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INVESTMENT COMMITTEE MARKET COMMENTARY

MAY 6, 2019 www.clearbrookglobal.com

U.S. EQUITIES

US equity markets were higher last week as US non-farm payroll data easily beat their April estimates, driving the unemployment rate to a 50-year low.

a) **Dow Jones -0.14%, MTD -0.33%, YTD +14.41** b) **S&P 500 +0.22%, MTD +0.01%, YTD +18.26%**
c) **Russell 2000 +1.42%, MTD +1.45%, YTD +20.19%**

Drivers: I) **Nonfarm payroll growth** easily **beat expectations at 263,000** in April as did the unemployment rate with an outsized 0.2% drop to a 49-year low of 3.6%. Wages did not surprise with any short-term unexpected strength, coming in as estimated for the monthly rate, at 0.2%, and 0.1% under expectations for the year-on-year rate at 3.2%. The participation rate saw a small decline, falling 2 tenths to a lower-than-expected 62.8%.

II) In March, **consumer spending jumped** by a **strong 0.9%,** 0.2% higher than the Street consensus and just above the higher level of the consensus range. Spending on durable goods was a bit weak in last week's first-quarter GDP report but, the monthly sequence looks favorable as **spending** for this **discretionary category jumped 2.3%** in March. The spending rise comes after contracting 1.1 and 0.1% in February and January.

III) The **ISM non-manufacturing index** continues to **slow**, down 0.6% to 55.5 in April to just make the Street's consensus range. Employment fell 2.2 points to 53.7 in a reading consistent with the services PMI, but not consistent at all with the 263,000 surge in April's nonfarm payrolls. The **growth in new orders** is the important fundamental takeaway from the ISM's report, down 0.9%, but **still very strong at 58.1**.

IV) Due to the **muted** level of **inflation**, the **Fed** is keeping its promise to be **"patient"** and hold **monetary policy steady**. The Fed's target rate is unchanged at a range of 2.25 to 2.50% with an implied midpoint of 2.375%. In a technical move to keep the rate on target, the Fed cut its IOER (interest on excess reserves) by 5 basis points to 2.35%. The statement says that core inflation has "declined" and is "running below 2%", which was confirmed by the core PCE price index for March that was released last Monday, and which fell to 1.6%.

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

Capitalization: **Large Caps +0.05%** (YTD +18.67%), Mid-Caps +0.10% (YTD +21.09%) and **Small Caps +1.45%** (YTD +20.19). **Style: Value** +**0.72%** (YTD +19.64%) and **Growth +0.89%** (YTD +18.54%). **Industry Groups (Leaders):** Information Technology +0.15% (YTD 27.78%), Tech +0.14% (YTD +27.63%), Industrials +0.38% (YTD +22.38%), Con. Discretionary +0.06% (YTD +21.75%), Communication Services +0.21% (YTD +19.93%), Financials +0.16% (YTD +18.44%), **REITs +0.89%** (YTD +17.95%), Con. Staples -0.52% (YTD +13.68%), **Energy -3.01%** (YTD +12.86%), **Materials -1.36%** (YTD +12.66%), Utilities -0.69% (YTD +11.01%) and **Healthcare +0.94%** (YTD +4.73).

EUROPEAN EQUITIES

The MSCI Europe index was higher last week climbing by +0.31%, boosted by better than expected earnings from Société Générale and HSBC Holdings, who benefited from profit growth in wealth management.

Drivers: I) The **Eurozone economy** for Q1 showed **real GDP** expanded **0.4%** versus the previous period. This was up from the final 0.2% posted at the end of last year, slightly stronger than expected and the best performance since the second quarter of 2018. However, the **annual growth** came in at **1.2%.** National statistics showed the French economy up 0.3% on the quarter while its Spanish counterpart grew 0.7%.

II) The **Eurozone PMI Manufacturing** Index **rose to 47.9**, minimally 0.1 point stronger than its preliminary estimate and just 0.4 points higher than its final March reading. This is **below the 50-expansion** threshold for the third consecutive month and is the second worst performance since April 2013. Output also fell for a third straight month, albeit only slightly and at a reduced pace compared to March, and new orders also declined sharply.

III) **Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was higher by +0.31% for the week (MTD -0.29%, YTD +14.47%).**

ASIAN EQUITIES

Asian equity markets were higher last week as U.S./China trade talks continued to move forward, though several major obstacles remain. The Dow Jones Asia Index rose by +0.61% for the week, (MTD +0.37%, YTD +9.14%).

Drivers: I) The latest round of **U.S.-China trade talks** ended in Beijing, where official stated progress had been made, but that **obstacles** remained. Treasury Secretary Steve Mnuchin said last week that he could know whether a deal will be made or not by next week. Last Thursday, Politico reported that a U.S. Chamber of Commerce official had tempered expectations of a deal, saying **China is unlikely** to significantly **reduce state subsidies** in steel, aluminum and other sectors.

II) **China's Caixin Manufacturing PMI** index **fell** from 50.8 in March to 50.2 in April, showing activity in the sector remains subdued. This drop in the index reflects respondents' reports that output and **new orders grew** at a **slower pace** in April while new export orders fell for the second time in the last three months. Employment was also reported to have fallen slightly in April, but the survey's measure of business confidence rose to its highest level in nearly a year.

III) **Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was unchanged +0.00% (MTD +0.00%, YTD +12.20%), the Hang Seng Index rose by +1.61% (MTD +1.30%, YTD +16.20%) and the Shanghai Composite dropped by -0.26% (MTD +0.00%, YTD +23.43%).**

FIXED INCOME

Treasury yields were a bit higher last week as the April U.S. non-farm payroll data jumped by 263,000 versus the expected rise of 185,000.

Performance: I) **The 10-year Treasury yield was higher last week ending at 2.522% up from 2.500%. The 30-year yield fell last week from 2.923 to 2.920.**

II) **Performance for the week, month-to-date and year-to-date. The Bloomberg Barclays US Aggregate Bond Index fell -0.06% last week, MTD -0.06% and YTD +2.90%. The Bloomberg Barclays US MBS TR advanced by +0.05% last week, MTD +0.10% and YTD +2.21%. The Bloomberg Barclay's US Corporate HY Index was higher by +0.13%, MTD +0.02% and YTD +8.80%.**

COMMODITIES

The DJ Commodity Index was lower by -1.33% last week and is negative month to date -1.05% (YTD +6.43%). Commodities fell last week as oil prices dropped on concerns of increased output from the U.S. and Saudi Arabia, and industrial metals fell as China manufacturing data was disappointing.

Performance: I) The **price of oil** last week **was lower by -1.50%** down to $61.86 and has fallen month to date in May by -3.21% (YTD +36.22%). Oil prices declined for a second week in a row over concerns Saudi Arabia will more than make up any production shortfall from Venezuela and Iran.

II) The **ICE USD Index**, a gauge of the U.S. dollar's movement against six other major currencies, **fell by -0.58%** from 98.05 to 97.48 for the week (MTD -0.04%, YTD +1.36%). The USD declined as comments by Fed Chair Jerome Powell did not provide a definitive direction for interest rates at last week's FOMC meeting.

III) **Gold declined last week by -0.63%,** as investors were disappointed that Fed Chairman Jay Powell did not signal a rate cut for later in 2019. **Gold fell by -0.63%** last week, dropping from $1288.4 to $1280.2 (MTD -0.43%, YTD -0.08%).

HEDGE FUNDS

Hedge fund returns in May are lower for the month with core strategies Equity Hedge, Macro, Relative Value and Multi-Strategy down, while Event Driven is essentially flat.

Performance:

I) The HFRX Global Hedge Fund Index is lower at -0.07% MTD and up +3.20% YTD.
II) Equity Hedge has declined by -0.01% MTD and is up +6.66% YTD.
III) Event Driven has risen MTD +0.01% and is higher YTD +1.28%.
IV) Macro/CTA has fallen by -0.38% MTD and is lower -0.11% YTD.
V) Relative Value Arbitrage is lower by -0.01% and is up by +2.82% YTD.
VI) Multi-Strategy is negative MTD at -0.01% and is higher by 2.54% YTD.

ECONOMIC DATA WATCH AND MARKET OUTLOOK

Looking ahead to the **next week of trading**, investors will note that the **S&P 500 surpassed** last week its **previous all-time high** set last September 2018. Equity prices have been **supported** this year by a **benign interest rate** environment, **strong economic growth** and continued **strength in the job market.** Q1 GDP growth of 3.2%, surprised on the upside with most economists expecting growth closer to a 2.0% annual rate. The recently reported Jobs number of 263,000 blew past the expected 185,000. These positive economic data surprises have helped the S&P 500 Index to rally about 25% since hitting bottom on December 24, 2019. This price move has now extended the longest running bull market to 3704 days, while posting an aggregate rise of 335% over this time period.

In turning to **next week's economic calendar**, after a heavy slate of data last week, we see a lighter schedule focused on **inflation** as **PPI and CPI data** for April will be reported at week's end. We begin on **Tuesday** with the **JOLTs report** where sold growth in nonfarm payrolls point to **strength** for job openings, at a consensus 7.215 million versus what was a much lower-than-expected 7.087 million in February.

On **Thursday** morning we get the **March international trade results**, where a steady deficit of $50.1 billion is expected following sharply better-than-expected totals in both February and January. Advance data for the goods portion of March's report showed **strength in exports** and a much narrower-than-expected deficit of $71.4 billion. The U.S. international trade balance was additive to Q1 GDP growth as the deficit narrowed during the quarter.

Also, out on **Thursday** morning is the **Producer Prices** where the inflation report showed visible pressure in March, rising a sharp 0.6% and reflecting increases not only prices of energy products but also finished goods. For **April** it is expected to post a **consensus increase of only 0.2%.** Less food and energy, prices in April is also seen rising 0.2% with the consensus for less food, energy and trade services likewise at 0.2%.

The March report for **CPI** saw a higher-than-expected 0.4% increase and a lower-than-expected gain of only 0.1% for the core. A combination is the call for **April**. The overall CPI is expected to be **unchanged at a 0.4%** with the **less food and energy core** at a modest **0.2% gain.** The year-on-year core is seen at 2.1% as is the overall CPI, both results showing increases.

Data Source: Haver Economics