Industry Groups (Leaders): Information Technology +5.23%** (YTD 26.13%), Tech +5.15% (YTD +25.95%), Industrials +4.32% (YTD +22.23%), Con. Discretionary +4.76% (YTD +20.88%), **REITs -1.92%** (YTD +15.22%), Energy +1.59% (YTD +18.07%), Communication Services +5.22% (YTD +18.71%), **Financials +6.31%** (YTD +15.35%), Con. Staples +1.35% (YTD +12.59%), Utilities -1.53% (YTD +9.08%) and Materials +4.21% (YTD +14.91%). **(Laggards): Healthcare -6.38%** (YTD -0.25).

EUROPEAN EQUITIES

The MSCI Europe index was higher last week by +0.24%, rallying higher on positive economic data out of China and the UK's six month "Brexit" extension.

Drivers: I) **EU leaders** agreed to **extend Article 50 until October 31** to give feuding U.K. politicians more time to find a consensus for exiting the Union with a withdrawal agreement in place. Heiko Mass, **Germany's foreign minister**, said an **additional extension** beyond October **wouldn't be offered** to the U.K. "They will have to decide what they want by October," Mass said. "You cannot drag out Brexit for a decade."

II) The **Euro-zone composite PMI** came in at **just 51.3** for April and was surprisingly down 0.3 points versus its final March reading. This is indicative of a slightly **weaker** period for **economic growth**. It was also a 3-month low. Once again, it was **manufacturing weighing** on the headline **data** and, at **47.8**, the flash sector PMI remained in contraction territory, albeit 0.3 points stronger than its final quarter-end reading. However, services disappointed as well and their flash PMI fell 0.8 points to 52.5, their worst mark in three months.

III) **Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was higher by +0.24% for the week (MTD +3.45%, YTD +14.67%).**

ASIAN EQUITIES

Asian equity markets were higher last week as China report solid first quarter GDP growth and continued optimism regarding a US/China trade deal. The Dow Jones Asia Index rose by +0.21% for the week, (MTD +2.02%, YTD +9.23%).

Drivers: I) **China's economy grew at a 6.4%** year-on-year pace during the first quarter, **unchanged** from the previous quarter and slightly higher than the consensus forecast. As in the previous quarter, last week's data showed China's economy growing at the **slowest year-on-year pace** since **2009**, although not far below the 6.7% to 7.0% range that had been seen since the start of 2015.

II) The flash estimate for the **Japan manufacturing PMI** Index for **April was 49.5,** up from the final estimate of 49.2 for March (revised higher from the flash estimate of 48.9). The report showed persisting **weaker demand** from domestic and international markets, causing leading output to fall further, but at a slower rate. New orders also declined at a slower pace, while new export orders and quantity of purchases have decreased at a faster rate so far this month.

III) **Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was higher by +1.51% (MTD +4.69%, YTD +11.91%), the Hang Seng Index rose by +0.41% (MTD +3.46%, YTD +15.93%) and the Shanghai Composite advanced by +2.58% (MTD +5.83%, YTD +31.15%).**

FIXED INCOME

Treasury yields were relatively flat last week as positive economic data including US retail sales and China's GDP growth, were offset by the positive tone in risk markets and continued dovish stance of the US Fed and ECB.

Performance: I) **The 10-year Treasury yield was lower last week ending at 2.564% down from 2.568%. The 30-year yield dropped last week from 2.977 to 2.961.**

II) **Performance for the week, month-to-date and year-to-date. The Bloomberg Barclays US Aggregate Bond Index rose +0.06% last week, MTD -0.35% and YTD +2.58%. The Bloomberg Barclays US MBS TR was lower by -0.03% last week, MTD -0.30% and YTD +1.86%. The Bloomberg Barclay's US Corporate HY Index was higher by +0.03%, MTD +1.10% and YTD +8.44%.**

COMMODITIES

The DJ Commodity Index was lower by -1.03% last week but is positive month to date +1.25% (YTD +8.87%). Commodities were lower last week as positive economic data from the US and China drove the U.S. dollar higher, putting a lid on commodity prices.

Performance: I) The **price of oil** last week **was higher by +0.37%** up to $64.00 and has risen month to date in April by +6.34% (YTD +40.93%). Oil rose for the **seventh week in a row** as markets trying to assess global crude supplies, ahead of the **June expiration** of the **production agreement** between OPEC and non-OPEC members.

II) The **ICE USD Index**, a gauge of the U.S dollar's movement against six other major currencies, **rose by +0.57%** from 96.85 to 97.40 for the week (MTD +0.19%, YTD +1.28%). The USD fell to its lowest level since late March, as subdued US inflation data is expected to keep the Fed on hold for the remainder of 2019.

III) **Gold was lower last week by -1.20%,** its fourth consecutive weekly decline, as **positive U.S. retail sales** data dulled the allure of the precious metal. **Gold dropped by -1.20%** last week, falling from $1293.5 to $1277.9 (MTD -1.47%, YTD -0.26%).

HEDGE FUNDS

Hedge fund returns in April are primarily higher for the month with core strategies Equity Hedge, Event Driven, Relative Value and Multi-Strategy in positive territory, while Macro is negative for the month.

Performance:

I) The HFRX Global Hedge Fund Index is higher at +0.24% MTD and up +2.84% YTD.
II) Equity Hedge has advanced by +0.50% MTD and is up +6.48% YTD.
III) Event Driven has risen MTD +0.08% and is higher YTD +0.88%.
IV) Macro/CTA has fallen by -0.15% MTD and is down -1.02% YTD.
V) Relative Value Arbitrage is higher at +0.09% and is up by +2.72% YTD.
VI) Multi-Strategy is positive MTD at +0.08% and is higher by 2.45% YTD.

ECONOMIC DATA WATCH AND MARKET OUTLOOK

Looking ahead to the **next week of trading, global equity markets are rising** inexorably, aided by **dovish central banks and improving global economic data**. **U.S. markets** have forged ahead despite **low daily trading volumes** (hit 5.7 billion on Monday and averaging lowest monthly average since last August), which has prompted the CBOE VIX to fall to an eight-month low of 12.08 at week's end. The average daily trading volume according to Dow Jones Market Data has ranged between 7 to 9 billion shares, since August of 2018. This **phenomenon** may be attributable to **investors** seeking to **remain on the sidelines**, having **missed the market's strong rally** since Christmas eve of last year. A potential **catalyst** that can bring buyers back into the markets maybe a **better than expected earnings** season from the S&P 500.

In turning to next week's **economic calendar**, a relatively light week will be centered around **U.S. housing data**, where investors are looking for signs of a rebound. On Monday, we begin with **U.S. Existing Home sales** were a slight moderate is expected for March, at a consensus of 5.3 million units. This follows February's surge of 11.8% to 5.510 units, but the year on year rate is still down -1.8%.

On Tuesday, the February data for the **FHFA House Price Index** will be released, and after a sharp jump in January, the consensus is for a **gain of 0.3%** versus the previous month rise of 0.6%. Despite the strength of January's report, the month's year-on-year rate of 5.6% was a 3-year low. Also, out on Tuesday is **U.S. New Home Sales** while very volatile, have been getting a boost from low mortgage rates and trending higher. Expectations for March are looking for an unwelcomed **drop to 645,000** from February's annual rate of 667,000.

U.S. Durable Goods Orders to be released on Thursday, showed weakness in both orders and shipments of core capital goods in February in what was another disappointing report. For **March**, forecasters see U.S. durable goods orders **rising 0.8%** with ex-transportation orders up only 0.2% to extend their flat run. Core capital goods orders are expected to inch 0.1% higher.

On **Friday first quarter US GDP** reflecting expected improvement in trade and a rise in inventories, is projected to report a first estimate of US **2.0%** compared to 2.2% in the fourth quarter. Consumer spending rose at a solid 2.5% rate in the fourth quarter and slowing to 1.1% is the call for the first quarter. The GDP price index is seen at 1.6%, up 0.1% from 1.7% in the fourth quarter with the core GDP price index also expected to rise 0.1% to 2.1%.

We close out the week with the final U.S. **consumer sentiment** index for April, which is expected to report in at **97.1**. This would essentially be unchanged from the weaker-than-expected dip to 96.9 in the month's preliminary reading that was held down by a drop-in expectation.

Data Source: Haver Economics