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INVESTMENT COMMITTEE MARKET COMMENTARY

AUGUST 26, 2019 www.clearbrookglobal.com

U.S. EQUITIES

U.S. equity markets were lower last week, after Friday's sharp drop, as China imposed retaliatory tariffs on U.S. goods which prompted President Trump to state the U.S. would also raise new tariffs on Chinese imports.

a) **Dow Jones -0.98%, MTD -4.32%, YTD +11.64** b) **S&P 500 -1.42%, MTD -4.30%, YTD +15.08%**
c) **Russell 2000 -2.27%, MTD -7.22%, YTD +9.17%**

Drivers: I) **China** on Friday announced **new tariffs of 5% and 10%** on **$75 billion** of **U.S. imports**, to be implemented in two tranches, on Sept. 1 and Dec. 15, respectively. The Chinese government stated that the decision was in response to the Trump administration's plans to impose 10% tariffs on $300 billion on Chinese imports, also in two phases and on the same dates, announced earlier in August.

II) **Existing Home Sales** in **July** proved to be the **best month since February**, at a 5.420 million annual pace and a **0.6% year-on-year gain**. This was the first such gain since February last year. Single-family homes led the month rising to a 4.840 million rate and a 1.0% on-year gain to offset condos which were steady at 580,000. A negative in the report is supply which fell 1.6% from June to 1.89 million units on the market.

III) **FOMC officials** at their **meeting on July 30-31** agreed to cut short-term interest rates but **refrained** from **providing** any **clues** as to the **potential of more rate cuts** in 2019. Instead, officials preferred to take a **meeting-by-meeting approach** regarding any interest-rate decisions. The Fed governors and regional bank presidents generally favored an approach "that avoided any appearance of following a preset course."

IV) **Markit's PMI Composite Flash** came in at **50.9 for the August flash**. **Manufacturing** was slightly **below 50 at 49.9** and **a 10-year low**, a report the Fed will take note of as they are specifically focused on weakness in this sector. Services, however, may soon be another concern where the score is down sharply this month to an unexpected 50.9. The report highlighted subdued levels of corporate spending, along with a lower outlook.

V) **Equities in August are lower with Large-Cap, Growth, REITs and Utilities leading equity price performance. The laggards for the month are Small-Cap, Value, Energy and Financials.**

Capitalization: **Large Caps -4.44%** (YTD +15.33%), Mid-Caps -5.16% (YTD +16.73%) and **Small Caps -7.22%** (YTD +9.17). **Style: Value -7.93%** (YTD +7.94%) and **Growth -5.34%** (YTD +12.45%). **Industry Groups: REITs +2.99%** (YTD +26.09%), Technology -4.48% (YTD +25.33%), Information Technology -4.77% (YTD 23.93%), Consumer Staples +0.24% (YTD +18.91%), Consumer Discretionary -3.59% (YTD +18.40%), **Utilities +3.24%** (YTD +17.92%), Industrials -6.08% (YTD +14.62%), Communication Services -5.68% (YTD +14.42%), **Financials -7.83%** (YTD +10.60%), Materials -5.82% (YTD +9.87%), Healthcare -2.61% (YTD +3.51) and **Energy -10.65%** (YTD -0.76%).

EUROPEAN EQUITIES

The MSCI Europe index rose last week by +0.48% as minutes from the ECB meeting showed that the bank was ready in the Fall to lower interest rates and restart the purchase of European debt.

Drivers: I) The **Eurozone flash PMI** for August remain **muted** and **point to weak GDP growth** due to contracting manufacturing activity. The flash composite output **rose just 0.3 points** versus July's final readings of 51.8, one of the weakest readings in over six years. The improvement shows continued solid growth in services (53.4 after 53.2 final), a slower decline in manufacturing (47.0 after 46.5 final) and manufacturing output (47.8 after 46.9 final).

II) **Eurozone inflation** was revised a little **weaker in July**. At **1.0%,** the final annual rate just a tick lower than its flash estimate and down 0.3% from the final print in June. Slightly below market expectations, the inflation rate was the lowest showing since November 2016. The core rate was unchanged, thus, excluding energy, food, alcohol and tobacco, the narrowest gauge was unrevised at just 0.9%, down 0.2% from the June report.

III) **Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was higher by +0.48% for the week (MTD -3.81%, YTD +9.23%).**

ASIAN EQUITIES

Asian equity markets rose last week, ahead of the Fed Reserve members meeting in Jackson Hole, Wyoming and as China's Yuan fell to a level of 7.0907 last seen in 2008. The Dow Jones Asia Index rose by +1.10% for the week, (MTD -5.74%, YTD -1.62%).

Drivers: I) The flash estimate for the **Japan's PMI Composite index** for August **was 53.4**, **up strongly** from the final estimate of 51.8 for July. If confirmed by the final data early next month, this survey indicates that activity in the **services sector expanded** in August at the **fastest pace since 2015.** Respondents in the services sector reported stronger growth in output, new orders, new export orders, and employment in August, though the survey's measure of business confidence was lower relative to July.

II) **Japan's CPI Index rose 0.5%** on the year in July, **down from 0.7% in June**. This decline in headline inflation reflects a decline in food price inflation from 1.4% in June to 0.9% in July, with the year-on-year increase in utilities charges also falling from 2.2% to 2.0%. Price changes were a bit stronger for housing and transportation and communication. Core CPI, which excludes fresh food prices, rose 0.6% on the year in July, as it did in June and matching the consensus forecast.

III) **Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was higher at +1.43% (MTD -3.77%, YTD +4.65%), the Hang Seng Index rose by +1.73% (MTD -5.92%, YTD +1.18%) and the Shanghai Composite advanced by +2.61% (MTD -1.20%, YTD +16.18%).**

FIXED INCOME

Treasury yields were lower for the week, as rates declined sharply on Friday after Fed Reserve Chair Jerome Powell indicated interest rates could go lower, and the US and China mutually increased trade tariffs.

Performance: I) **The 10-year Treasury yield was lower last week ending at 1.538% down from 1.560%. The 30-year yield declined last week finishing at 2.030% a drop from 2.040%.**

II) **Performance for the week, month-to-date and year-to-date. The Bloomberg Barclays US Aggregate Bond Index rose +0.08% last week, MTD +2.37% and YTD +8.87%. The Bloomberg Barclays US MBS TR rose by +0.00% last week, MTD +0.66% and YTD +5.28%. The Bloomberg Barclay's US Corporate HY Index was higher by +0.72%, MTD -0.09% and YTD +10.46%.**

COMMODITIES

The DJ Commodity Index was lower last week declining by -0.95% last week and is negative month to date -3.82% (YTD +2.01%). Commodity prices dropped on disappointing economic data out of China and Europe, which sent industrial metal prices and agriculture lower.

Performance: I) The **price of oil** was lower last week **by -1.75%** down to $53.97 and has fallen month to date in August by -7.87% (YTD +18.85%). Oil prices were higher on the week on uncertainty over future production out of the Middle East and OPEC.

II) The **ICE USD Index**, a gauge of the U.S. dollar's movement against six other major currencies, **was lower by -0.96%** ending at 97.26 for the week (MTD -1.28%, YTD +1.13%). The USD declined on the week as comments by Fed Chair, Jerome Powell, intimated the Fed would remain in an accommodative mode.

III) **Gold rose last week by +0.87%** hitting a six-year high, as the escalation of the U.S./China trade war and dovish comments from Fed officials, drove investors out of risk assets into the precious metal. **Gold was higher by +0.87%** last week, climbing from $1523.6 to $1536.9 (MTD +6.89%, YTD +19.94%).

HEDGE FUNDS

Hedge fund returns in August are mixed for the month with core strategies Equity Hedge, Relative Value and Multi-Strategy in negative territory. Event Driven and Macro are higher on the month.

Performance:

I) The HFRX Global Hedge Fund Index is higher at +0.23% MTD and up +5.26% YTD.
II) Equity Hedge has declined by -0.27% MTD and is up +6.82% YTD.
III) Event Driven is lower MTD +0.82% and is higher YTD +3.51%.
IV) Macro/CTA has risen by +0.68% MTD and is up +5.16% YTD.
V) Relative Value Arbitrage is lower by -0.12% and is up +4.41% YTD.
VI) Multi-Strategy is down MTD at -0.09% and is higher by +4.14% YTD.

ECONOMIC DATA WATCH AND MARKET OUTLOOK

The **U.S./China trade war** dramatically **escalated last week**, as **China** on Thursday announced **retaliatory tariffs** on **$75 Billion of US imports**. The imposition of **5.0% and 10%** tariffs will take place in **two phases**, scheduled for **September 1 and December 15**. **President Trump** launched a counterstrike announcing a **series of new tariffs** the U.S. will levy on China imports. The **existing U.S. tariffs on $300 billion of Chinese goods** will be **raised 5% to 30%, effective October 1. Another $300 billion** in tariffs on **addition goods** such as phones, video games consoles, footwear and sporting goods, will rise to **15% as of September 1 and December 15th**. It is estimated by some Street analysts that the tariffs could increase the tab for Christmas shopping by $1000 per family. As the global economy is already slowing, will the consumer who has been carrying U.S. growth cut back spending due to the increased costs? This would not be a positive outcome.

As we enter **next week's trading sessions**, investors will be anxiously **awaiting the Monday open of global markets** to see if the **negative sentiment** will carry through from last week. The negative pall cast on U.S. risk assets on Friday caused by the intensification of the U.S./China trade war, sent markets sharply lower. As expected, the **VIX jumped** almost three points to end at **20.16.** With geo-political issues dominating the markets, it will be interesting to **see how overseas markets react on Monday**, as they were closed or closing when the tit for tat exchange between the U.S. and China occurred. Keep an eye on the **S&P 500's 200 DMA support of 2802**.

In turning to **next week's economic calendar**, the **emphasis will the consumer**, as several reports will highlight the state of the U.S. buyer that has been supporting the domestic economy. We kick off **Monday** with the **Durable Goods report** that saw a surge in capital goods orders in June, but the **call for July is a pullback**. Consensus for the headline is a **1.1% increase versus a 1.9%** rise in June (revised from an initial 2.0%) with ex-transportation, however, expected at -0.1% in July and with core capital goods unchanged.

The **S&P Case-Shiller's 20-city adjusted index** out on Tuesday, has been suffering series of downturns. Year-on-year growth, at 2.4% in May and a seven-year low, is seen **down 0.1% at 2.3%in June**. **Consumer Confident** also reporting on Tuesday rose sharply in July on strength in the assessment of the current labor market and expected strength six months out. For **August**, forecasters are looking for almost a **six-point drop to 130.0 versus July's 135.7.cl**

On Wednesday, we get the consensus for the **second estimate** of **second-quarter GDP** which should be **unchanged** from the first estimate at **2.1%. Consumer spending** was by far the **main driver** and fundamental strength for the first estimate and the **4.3% rate** is expected to hold. The GDP price index is seen at 2.4%.

Personal Income and Outlays will be released on Friday, after showing **consumer spending had slowed** from April through June but growth **remained solid**. The growth in income though has been consistently solid month to month. For **July**, forecasters see a **strong 0.5% rise for spending** and a moderate-to-solid **0.3% gain for income**. Core PCE prices have been marginally firming with expectations for July steady, at a monthly 0.2% gain for a 1 tenth increase in the year-on-year rate to 1.7%. Overall **PCE prices** are seen rising 0.3% on the month and **1.5% on the year.**

Data Source: Haver Economics